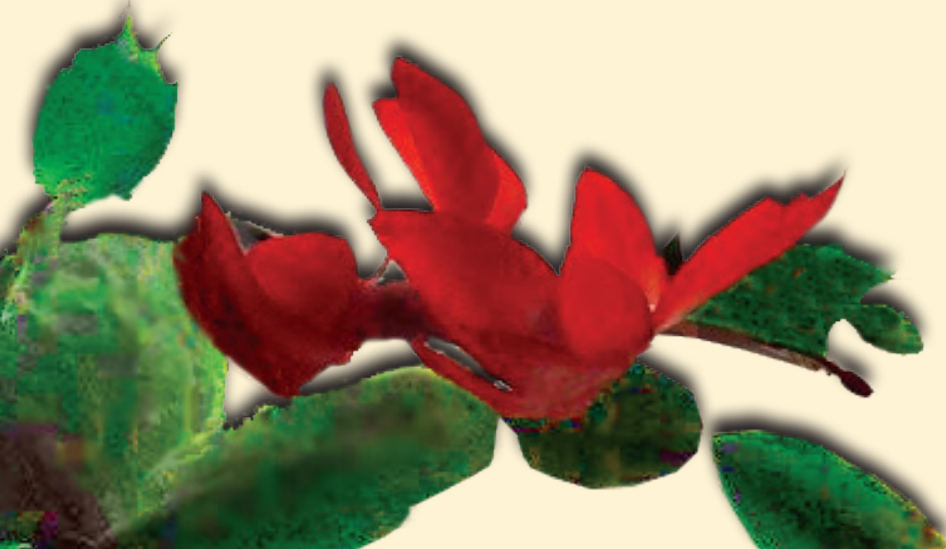




STATE AUDIT OFFICE

ANNUAL REPORT 2014



CONTENTS

FOREWORD	3
ABOUT THE STATE AUDIT OFFICE	5
MISSION	7
INDEPENDENCE	7
STRUCTURE OF EMPLOYEES	8
SAO BUDGET	9
PROFESSIONAL DEVELOPMENT OF STATE AUDITORS	11
STRATEGIC DOCUMENTS	12
AUDITING STANDARDS AND METHODOLOGY	14
COOPERATION WITH COMPETENT AUTHORITIES	15
INFORMATION TECHNOLOGY AND IT AUDIT	16
AUDIT ACTIVITIES THROUGH FIGURES	18
CONDUCTED AUDITS AND ISSUED REPORTS	19
AUDITEES	21
FOLLOW UP REVIEWS ON THE IMPLEMENTATION OF RECOMMENDATIONS	22
AUDITED PUBLIC REVENUE IN 2014	23
AUDITED PUBLIC EXPENDITURE IN 2014	24
AUDIT FINDINGS	25
PUBLIC PROCUREMENT	27
AUDIT OPINIONS	29
MEASURES TAKEN UPON RECOMMENDATIONS IN AUDIT REPORTS	31
AUDIT ACTIVITIES	33
MAIN ASPECTS OF ASCERTAINED SITUATION FOLLOWING THE AUDIT ON THE CORE BUDGET IN 2014	35
FINANCIAL STATEMENTS ON REVENUE AND EXPENDITURE OF POLITICAL PARTIES FOR PARLIAMENTARY AND PRESIDENTIAL ELECTIONS IN THE REPUBLIC OF MACEDONIA IN 2014	38
DEFENCE OF THE REPUBLIC OF MACEDONIA	40
AGRICULTURE, FORESTRY AND WATER MANAGEMENT	42
LOCAL SELF-GOVERNMENT UNITS	43
NATIONAL GALLERY OF MACEDONIA	47
MACEDONIAN ACADEMY OF SCIENCES AND ARTS	48
PERFORMANCE AUDIT	49
INTERNATIONAL COOPERATION AND TRANSPARENCY	79
INTERNATIONAL COOPERATION	81
TRANSPARENCY	86

Foreword,

2014 was a very important year for SAO development. Along with the 15th anniversary of SAO operation as autonomous and independent institution in the Republic of Macedonia, we also marked the first anniversary of the implementation of SAO Development Strategy 2013-2017. The Strategy contains five key objectives aimed at maximizing SAO contribution for strengthening financial control and accountability in the public sector. Significant progress was made in relation to the strategic objective for audit quality development through harmonization of new methodology acts and manuals for regularity and performance audit with the ISSAIs.



The Annual Report outlines audit results and other SAO activities in 2014. SAO conducted 103 audits on financial statements and performance audits. They contain important information and a number of recommendations for improving financial management and responsible spending of public money. No different than previous years, the key element in the selection and definition of the scope of audits was the issue of transparent and earmarked use of public funds and the quality of public services provided to our citizens.

With regard to employees' professional development, we organized several trainings in the field of audit and use of upgraded SAO IT infrastructure for implementation of audit management system (AMS). These trainings are important factor in retaining high professionalism and dedication of our employees, and for the State Audit Office in fulfilling its mission. Congratulations to all employees on a job well done in 2014!

In addition to the regular international activities SAO has made important progress in the realization of the project in cooperation with the Office of the Auditor General of Norway aimed at improving efficiency and quality of audit with the application of audit management system (AMS). The second project phase in 2014 covered procurement and installation of necessary equipment for upgrade of SAO IT infrastructure, series of trainings for its use and a public procurement for design and development of AMS software solution to be implemented in 2015-2016.

Our longtime priority – regulating SAO constitutionality - is in its final phase and should soon get a positive outcome. In the coming period we will focus on establishing regular and effective mechanism for reviewing audit reports in the Parliament following European practice.

Last but not least I would like to share the news that in our anniversary year started the construction of a new administrative building Emanuel Chuchkov Palace that should house SAO premises in 2016.

Within the Annual Report we regularly enclose the opinion of the independent external auditor on the financial statements of the State Audit Office for 2014.

Auditor General

Tanja Tanevska, M.Sc.





STATE AUDIT OFFICE

MISSION

The goal of the State Audit Office (SAO) as a Supreme Audit Institution in the Republic of Macedonia is to communicate audit findings timely and objectively to the Parliament, the Government, other public office holders, as well as to the general public.

SAO provides support to the Parliament in meeting its responsibilities by identifying and revealing irregularities, cases of illegal operation and potential cases of corruption and abuse of office.

With clear and effective recommendations SAO provides support to the state institutions and the beneficiaries of public funds for improving the management thereof. Thus SAO contributes to the improvement of the lives of the citizens of the Republic of Macedonia.

INDEPENDENCE

As an independent external auditor SAO conducts audit on the public revenue and expenditure in line with the auditing standards of the International Organization of Supreme Audit Institutions - ISSAIs.

SAO independence is guaranteed by the State Audit Law, first enacted in 1997. Over the past years the Law underwent several modifications and amendments. New State Audit Law was adopted in 2010 for further compliance with Mexico Declaration on Supreme Audit Institutions Independence and the Lima Declaration of Guidelines on Auditing Precepts. The Law regulates SAO position and provides for a broad mandate for conducting regularity and performance audit, and access to all necessary information. SAO has financial independence and authority to manage its own resources. In addition SAO has the freedom to decide on the audit subject and contents and has sufficient mechanisms for follow-up of recommendations to ensure appropriate implementation of recommendations given in audit reports.

STRUCTURE OF EMPLOYEES

The State Audit Office has 93 employees - authorized state auditors, state auditors and administrative support staff, organized in seven departments and two units. Four departments are directly involved in the audit process (audit departments) and cover different areas of the public sector; there is one department for audit development and quality control, two departments for administrative support, and two units for human resources and internal audit.

State audit is conducted by 82 auditors, and 70 of them hold a certificate for authorized state auditor.

96% of the employees have university degree in economy, law, information technology and other fields, and the percentage of employees with master's degree is continuously increasing.

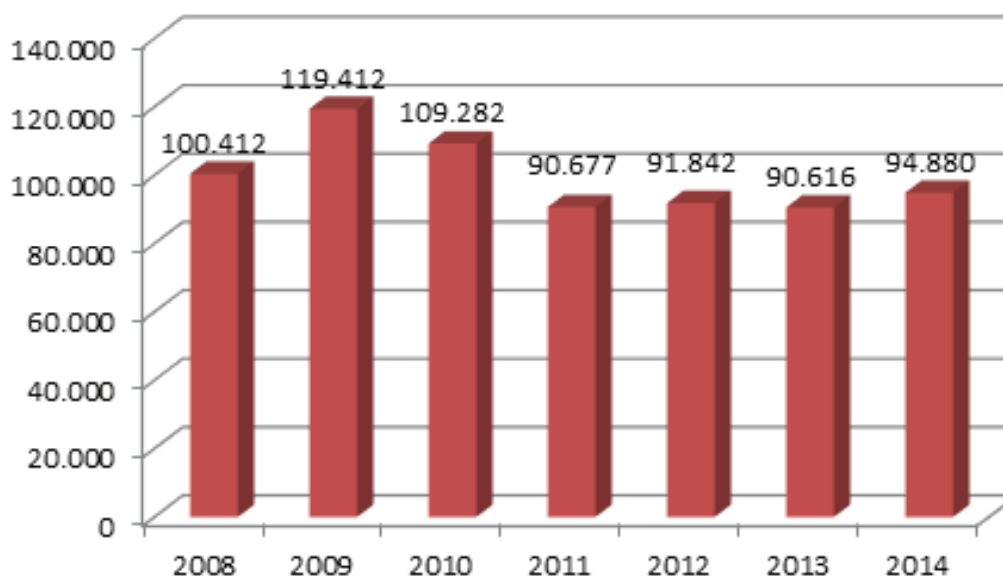
SAO BUDGET

In line with the State Audit Law (Official Gazette of RM no. 66/10, 145/10, 12/14, 43/14) SAO operation is financed by the Budget of the Republic of Macedonia. The necessary funding proposed by SAO is approved by the Parliament of the Republic of Macedonia.

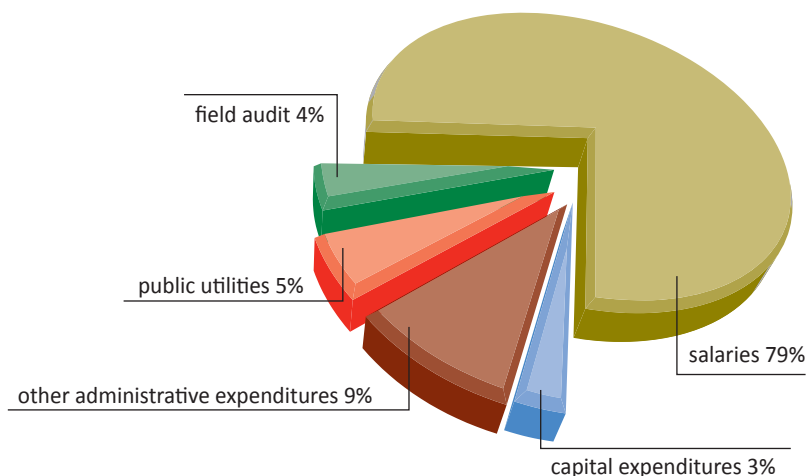
The total budget of the State Audit Office in 2014 amounted to 94.880.000 denars. 97% are funds provided by the Central budget and 3% are SAO own revenues. SAO own revenues come from collection of fee for audits conducted before the adoption of the State Audit Law in 2010.

Prior to the new State Audit Law, the Audit Authority for audit of the instrument for pre-accession assistance was operating in the frames of the State Audit Office. Following the adoption of the Law in May 2010, the Law on Audit Authority was also adopted, and the Audit Authority was officially separated from the State Audit Office as an independent legal entity with a separate budget.

SAO budget over the years



SAO expenditure in 2014



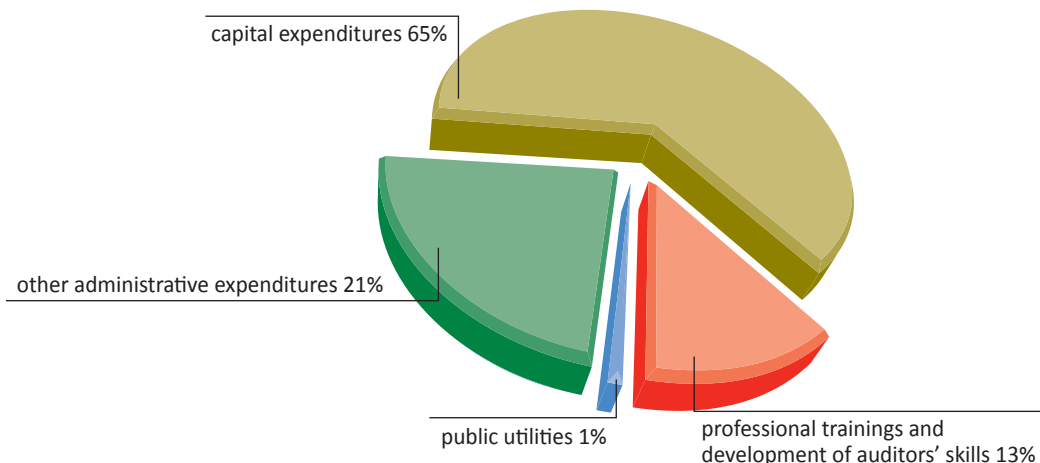
In terms of the structure of SAO expenditures, 79% are allocated for salaries of employees, 4% for conducting audit on the territory of the Republic of Macedonia, 5% for public utilities, 9% for other administrative expenditures and 3% are capital expenditures.

In 2014 SAO continued with the realization of the Project MAK - 12/0015 „Implementation of audit management system“ funded by a donation from the Ministry of Foreign Affairs of Norway. The project objective is to improve the efficiency and quality of audit work by implementation of an audit management system.

The approved Project budget for 2014 amounted to 19.025.000 denars; the State Audit Office realized 9.984.000 denars, while the remaining funds are transferred to the next year. Out of the total expenditures, 13% are intended for professional training and development of auditors' skills for the implementation of the new audit management system, 21% for administrative expenditures and 1% for public utilities.

The largest part of the expenditures i.e. 65% were allocated for procurement and installation of equipment for upgrade of SAO IT infrastructure, necessary for the new audit management software.

SAO expenditure from donation in 2014



PROFESSIONAL DEVELOPMENT OF STATE AUDITORS

Professional development of employees is aligned with SAO strategic objectives for continuous upgrade of professional and technical skills of auditors and management, as well as for setting an objective system for assessment of the level and quality of realization of work tasks.



Professional training of SAO staff was carried out through different forms - internal training with SAO lecturers and external experts, on-the-job trainings, courses, seminars and workshops organized by the working groups/committees of INTOSAI/EUROSAI, the European Court of Audit, SIGMA and other international organizations and professional associations.

In line with the operationalization of SAO HRM Strategy and the available resources in 2014 SAO organized training in the following areas:

- Basics of state auditing;
- Performance audit and the framework for Public Internal Financial Control (PIFC);
- Strengthening ethics in SAIs;
- Latest amendments to the Public Procurement Law (in cooperation with the Public Procurement Bureau); and
- Use of upgraded SAO IT infrastructure.

STRATEGIC DOCUMENTS

During 2014 SAO continued with the implementation of the strategic documents adopted in December 2012 - Development Strategy 2013-2017, HR Management Strategy 2013-2017 and IT Strategy 2013-2017.

SAO Development Strategy ensures continuous implementation of envisaged objectives and activities in relation to further development of the quality of state audit and SAO operation, SAO system for institutional capacities' management, as well as other objectives defined within the Strategy.

Promoting and increasing ISSAI implementation is another method for further development of the audit quality. International organizations INTOSAI and EUROSAI help their members, including SAO, to implement these standards.

In 2014 SAO has undertaken many activities to implement the strategic objectives in terms of:

- Ensuring SAO independence by becoming constitutional category - the procedure for adoption of constitutional amendments is ongoing;
- Audit Quality Assurance as a method for assessing quality controls performance conducted in line with the Guidelines for audit quality assurance. Following the completion of the quality assurance reviews in 2014, the independent review team has provided guidance for ensuring proper application of methodology acts and best practice in conducting audits;
- Overcoming systemic weaknesses by identifying systemic weaknesses in each audit report, and summarized disclosure of systemic weaknesses in SAO 2013 Annual Report;
- Implementation of electronic audit management system (AMS), in cooperation with the Office of the Auditor General of Norway (OAGN);
- Improvement of the existing SAO system of financial management and control, (following international standards for internal control and the Law on PIFC) by adopting and implementing several procedures for important processes;
- Execution of SAO internal audit function and adoption of Internal Audit Plan for 2015;
- New acts on SAO internal organization and systematization of jobs were adopted to align the organizational structure with the number of auditors, thus further develop SAO functional, organizational and personnel structure;
- Strengthening SAO integrity through realization of several activities, including training on ethics as defined in SAO Annual Work Programme for 2014. In addition, SAO is a member and actively participates in the activities of EUROSAI Task Force on Audit & Ethics;
- Further popularization of the role and significance of state audit with the publication of

SAO Development Strategy 2013-2017 in Macedonian and English language in printed color edition, making it accessible to all interested parties and the general public.

- Appropriate brochure was also printed on the occasion of SAO 15th Anniversary.

Other activities for realization of strategic objectives regarding education of employees, implementation of ISSAIs in methodology acts and state audit practice, IT and IT audit, cooperation with authorities, and international cooperation and transparency, are elaborated in the relevant sections of this Annual Report.

With regard to the implementation of strategic objectives in the upcoming period, SAO prepared proposal fiche for a Twinning Project entitled Assistance to the State Audit Office and its stakeholders for enhancement of capacities for state audit and follow up. The project is financed by EU IPA funds and should start in 2016. Project objectives are further development of the cooperation with the Parliament and preparing methodology for multi-annual audit planning.

As specified in the objectives of the HR Management Strategy, SAO provides continuous upgrade of skills and training for employees in order to maintain high quality of work, as well as regular strengthening of audit teams with up-and-coming employees.

In line with the IT Strategy 2013-2017 SAO regularly upgrades its information system, thus contributing to proper implementation of SAO Development Strategy 2013-2017.

In accordance with the Law on Public Internal Financial Control and Standard 11 - Risk Management of Internal control standards for the public sector, in 2014 SAO prepared Risk Management Strategy for the period 2014-2017, including a Risk Register. The purpose of this Strategy is to improve capacities for achieving strategic objectives through continuous monitoring of risks in the overall environment, which in turn requires adapting and aligning work with current economic, social and political milieu. Risk management aims to contribute to maintaining quality, efficiency and performance of all planned activities for achieving SAO strategic objectives.

AUDITING STANDARDS AND METHODOLOGY

Auditing standards provide guidance for auditors in determining the scope of audit steps and procedures and contain criteria for assessment of the quality of audit results. Manuals and guidelines lead the auditors in their work.

ISSAI Implementation Strategy was prepared in 2014 based on the assessment of SAO compliance with ISSAIs carried out by working groups formed by Auditor General.

Proceeding from the assessment and in line with the adopted Strategy, SAO developed two manuals - for regularity and for performance audit, with annexes for all audit phases; the manuals were presented to the employees in December 2014. These manuals are written in clear and concise language and enable harmonized approach to audit activities. In line with the manuals SAO prepared audit flow for regularity audit and audit flow for performance audit with links to the templates used in the audit process.

The translation of ISSAIs, methodology guidelines and other professional audit literature issued by INTOSAI committees and working groups into Macedonian language will continue for the purpose of alignment and implementation thereof in the audit practice.

In line with the standards and the Audit Quality Assurance Guidelines in 2014 SAO carried out the Annual plan for audit quality assurance.

Professional team of authorized state auditors conducted four quality assurance audits on the following previously conducted audits:

- Public health care facility - University Clinic for neurosurgery
- Directorate For Technological Industrial Development Zones
- Budget of the Municipality of Tetovo and its spending units
- State Commission for appeals to public procurement.

COOPERATION WITH COMPETENT AUTHORITIES

Cooperation with the Parliament of the Republic of Macedonia and other state authorities is continuous.

In line with the State Audit Law, the State Audit Office submitted its 2013 Annual Report on conducted audits and operation for review to the Parliament.

At the continuation of the 12th session held on 04 September 2014 the Parliament reviewed and approved SAO 2013 Annual Report. The Parliament also concluded that the State Audit Office as an independent supreme audit institution carries out its activities in accordance with the State Audit Law, the Mexico Declaration on SAI Independence and the Lima Declaration of Guidelines on Auditing Precepts.

In addition, the Parliament recommended to the auditees to act on SAO recommendations and strengthen the control systems, and thus increase the percentage of positive opinions on financial statements. The Parliament pointed to the need of Government measures for overcoming identified issues regarding systemic weaknesses and collision of certain legal provisions stated in the audit reports.

In 2014, in line with the State Audit Law, SAO has submitted to the Parliament all final audit reports.

Within the reporting period SAO has submitted one audit report to the Public Prosecutor's Office on grounds of reasonable doubt for committed misdemeanor or crime. Also, at the request of the Public Prosecutor, the State Commission for Prevention of Corruption and the Ministry of Interior, SAO submitted five final audit reports and audit documentation for previous years.

SAO actively cooperates with all state authorities for preventing and reducing corruption in the frames of the Protocol on cooperation for the prevention and repression of corruption and conflict of interests.

The State Audit Office also participates in the implementation of the National Programme for the Adoption of the Acquis (NPAA) through the activities provided in Chapter 3.23 Judiciary and fundamental rights, Area – Prevention of corruption policy and Chapter 3.32 Financial Control, Area - External Audit, as well as in the work of the Inter-ministerial body for prevention of corruption.

INFORMATION TECHNOLOGY AND IT AUDIT

Development and use of information technology and its rational and efficient use in the audit process is one of SAO strategic objectives.

In 2014 SAO made an upgrade to the infrastructure of its information system in accordance with the development of new technologies and standards, while taking care of availability of data to authorized users, confidentiality, integrity, and secure data storage on a central location, compliance with laws, regular backup, and protection against physical and logical access to data.

A space was adapted as new server room with proper electrical installation, access control system, video surveillance system, cooling system, fire protection and electrical protection.

New hardware equipment with servers and data storage devices was procured and implemented together with necessary system software, and the existing computer network was upgraded.

Virtualization of the new information system was done with optimal use of resources; redundancy was implemented through deduplication; backup solution was implemented, as well as antivirus solution and network firewall.

SAO has ensured uninterrupted operation of the systems for centralized storage and data exchange, the electronic mail system, the archive system, the intranet, the integrated financial system and the system for data analysis of audit reports.

The upgrade of the information system was done within the project for „Improvement of efficiency and quality of audit work with the application of audit management system (AMS)“, funded by a grant from Norway and carried out with technical assistance from the Office of the Auditor General of Norway.

In 2014 SAO conducted procurement for selection of contractor for development and implementation of audit management system (AMS).

Applications for audit flow for regularity and performance audit were designed. Audit flow will guide the auditors through the audit process and will be used as an intermediate stage before the implementation of the AMS.



Auditors have internet access when carrying out audit fieldwork.

Integral part of the financial audit is the use of computer assisted audit techniques (CAATs), as well as IDEA software for analysis of financial statements' data.

Following the IT audits conducted in 2014, SAO pointed to the need of adopting or updating IT development strategies, as well as to prescribing and implementing security policies and procedures. This will improve the management of IT resources in line with auditees' development priorities and will also reduce the risk of ineffective protection of information systems, loss or damage of data, inaccuracy and unreliability of records and unauthorized access to confidential data.

AUDIT ACTIVITIES THROUGH FIGURES

30 REGULARITY AUDIT REPORTS

6 PERFORMANCE AUDIT REPORTS

80 PERFORMANCE AUDITS on Public Internal Financial Control System

168 AUDITED ENTITIES

1.231 FINDINGS IN AUDIT REPORTS

833 RECOMMENDATIONS IN AUDIT REPORTS

70 FOLLOW UP REVIEWS ON IMPLEMENTATION OF RECOMMENDATIONS

353 IMPLEMENTED RECOMMENDATIONS

139.336 MILLION DENARS AUDITED PUBLIC REVENUES

7.844 MILLION DENARS AUDITED PUBLIC EXPENDITURE

116 AUDIT REPORTS SUBMITTED TO PARLIAMENT

1 AUDIT REPORT SUBMITTED TO THE PUBLIC PROSECUTION

CONDUCTED AUDITS AND ISSUED REPORTS

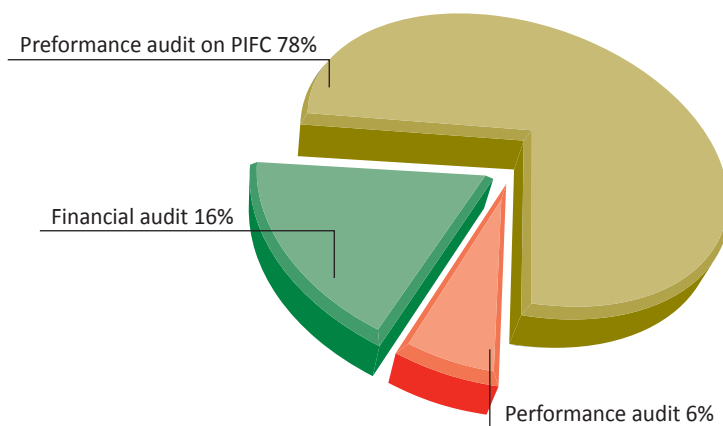
In 2014 SAO conducted 103 audits (103 audits in 2013) - 17 financial and compliance audits, 6 performance audits, and 80 performance audits on the Public Internal Financial Control (PIFC) System.

116 audit reports were issued upon completed audits (155 audit reports in 2013) - 30 financial audit reports, 80 performance audit reports on PIFC System and 6 performance audit reports.

The table below presents information on the number of conducted audits and issued reports in the last two years:

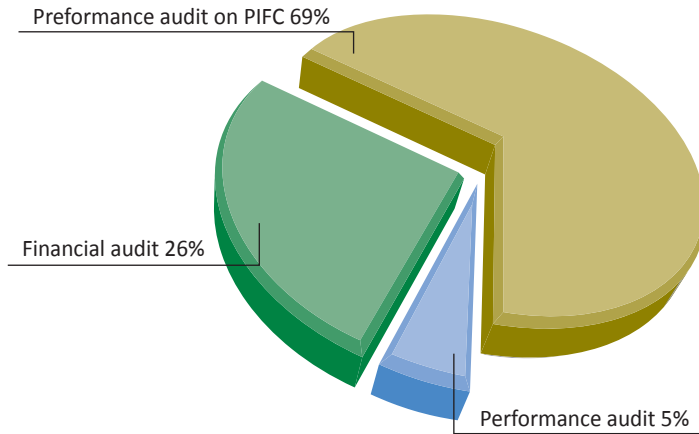
Conducted audits and structure

Type of audit	2014		2013	
	Number and structure (in %)			
	Number	%	Number	%
1	2	3	4	5
Financial audit	17	16	93	90
Theme audit	-	-	3	3
Performance audit (PIFC)	80	78	-	-
Performance audit	6	6	7	7
Total reports	103	100	103	100



Issued reports and structure

Type of audit	2014		2013	
	Number and structure (in %)			
	Number	%	Number	%
1	2	3	4	5
Financial audit	30	26	145	94
Theme audit	-	-	3	2
Performance audit (PIFC)	80	69	-	-
Performance audit				
Financial audit	6	5	7	4
Total reports	116	100	155	100



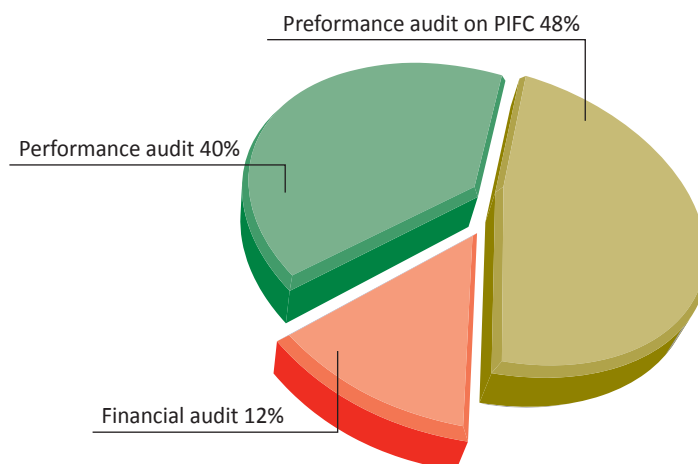
AUDITEES

SAO Annual Work Programme defines entities and areas that will be subject to audit in line with criteria for selection of entities i.e. areas to be audited on annual level.

The scope of state audit, in terms of number of auditees also includes the mandatory annual auditees in accordance with the Law.

In order to achieve audit objectives of financial and performance audits, in 2014 SAO covered 168 auditees in total. The following table presents the structure of auditees by different types of audit.

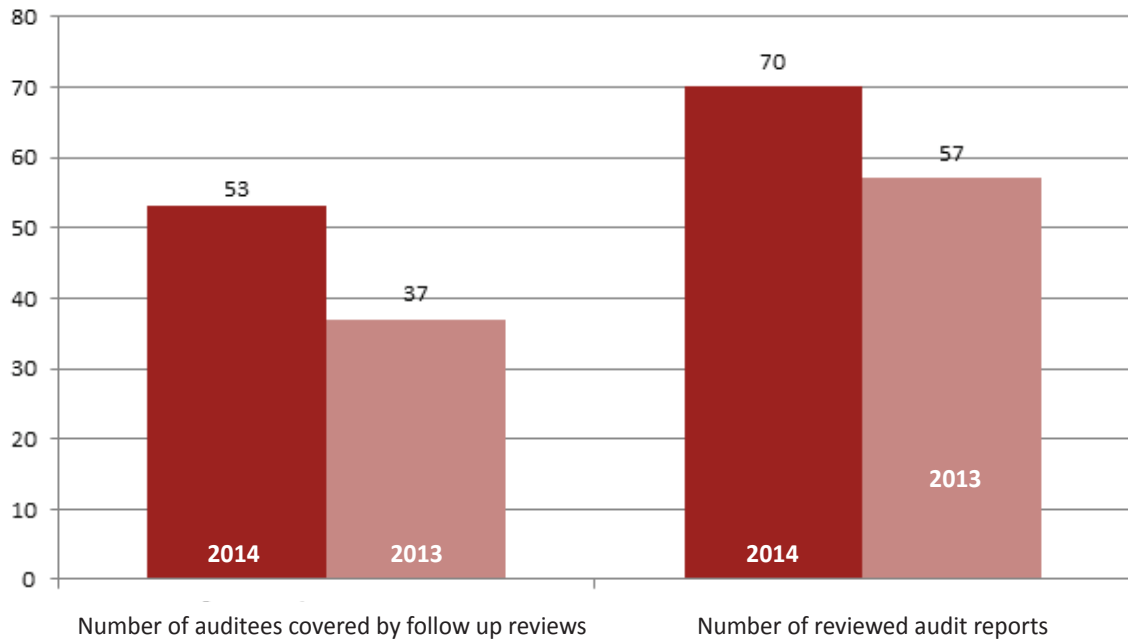
Type of audit	2014		2013	
	Auditees	%	Auditees	%
1	2	3	4	5
Financial audit	21	12	93	55
Theme audit	-	-	3	2
Performance audit (PIFC)	80	48	-	-
Performance audit	67	40	74	43
Total	168	100	170	100



FOLLOW UP REVIEWS ON THE IMPLEMENTATION OF RECOMMENDATIONS

In 2014 SAO conducted follow up reviews on the status of implementation of recommendations given in final audit reports from 2013 and 2014 in order to identify the level of implementation. The reviews covered 53 auditees (37 auditees in 2013) and recommendations of 70 final audit reports (57 audit reports in 2013).

Follow up reviews	2014	2013	Index (2/3)
1	2	3	4
Number of auditees covered by follow up reviews	53	37	143
Number of reviewed audit reports	70	57	123



AUDITED PUBLIC REVENUE IN 2014

The amount of audited public revenue in 2014 is presented in the table below.

(in million denars)

Audited public revenue	2014		2013	
	Revenue	%	Revenue	%
1	2	3	4	5
Central Budget of RM	138.377	99	126.288	70
LSGU Budgets	673	1	4.675	3
Funds' Budgets	76	-	48.114	26
Political parties	169	-	298	-
Public enterprises	41	-	182	-
Other institutions	-	-	1.562	1
Total	139.336	100	181.119	100

The structure of audited public revenue in 2014 presented in the annual accounts for 2013 is the following: Central Budget revenue 99%, and revenue of budgets of local self-government units (LSGU) 1%.

AUDITED PUBLIC EXPENDITURE IN 2014

The structure of audited public expenditure in 2014 presented in the annual accounts for 2013 is as follows: Central Budget users account for 87%, LSGU budgets' users account for 8%, national Funds' budgets account for 1%, political parties account for 3% and public enterprises account for 1%.

(in million denars)

Audited public expenditure	2014		2013	
	Expenditure	%	Expenditure	%
1	2	3	4	5
Central Budget of RM	6.858	87	9.445	15
LSGU Budgets	656	8	4.050	6
Funds' Budgets	76	1	47.567	75
Political parties	214	3	289	1
Public enterprises	40	1	265	1
Other institutions	-	-	1.554	2
Total	7.844	100	63.170	100

AUDIT FINDINGS

While implementing 2014 Annual Work Programme authorized state auditors and state auditors identified 1231 findings in 112 audit reports. 14 findings identified in 10 audit reports relate to the internal control system. Findings regarding noncompliance with legislation and regulations (50) are identified in 18 audit reports, while findings concerning use of funds contrary to the relevant legislation (9) were noted in 3 audit reports.

The analysis also showed that findings regarding public procurement (40) were noted in 35 audit reports, and one audit report contains a finding regarding information technology.

With reference to the ascertained state of affairs with the performance audits and the performance audits on the PIFC system, 78 audit findings relate to legal framework and strategic documents and 390 findings identified in 78 audit reports relate to financial management and control. 210 audit findings in relation to internal audit are identified in 78 audit reports, as well as 78 findings regarding inventory. As for the internal control system for procurement and payments, the auditors identified 106 findings in 71 audit reports. There is also one audit finding in one audit report in relation to coordination and harmonization of internal audit.

SUMMARY OF FINDINGS		
Type of finding	Findings	
	Number	%
Findings concerning noncompliance with legislation and regulations	50	5
Findings concerning financial statements	57	5
Findings related to the internal control system	14	1
Findings concerning use of funds contrary to relevant legislation	9	1
Findings concerning public procurement	40	4
IT audit findings	1	0
Legal framework and strategic documents	78	8
Financial management and control	390	38
Internal audit	210	20
Inventory	78	8
Internal control system for procurement and payments	106	10
Coordination and harmonization	1	0
TOTAL I	1034	100
Systemic weaknesses	58	
Emphasis of matter	50	
Performance Audit findings	89	
TOTAL II	1231	

The tables below give an overview of findings from financial and compliance audits, and findings from performance audits /audits on PIFC system.

FINDINGS (financial and compliance audit)		
	Findings	
Type of finding	Number	%
Non compliance with laws and regulations	50	36
Relating to the financial statements	57	40
Relating to the internal control system	14	10
Use of funds contrary to the relevant legislation	9	6
Relating to the public procurement	10	7
Relating to IT	1	1
TOTAL I	141	100
Systemic weaknesses	58	
Emphasis of matter	50	
TOTAL II	249	

FINDINGS (performance audit/performance audit on PIFC)		
	Findings	
Type of finding	Number	%
Legal framework and strategic documents	78	9
Financial management and control	390	44
Internal audit	210	23
Inventory	78	9
Relating to the public procurement	30	3
Relating to the internal control system for procurement and payments	106	12
Coordination and harmonization	1	0
TOTAL	893	100

PUBLIC PROCUREMENT

In the frames of planned audits in 2014 SAO audited public procurement processes as well. The auditors identified 40 findings which encompass the following irregularities in the planning, implementation and realization of public procurements.

No.	Type of irregularity	Number of sub-findings	%
1	2	3	4
1.	Lack of or improper procedures/ control systems in place for implementation of PP Law by the PP Commission	11	8
2.	Weaknesses in/not functioning /noncompliance with procedures/ control systems in place for implementation of PP Law by the PP Commission	4	3
3.	Not implemented procedures for PP / PP realized before signing PP contract / PP realized with old contracts from previous years	15	11
4.	Weaknesses in the planning phase (type of PP, selection of proper procedure, planned quantities, dynamics, planned funds, submitting PP plan to the PP Bureau, changes to the plan, etc.)	12	8
5.	Weaknesses in the phase of decision making on PP	4	3
6.	Tender documentation do not include the elements prescribed by PP Law	5	4
7.	Noncompliance of criteria for awarding PP contracts with PP Law	8	6
8.	Weaknesses in bid evaluation phase, scoring, ranking and proposing most favorable bidder, incorrect proposal for selection of most favorable bidder, etc.)	5	4
9.	Weaknesses in the phase of signing contracts with selected bidders (not signing contracts with selected bidders or signing contracts with different prices and different conditions and other elements of the bid, signing contracts within a period shorter than the legally prescribed one, etc.)	12	8
10.	Weaknesses in the realization of signed contracts (warranties, prices, quantities, payment terms and other conditions other than the ones defined in the contracts)	7	5
11.	Realization of contracts over the contract sum (surpassing the contract amount/planned funds)	6	4

12.	Lack of procedures in place for monitoring overall realization of contracts, both from quantitative and qualitative aspect	3	2
13.	Not acting upon established procedures for monitoring implementation of agreements in full, both from quantitative and qualitative aspect	2	1
14.	Dividing public procurements / bypassing procedures prescribed by PP Law	4	3
15.	Lack of annexes to contracts or signing annexes to contracts which are not in line with legal regulations	4	3
16.	Weaknesses of technical nature in the preparation of documents /files on conducted PP (unorganized and incomplete records / files, not signed / incompletely signed minutes / reports / overviews, mathematical errors, etc.).	4	3
17.	Designated person(s) in PP unit without appropriate certificate for passed PP exam	6	4
18.	Other irregularities	30	20
	Total:	142	100

AUDIT OPINIONS

In accordance with the objectives set in audit reports, auditors expressed opinions on both the financial statements and the compliance with laws and regulations.

The audit reports on financial statements for 2013 contain 26% unqualified (positive) opinion; 45% qualified opinion; 22% adverse opinion; and 7% disclaimer of opinion.

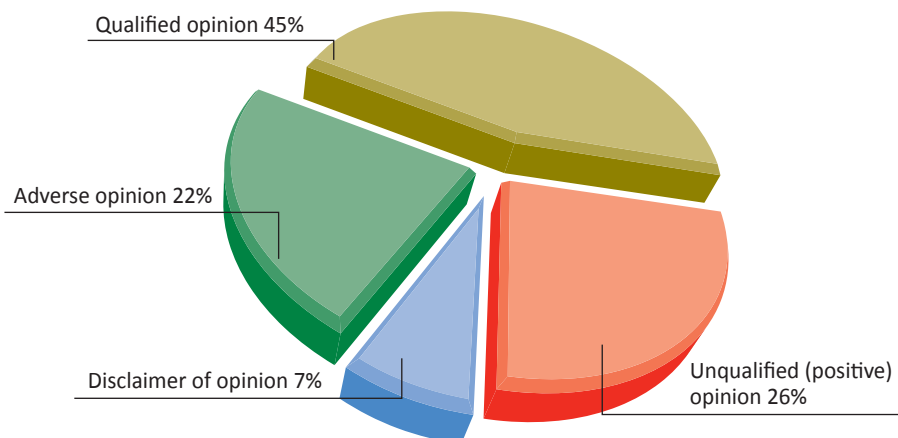
In relation to compliance with laws and regulations auditors expressed 22% unqualified (positive) opinion; 39% qualified opinion; and 39% adverse opinion.

Below is an overview of expressed opinion on financial statements and on compliance with laws and regulations in 2013 presented in audit reports of 2014.

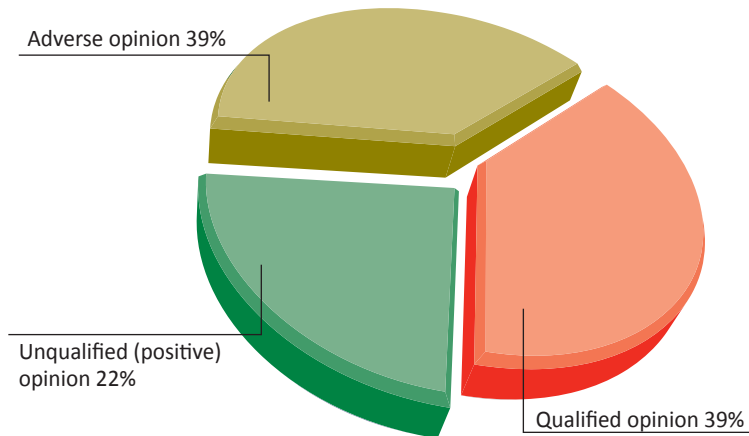
Overview of opinion expressed on financial statements and compliance with laws and regulations

Audit opinion	Financial statements		Compliance with laws & regulations	
	Number of reports	%	Number of reports	%
Unqualified (positive) opinion	7	26	7	22
Qualified opinion	12	45	12	39
Adverse opinion	6	22	12	39
Disclaimer of opinion	2	7	0	0
Total	27	100	31	100

Structure of expressed opinion on financial statements

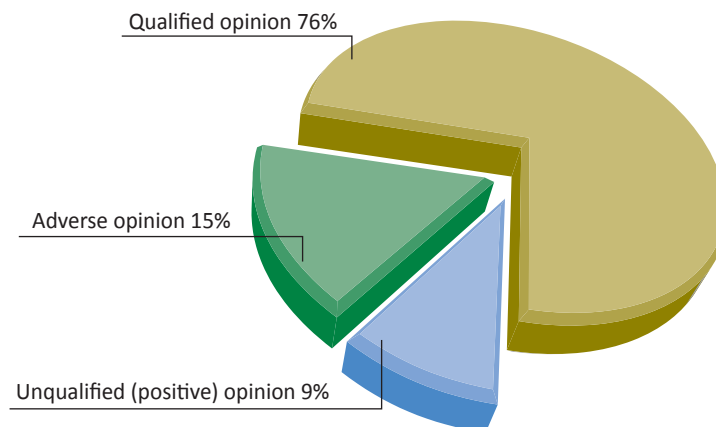


Structure of expressed opinion on compliance with laws and regulations



Below is the structure of conclusions expressed on the „efficiency and effectiveness of the system for financial management and control and internal audit“ resulting from the performance audits carried out in the frames of SAO annual work program for 2014.

Structure of expressed opinion on efficiency and effectiveness of PIFC system



MEASURES TAKEN UPON RECOMMENDATIONS IN AUDIT REPORTS

In addition to the main mission of the State Audit Office as a supreme audit institution to communicate audit findings timely and objectively to public office holders and the general public, audit objective is to give clear and effective recommendations and provide support to the state institutions and the beneficiaries of public funds for improving the management thereof.

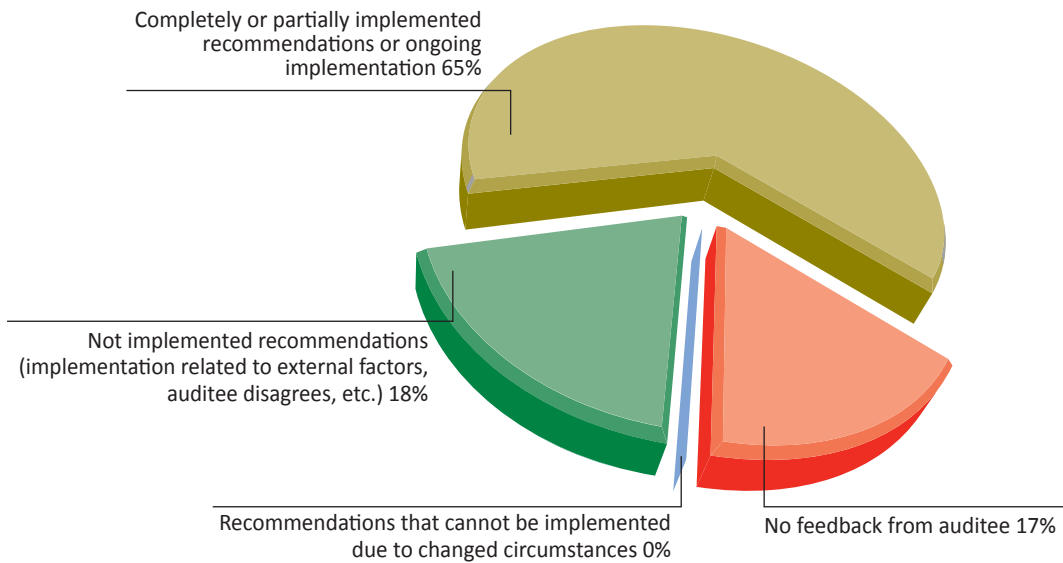
In line with the State Audit Law, auditee's legal representative is obligated to notify SAO, as well as the competent body for supervision and control, on the measures taken upon findings and recommendations in the audit report within 90 days of the receipt of the final report.

The State Audit Office follows the implementation of recommendations in audit reports in the frames of the regular audits, the special purpose audits and the reviews of implementation of recommendations, as well as from information provided by the auditees.

Upon completion of audits from the Annual Programme for 2014, the State Audit Office has given 833 recommendations. By the time of the preparation of the Annual Report for 2014, the deadline for feedback from auditees for 292 recommendations has not expired. Out of 541 recommendations, 353 have been implemented completely or partially, or the implementation is ongoing (i.e. 65%); 98 recommendations have not been implemented (related to other competent bodies/external factors or discrepancies); and 1 recommendation cannot be implemented due to changed circumstances. Auditees have not provided feedback or have not commented on 89 recommendations.

The following table presents the status categories for measures taken upon recommendations for 2014:

Description	2014	
	Number	%
Completely or partially implemented recommendations or ongoing implementation	353	65
Not implemented recommendations (implementation related to external factors, auditee disagrees, etc.)	98	18
Recommendations that cannot be implemented due to changed circumstances	1	0
No feedback from auditee	89	17
Number of recommendations for which 90 days' feedback deadline has expired	292	
TOTAL NUMBER OF RECOMMENDATIONS	833	



For continuous follow up of implementation of recommendations, the State Audit Office will continue using different approaches for gathering information on measures taken upon given recommendations including those that require longer implementation period. For this purpose, as well as for preparing different comparative analyses SAO uses software for analyzing data and other information from audit reports, auditees' feedback and feedback from competent authorities.



AUDIT ACTIVITIES

MAIN ASPECTS OF ASCERTAINED SITUATION FOLLOWING THE AUDIT ON THE CORE BUDGET IN 2014



The strategic priorities of the Government, the Fiscal Strategy, the draft strategic plans of Budget users and the budget policies and priorities of the municipalities serve as basis for preparation of the Budget of the Republic of Macedonia. Government strategic priorities are a set of objectives and initiatives, the Fiscal Strategy defines objectives and policies for action, and the medium-term macroeconomic and fiscal projections create a link between defined strategic priorities and available funding sources. The Fiscal Strategy provides better fiscal discipline

and appropriate allocation of available resources in line with the strategic priorities. During 2013 the Government has adopted Fiscal Strategy for the period 2014-2016.

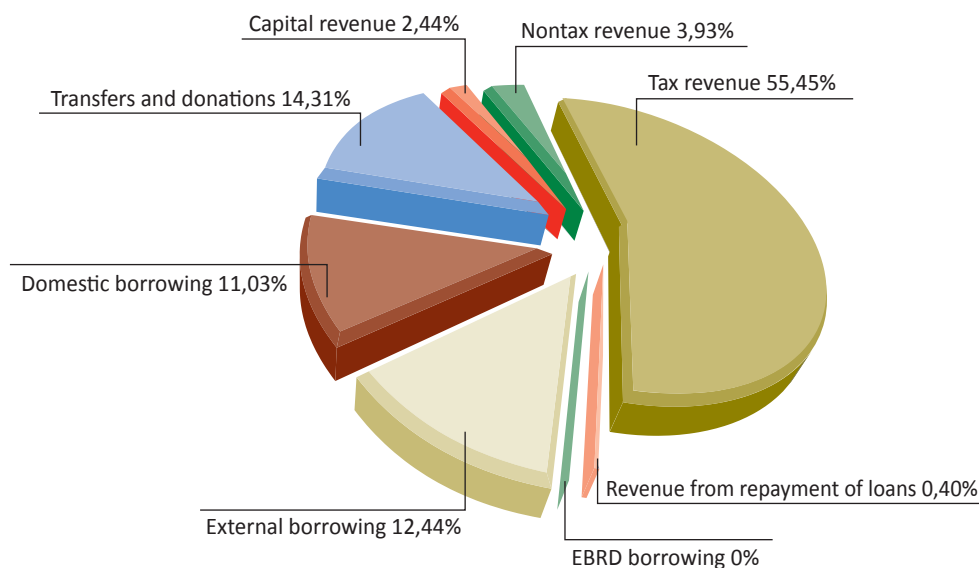
In setting out the Draft Budget, Ministry of Finance applies the balanced budget principle and plans the revenue in amounts that can be realistically achieved, and the expenditure in amounts necessary to fund adequate volume and quality of public goods and services.

The Ministry of Finance starts the Budget preparation by submitting instructions in a form of a **Budget Circular** to all Budget users, with maximum amounts of appropriations for each budget user. The Budget Circular for 2015 is modified, i.e. it contains defined templates for initial procurement plan, plan of systematized and filled job positions, as well as strategic plans of budget users; this should contribute to improving the planning process of the Budget of the Republic of Macedonia.

With the analysis on the Core Budget for 2013, we found that Budget realization compared with the approved budget is 96.13%; Budget realization in individual budget users has different percentage.

The Core Budget for 2013 has generated revenue in the amount of 138.159.205.000,00 denars. The structure of different types of revenue is as follows:

Structure of revenue of Core Budget for 2013



The largest part of Budget revenue was generated from collection of tax revenue in the amount of 76.610.377.000,00 denars i.e. 55.45% of total Core Budget revenue. We have audited the system of internal controls in the process of planning, recording and collection of tax revenue, which is set, managed and collected by the Public Revenue Office. The established process of planning and recording and the communication for exchanging data on collected tax revenue between the Ministry of Finance and the Public Revenue Office provide high degree of realization of planned Budget revenue.

The largest part of capital revenue generated in the Budget is revenue realized, recorded and controlled by state administration bodies within their legal competencies. We have audited the Ministry of Economy, Ministry of Agriculture, Forestry and Water Management and the Ministry of Transport and Communications in relation to the organizational structure and the operation of internal controls, planning, monitoring collection and recording of capital revenue. The audit found that there are records of claims for future periods for capital revenue in accordance with signed agreements in individual bodies of state administration; also, there is established process for data exchange on calculated and expected, collected and uncollected revenue with all state administration bodies.

The **Core Budget functions** through separate databases for treasury operations - database on inflow and database on outflow of funds. Within the Treasury account, the Treasury Ledger keeps separate records for budget users' accounts. The established method for operation and management of the Treasury with the Treasury account and the control procedures in place provide timely, complete and accurate recording of all inflow and outflow of funds in the Budget.

We have expressed our opinion on the use of Budget funds by the Budget users classified in different Budget Chapters in the separate audit reports of the authorized state auditors.

Following the implementation of the new Guidelines on Treasury operation (enforced on 1 January 2014) aimed at timely and complete realization of approved budgets, we ascertained that there are records of all budget users' obligations, i.e. records of current and long-term liabilities. The completed upgrade of the Treasury information system and the implementation of a new module for recording multiannual obligations of budget users are expected to provide better efficiency of planning, adopting and managing budgets, as well as timely implementation thereof.

FINANCIAL STATEMENTS ON REVENUE AND EXPENDITURE OF POLITICAL PARTIES FOR PARLIAMENTARY AND PRESIDENTIAL ELECTIONS IN THE REPUBLIC OF MACEDONIA IN 2014

In line with the current legislation, primarily the Law on financing of political parties and the Electoral Code, in 2014 SAO effectively kept track of the financial reporting of political parties by monitoring the process of submitting annual financial statements, annual accounts and reports from the register of donations. SAO also conducted audit on the financial statements for the presidential and the early parliamentary elections in 2014.

Pursuant to the above Law, in 2014 SAO received 33 annual financial statements, 32 annual accounts and 33 reports from the register of donations, of a total of 55 political parties.

For those political parties that did not submit financial statements for 2013, SAO submitted proposal to the Minister of Justice upon which the Minister brought a decision for ceasing regular annual Budget funding of these political parties. The decision had its impact and some political parties subsequently submitted financial statements. This decision initially covered 35 political parties that failed to meet the obligations for financial reporting for 2013 i.e. have not submitted a report from the register of received donations, annual account or annual financial statement. In the period from 18 November 2014 to 13 February 2015, 13 political parties met their legal obligations and the sanction was revoked. Thus, 1/3 of all submitted financial statements resulted from the sanction, which speaks of effectively implemented measure by the Minister of Justice upon SAO proposal.

In 2014 Republic of Macedonia held early parliamentary elections and presidential elections. Financial reporting for the elections in accordance with the Electoral Code, prescribes submission of three reports during the election campaign on revenue and expenditure of election campaign organizers for their candidates.

During the presidential and the early parliamentary elections organizers of the election campaign submitted the first and second interim reports and the total financial report to the State Audit Office, the State Commission for Prevention of Corruption and the State Election Commission; these authorities on their part, and in accordance with previously signed Memorandum of cooperation and exchange of information during election cycles, exchanged information on the reporting process.



Following the election cycle, in line with the Electoral Code, SAO conducted audit on the financial statements of most important organizers of the election campaign, i.e. in the legally prescribed period from date of submission of the total financial reports SAO started the audit to obtain reasonable assurance whether revenue and expenditure of political parties and coalitions are compliant with regulations on financing election campaigns.

The audit has ascertained the following shortcomings:

- lack of data on the manner of regulating mutual rights and obligations of legal entities/natural persons to use rented office premises (number and address of election headquarters and the way they are used; with or without compensation);
- some political parties and coalitions lack register of donations prescribed in the Rulebook on the form, content and manner of keeping register of donations during election campaign;
- the financial statement of one political party did not include data on the total expenditure for the election campaign for the early parliamentary elections.

In addition, we point out several systemic weaknesses which require action by the competent authorities:

- insisting on linking donated funds for election campaign with specific expenditure in practice is applicable only in cases when a particular expense can be determined, but not in case when natural persons and legal entities donate money;
- the method of closing the election campaign account should be specified for the reason that abolishing the legal obligation for closing this account following payment of compensation costs creates possibility for paying part of the obligations from sources that are not specified in the Electoral Code and disables strict adherence to the obligation for conducting audit until the completion of transactions on that account;
- the reporting period for using collected membership fees of the political party for the election campaign should be defined and the manner of reporting on collected fees should be set;
- the amount of misdemeanor liability fine specified in the Electoral Code and in the Law on Prevention of corruption should be aligned;
- the election campaign duration should be completely regulated, particularly in case of annulment of ballot of some polling stations and a revote, in order to clearly define the deadlines for submission of financial statements prescribed by the Electoral Code.

On account of ascertained systemic weaknesses in the previous period, the competent minister took steps in line with the provisions of the Law on financing of political parties and adopted a Rulebook on the form, contents and manner of keeping the register of donations in 2014.

DEFENCE OF THE REPUBLIC OF MACEDONIA

National defense policy and doctrine are anchored in the basic objectives of the security policy of the Republic of Macedonia:

- to protect life and provide personal safety of citizens;
- to ensure the independence and territorial integrity of the country, political freedom, civil and human rights, including rights of religious, ethnic and other minorities;
- to ensure the material well-being and prosperity of citizens.



The Ministry of Defense has a key role in the national defense system and in line with the Law on Defense it creates defense policy, defines guidelines for development of long and medium term plans, management of human and financial resources, as well as it provides support for the Army of the Republic of Macedonia.

National defense interests are values and conditions directly derived from the fundamental values laid down in the Constitution - preservation of independence, sovereignty and territorial integrity and unitary character of the country, as an essential framework for safeguarding national identity of the Republic of Macedonia and free expression and nurturing ethnic and cultural identity of all citizens.

With the audit in the Ministry of Defense we ascertained a situation which requires action for improvement thereof in relation to:

- expediting the procedure for receipt, validation and submission of documents to the organizational units for timely recording,
- the assets recorded in business books are not changed compared to the previous years' assets i.e. they are inherited from the time of the formation of the Army of Republic of Macedonia;
- the inventory of assets and their sources at the end of the year should be complete and harmonized; refer to
- buildings and equipment should be insured in continuation;
- the expenses paid to military and civilian personnel for their education, vocational training, advanced training and specialization should be within the legal estimates;
- greater efficiency in clearing advance payments of employees;
- recruitment of persons for consultancy services should be done for tasks that are not planned as regular duties of the employees in the Ministry,

- analysis should be made on deadlines of validity of real-estate leases, and after the expiry of contracts the real-estate should be returned in possession of the Ministry,
- selection of economic operators and realization of procurement should be done in line with the public procurement contracts.

The Ministry of Defense continuously participates in UN, NATO and EU missions and operations. In 2013 Republic of Macedonia actively participated in three international missions. The audit pointed to the need of an initiative to set the tax treatment of fees of engaged persons for participation in humanitarian or peacekeeping operations outside the territory of the Republic of Macedonia.

AGRICULTURE, FORESTRY AND WATER MANAGEMENT



Matters of agriculture, forestry and water management, use of agricultural land, forests and other natural resources, hunting and fishing, protection of animals and plants against diseases and pests, monitoring and studying the water conditions, maintenance and improvement of the water regime; irrigation systems, hydrological and agro-meteorological measurements, and as hail protection, as well as study and research of meteorological, hydrological, and biometeorological phenomena and processes are responsibility of the Ministry of Agriculture, Forestry and Water Management.

SAO conducted audit on the financial statements of the Ministry for 2013 together with compliance audit. The audit found that certain shortcomings require further action by competent persons in the coming period, in particular concerning:

- establishing internal controls for ensuring sufficient level of efficiency and reliability for prevention of risks of improper handling of documents and improper and incomplete data in business books;
- adoption of bylaws stipulated under individual laws;
- complete inventory of assets and liabilities;
- complete record of tangible assets, and reliable documents for the same;
- regular and complete recording of liabilities;
- complete and accurate records of state owned land under lease;
- accounting records of receivables based on lease of agricultural land;
- accounting records of procurements, issuance of supplies of excise label for flour and receipts;
- use of company vehicles;
- execution of programs; and
- awarding PP contracts.

Following the review of measures taken upon recommendations of the authorized state auditor contained in the final audit report, we concluded that the competent persons have proactive attitude and have taken steps for overcoming certain shortcomings.

LOCAL SELF-GOVERNMENT UNITS

In line with the Work Programme for 2014, SAO conducted audit on financial statements for 2013 together with compliance audit in two local self-government units (LSGUs) - Kicevo and Bogdanci.

After the local elections in March 2013, in compliance with the Law on Territorial Organization of the Local Self-Government in the Republic of Macedonia, the smaller municipalities of Vranestica, Drugovo, Zajas and Oslomej were amalgamated with the municipality of Kicevo. According to the legal provisions the municipality of Kicevo was obliged to undertake the following activities:

- to submit final accounts to the Registrar of annual accounts of the Central Register and the State Audit Office within 60 days from the date when the change occurred. The final accounts were not submitted within the legal deadline to the Central Register and the State Audit Office because they were approved by the Council of the municipality of Kicevo on 27 August 2013;
- The municipality whose territory is comprised of areas of two or more existing municipalities (Kicevo, Vranestica, Drugovo, Zajas and Oslomej) should adopt Municipality Statute and acts for organization and systematization of municipal administration within 60 days of the creation of the Municipal Council (the Council was constituted on 05 March 2013);
- Compliant with the legal provisions, the Municipality adopted Decision on organization, scope and operation of the municipal administration of Kicevo on 04 June 2013. The Civil Servants Agency granted consent on 09 July 2013, while the Municipal Statute was adopted on 27 August 2013, which is not in accordance with the legal provisions;
- The Rulebook on systematization of jobs in the municipal administration of Kicevo was not adopted within the legal deadline of 60 days from the date of constitution of the Municipal Council. The Rulebook has been prepared and submitted for approval to the Administration Agency in June 2014. Also, on 10 July 2014 the Municipality has submitted Programme for deployment of civil servants to the Government for obtaining consent for transformation of responsibilities that were previously performed within the municipalities of Kicevo, Zajas, Oslomej, Drugovo and Vranestica and from 15 April 2013 by the municipality of Kicevo. By the date of completion of the audit the approvals were not obtained.

The audit found that both audited municipalities lack internal control system for the process of fixing and collecting revenue, which is administered by the municipality.

Kicevo municipality has adopted written procedures for competencies and responsibilities of employees in municipal administration for fixing, collection and control of calculations for local taxes and fees. However, some weaknesses identified during the audit indicate that the implementation of the above procedures is not satisfying as well as that the procedures need to be supplemented.



Municipality of Bogdanci lacks adopted written procedures with clear segregation of duties and responsibilities of employees in the municipal administration for fixing and collection of property and communal taxes.

Due to the significant deviation of realized and planned revenue, the mayor of the Municipality of Bogdanci submitted proposal to the Council for budget rebalance, but the Council refused it. Kicevo municipality, regardless of the adopted budget rebalance, has significant deviation of realized and planned revenue and expenditure, primarily in the fee for setting the legal status of illegal buildings, and the income from current and capital transfers from other government levels.

In the period when Municipality of Bogdanci had blocked bank account some transactions were carried out during 2013 by calculation, compensation and cession i.e. the transactions were not realized through the payment operations of the treasury system.

Kicevo Municipality still has not updated the register of real estate in terms of revaluation of property market value for the purpose of determining property tax.

Obligations/claims based on decisions for communal tax for companies are not timely recorded. During 2013 and 2014 no measures were taken for enforced payment, which is not in accordance with the legal regulations.

The audit found weaknesses **in both audited LSGUs** regarding implementation of laws and internal regulations which indicates not completely aligned operation with the existing legal framework. The audit ascertained payments of funds without previously adopted criteria for use and allocation of funds for social security, non-governmental organizations and cultural and sporting events. Lack of criteria is a prerequisite for subjectivity in deciding on the use of funds.

Also, the audit found unrecorded intangible and tangible assets. There are characteristic findings regarding weaknesses in the inventory, which is not done in accordance with the provisions of the Rulebook on accounting of budgets and budget users.

The obligations undertaken by the municipalities are not recorded in full mainly due to lack of/ non compliance with written procedures for transfer of documents and segregation of duties and responsibilities.

The insight into the accounting records of the Municipality of Bogdanci showed that data in business books is not always supported with reliable, accurate and organized accounting documents. Namely, the invoices for procurement of certain goods or services rendered are not always backed with proper supporting documents.



Systemic weaknesses

In several Annual Reports we have highlighted systemic weaknesses in relation to the Law on communal tax, which are still present.

The Law on communal taxes prescribes collection of communal tax for road use with passenger vehicles, cargo motor vehicles, buses and special vehicles, to be done by legal entities authorized for registration of vehicles, which should deposit the tax to an appropriate account within the municipality treasury account. The current legal solution does not prescribe deadline for the legal entities for depositing the collected tax on the municipality account; it also does not prescribe obligation to inform the municipality on the number of registered vehicles by different cubic capacity and on the monthly amount of collected tax individually and cumulatively. Municipalities do not have data on the number and type of the vehicles by cubic capacity. The effects of the established practice reflect on the completeness and accuracy of realized revenue; the municipality records this revenue in its accounting records only as an inflow without specific data.

In order to ensure completeness, accuracy, timeliness and transparency in the collection of revenue, the audit recommends foreseeing legal provisions for monitoring and control of timely, complete and accurate payment of communal tax for road use in line with the categorization of vehicles, as well as accurate provision for the tax obligation.

Concerning the communal tax for street lighting, the municipalities in Macedonia do not receive data from EVN Macedonia on:

- the number of tax payers by category (number of meters) in accordance with heading 10 of the Law on communal taxes;
- report on the monthly amount of funds collected individually and cumulatively;
- six-month report on the real situation with number of meters; and
- notice of uncollected receivables based on this communal tax.

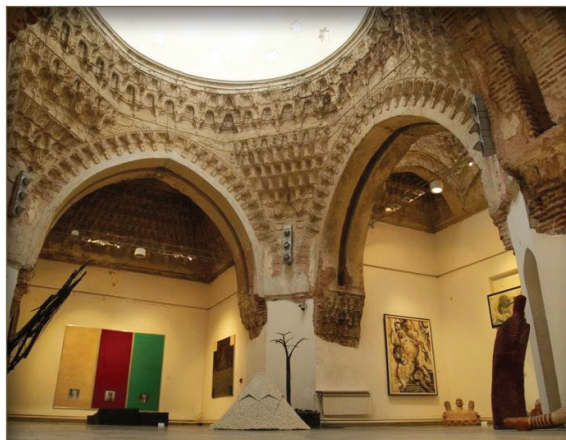
Despite the signed Memorandum of cooperation between ZELS (Association of LSGUs) and EVN Macedonia AD Skopje, EVN does not follow the contractual obligations for submitting the above data and reports.

In order to ensure integrity and transparency in collection of municipalities' own revenue, as well as for overcoming identified weaknesses, we recommend to the legislator to amend the legal solution.

In the section Subject to taxation of the Law on communal taxes, the use of music in catering facilities needs to be specified and more precise definition of catering facilities needs to be provided in line with the Law on catering industry.

In relation to fixing and collecting community taxes the provision of obsolescence needs to be aligned with the provisions of the Law on property tax which is set at 5 years.

NATIONAL GALLERY OF MACEDONIA



National Gallery of Macedonia is a public institution for culture events, which provides public services in the interest of the citizens and the society. The National Gallery is one of the spending units of the budget of the Ministry of Culture.

The audit on the financial statements and compliance audit for 2013 ascertained insufficient action for implementing internal control system in the process of procurement and payments.

Business changes in accounting records are not presented chronologically i.e. do not accurately show the time of occurrence; also, business changes are not always based on reliable, accurate and organized accounting documents.

Inventory of assets and sources of assets as of 31.12.2013 was not conducted in line with laws and bylaws.

The Gallery has not recorded the immovable property granted for use in the accounting and internal records of state-owned immovable property used by state bodies.

For the catalogued works of art, library books and equipment, the audit was not provided with complete analytical records which show whether all items are recorded in the analytical and synthetic records, whether certain items are recorded in only one of the records, or whether items are not recorded at all.

For the purpose of improving the ascertained situation in the Gallery, the audit made recommendations to the competent authorities and departments to overcome identified state of affairs.

MACEDONIAN ACADEMY OF SCIENCES AND ARTS

Macedonian Academy of Sciences and Arts is the highest autonomous scientific and artistic institution in the Republic of Macedonia, constituted in 1967 pursuant to the Law on Macedonian Academy of Sciences and Arts. It is a public institution of special importance for the country.

Following the audit on the financial statements for 2013 together with a compliance audit we gave recommendations aimed at improving the established system of internal controls. The audit identified incomplete recording of payables and receivables and recommended recording of transactions in business books to be carried out on the basis of complete, reliable and controlled accounting documents.



For the ascertained situation regarding public procurement we recommended to make public procurement procedures compliant with the principles for ensuring competition, equal treatment and non-discrimination, transparency and integrity, and rational and efficient use of funds in public procurement procedures.

PERFORMANCE AUDIT

In line with the Annual Programme in 2014 SAO conducted 86 performance audits which included 147 entities.

All performance audits are assessments focused on the quality and quantity of public resources and services in areas where we identified significant financial risks and opportunities for social and systemic improvements; we also created indicators thus providing added value to the selected activities.

1. Effectiveness of the Programme for implementation of the decentralization process and development of local self-government in the period 2011-2014

Since 2005 there is an ongoing process of fiscal decentralization in the Republic of Macedonia implemented by phases in different periods with different intensity.

With the exception of one municipality, in 2011 all municipalities started the second phase of fiscal decentralization.

The analysis of the decentralization process in 2011 showed that the future steps should be directed at encouraging local development and monitoring the situation to ensure active, effective and innovative role of local authorities in achieving not only national, but also regional and global objectives for growth and development. Arising from the need for such strategic approach the Government adopted Programme for implementation of decentralization and development of local self-government for the period 2011-2014; the implementation of defined priorities aimed at achieving medium-term objectives will continue in accordance with this Programme, with focus on the citizens.

Bearing in mind all these activities and the significance of this process we decided to conduct performance audit on the topic: **Effectiveness of the Programme for implementation of the decentralization process and development of local self-government in the period 2011-2014.**



The audit was primarily focused on activities in the area of fiscal decentralization and activities in relation to legal and institutional framework concerning implementation of procedures for selling and long-term and short-term lease of land owned by the Republic of Macedonia.

The performance audit was conducted in order to assess identified risks and opportunities for improving the Programme realization, i.e. to contribute to the achievement of medium-term Government objectives through the implementation of measures designed to foster dynamic local economic development.

The above Programme contains the main strategic goals concerning support of local economic development, and their implementation is specified in the Action Plan.

Given the complexity of the Programme, the Action Plan defines activities for projects to facilitate the realization of Programme objectives. The Programme and the Action plan do not provide indicators for monitoring and evaluation of objectives i.e. for obtaining qualitative data, which affects the assessment of the performance and the overall implementation.

Recognizing the measures and activities taken so far, the implementation of the Programme for decentralization and development of local self-government for 2011-2014 has achieved the following results in the area of fiscal decentralization:

- increased rate of VAT revenue during this period ranges from 3.7% to 4.5%;
- increased participation of municipalities in the revenue based on sale and lease of land (20%: 80% ratio for the municipalities); and
- transferred competences for disposal of construction land owned by the Republic of Macedonia, for the purpose of reducing fiscal disparities and improving fiscal capacity of municipalities.

Taking into account the above mentioned conditions and the fact that progress has been achieved in the area of fiscal decentralization the major upcoming challenges will be to improve the situation regarding financing spending units in different areas, local fire units, and to overcome weaknesses in managing construction land, in order to build stronger economic and development-oriented municipalities.

The audit defined recommendations to contribute to realization of objectives for local economic development by means of concrete actions of everyone involved in the development of local self-government. These recommendations are our audit added value, and are addressed to the Ministry of Local Self-Government as an overall coordinator of activities for monitoring and evaluation of the Programme results, the Ministry of Finance, the Ministry of Transport and Communications and other competent ministries, and the Commission for monitoring development of the system for financing municipalities and local self-government units.

2. Efficiency of measures for ensuring air quality in the Republic of Macedonia

Air quality is important issue essentially linked to public health, economy and environment. Poor air quality can cause deterioration of health, disorders of ecosystems and problems with the crops. This could cause major economic damage to the country displayed through reduced labor productivity and deterioration of the environment.

The audit focused on multiple risks identified in the above areas for providing answer to the following audit question:

„Is the current level of implementation of measures for ensuring quality of ambient air in the Republic of Macedonia sufficient for its improvement and what is the impact of above measures for reducing the effects of pollution“?

The audit primarily focused its activities in the area under jurisdiction of several institutions: Ministry of Environment and Physical Planning (MoEPP), Department for Environmental Protection, State Environmental Inspectorate, bodies within MoEPP, Institute of Public Health, Centers for Public Health, LSGUs - Department for Environment and Department for inspection supervision, i.e. institutions whose scope of work is related to the audit subject.

Our audit focused on identified risk areas as well as on issues related to the area/the medium air:

- quality management of ambient air;
- implementation of measures for improving air quality envisaged in the planning documents in line with the Law on quality of ambient air, as well as measures envisaged in the conclusions of the Government of the Republic of Macedonia;
- conditions for implementation of measures for protection and improvement of the quality of ambient air;
- effects of measures and their impact on the environment and human health.

The performance audit objective was to assess the efficiency of measures for improving air quality, implementation of laws and bylaws in the area, coordination between competent institutions, implementation of strategic planning documents, funding in the area, and reporting on the manner of supervision and control by competent authorities and the conditions that contribute to functional and efficient fulfillment of their legal obligations.

Recognizing the measures taken so far and the activities and results achieved in relation to adoption of the Planning documents, we found that measures and activities taken are not sufficient to create conditions for long-term policy for improvement of air quality, and the current level of implementation of measures for ensuring air quality does not provide improvement and does not reduce the effects of pollution.

Improving ambient air quality can be achieved by management of ambient air quality, full monitoring of ambient air quality and sources of emissions, complete system for informing, financing measures

for the medium air in line with the provisions of the Law on quality of ambient air, as well as by inspection supervision under the provisions of the same law.



For improvement of ascertained state of affairs, we defined recommendations for implementation of measures for improving air quality in the country:

- MoEPP should undertake activities for putting into operation all monitoring stations and their regular servicing, for providing data from mobile sources of pollution, and to use representative measurements in the zones and agglomerations where measurements lack;
- to prepare Annual Program for monitoring ambient air quality in order to improve the functioning of the State automated monitoring system;
- to update the Cadastre of air polluters, which is a registry of data and information on qualitative and quantitative records of pollutants and sources of pollution emitting polluting substances in the air;
- to find a suitable form for financing measures envisaged in the planning documents, by foreseeing charges / fees for environmental protection that will be provided for in the legislation or in individual programs of the Budget of the Republic of Macedonia;
- the State Environmental Inspectorate should undertake activities aimed at strengthening inspection supervision by applying the provisions of the Law on ambient air quality during inspection supervision of installations emitting polluting substances in the air.



3. Efficiency of measures, policies and activities for managing recreation and leisure facilities for children in the Republic of Macedonia



Management of recreation and leisure facilities for children in the Republic of Macedonia and the manner of conducting this activity is regulated by the Law on Child Protection, the Law on Institutions and Law on use and disposal of goods of state authorities.

The protection of children is organized activity based on children's rights, and the rights and responsibilities of parents for family planning and of the country and LSGUs for humane population policy. Child protection is accomplished by ensuring certain rights, means and forms of protection of children. It is governed by the

principles of protection of the right to life and development of the child, protection of child's best interest, providing minimum standard for every child under equal conditions, excluding any form of discrimination, respecting the right to child's freedom and the security of person, the right of personal opinion and freedom of expression, association and education, healthy living conditions, and other social rights and freedoms of the child.

Child protection is an activity of public interest which involves parents, family, caregivers and foster families, as well as children's facilities, educational, social, health and cultural institutions and individuals, state and LSGU institutions and other physical persons and legal entities whose activities are related to providing support and assistance to children.

Child protection has different forms:

- Care and education of preschool children;
- Recreation and leisure for children; and
- Other forms of protection.

It is achieved by providing conditions and appropriate level of living standard that corresponds to the physical, mental, emotional, moral and social development of children. State and local government care about providing adequate financial assistance to parents for support, care and protection of children, as well as for organizing and ensuring development of institutions and services for child protection.

Recreation and leisure for children is one form of child protection in accordance with the legislation and the rights defined in the Convention on the Rights of the Child.

We conducted audit on the measures, policies and action taken by the competent authorities responsible for management of recreation and leisure facilities for children entitled:

“Efficiency of measures, policies and activities for management of recreation and leisure facilities for children in the Republic of Macedonia.”

The audit identified conditions that affect efficiency of abovementioned measures and activities:

- Insufficient and inadequate scope of the activity - leisure and recreation of children in strategic documents and programs that regulate this activity;
- Absence of network of children's resorts in the Republic of Macedonia and lack of Central Register of facilities for leisure and recreation of children, which should be set by the competent Ministry;
- Recreation and leisure facilities for children which are still used for that purpose have not been renovated for a long time, and the rest of these facilities have either been repurposed or completely neglected, ruined and cannot be used;
- Financial support for renovation and equipping leisure and recreation facilities for children is insufficient and there are no criteria for allocation of funds to the users;
- Legal provisions are not followed and there are no normative - legal acts for the operation of children's resorts;
- There is insufficient staffing in the unit responsible for supervision, and professional and inspection supervision of facilities for recreation and leisure of children has not been done;
- There is inadequate institutional cooperation for managing leisure and recreation facilities for children.

In order to give our contribution in relation to raising awareness of relevant institutions and the public on the need of recreation and leisure facilities for children, as well as for improving the situation regarding creation, adoption and implementation of measures, policies and specific projects for the management of these facilities, we gave a number of recommendations to the authorities, and their implementation should overcome ascertained weaknesses.

4. Procurement of advanced medical equipment for public health care facilities and its impact on the operation of facilities and health care of citizens

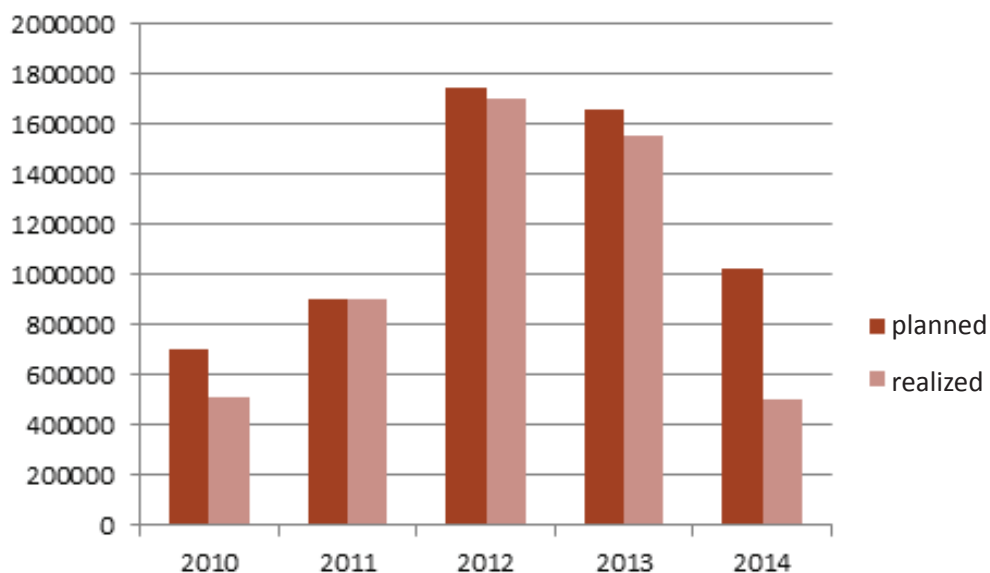


Health care is an activity of public interest carried out at primary, secondary and tertiary level health care within and outside of the network of healthcare institutions.

Republic of Macedonia is responsible for providing health care within the network of health care facilities, under the conditions of the Law on health care.

Procurement of medical equipment, providing premises for the equipment, professional training of employees in public health care institutions and timely implementation of the equipment are the basic requirements for receiving high standard services, reducing waiting time for receiving health care, timely diagnosis, reducing average time for treatment of patients, etc.

The funds for procurement of medical equipment for public health care institutions are provided each year from the State Budget, and are defined in subprogram-1B Procurement of new medical equipment. The amount of planned and realized funds for procurement of medical equipment for the period 2010 until October 2014, are illustrated below:



We conducted audit on the measures, policies and action taken by the competent authorities for health care activities, with particular attention to procurement of medical equipment, providing premises for the equipment, professional training of employees in public health care institutions and timely implementation of the equipment, entitled:

„Implementation of project activities for procurement of advanced medical equipment for the needs of the public health care institutions, and its impact on the operation of health care facilities and the health care for the citizens.“

The performance audit has identified the following weaknesses which affect efficiency of measures and activities for procurement of advanced medical equipment for public health institutions:

- insufficient personnel (particularly in the department for identifying needs, planning, recordkeeping and monitoring of the situation with the medical equipment in health care facilities and identifying priorities for procurement, and in the department for coordination of public procurement) points to possible difficulties and weaknesses in planning for medical equipment, priorities for procurement of medical equipment per public health care

institution, monitoring implementation of public procurement contracts, recording and tracking records of procured equipment;

- insufficient funds for payment of contractual obligations and loss of funds for paying interest on delayed payment for the procured equipment;
- certain construction activities prolong the term for putting the procured medical equipment into operation no matter what has been procured. This situation creates a risk of expiry of the warranty period before the equipment is put into use;
- newly procured medical equipment is a challenge for the employees of public health care facilities and requires learning new techniques and methods, knowledge and experience of the staff, and sufficient number of trained staff. Therefore, public health care facilities that procured camera for angiography need additional qualified staff (doctors).

In order to give our contribution in relation to increasing effectiveness and efficiency of application of medical equipment, we gave recommendations to the competent authorities, and their implementation should overcome ascertained weaknesses.

5. Border crossings in the Republic of Macedonia

Road border crossings in the Republic of Macedonia play important role in the economic development of the country. Taking into account the need to facilitate transport of passengers and goods by removing bottlenecks at border crossings infrastructure and by improving quality and efficiency of travel services, the need to improve business environment through investments in traffic infrastructure and to increase regional cooperation by improving traffic flow of vehicles and passengers, we conducted performance audit on the topic **„Requirements for the functioning of border crossings in the Republic of Macedonia“**. The audit objective was to assess the conditions for the functioning of road border crossing in the country.



The performance audit covered the period 2012-2014 characterized by:

- undertaken policies, measures and action aimed at improving organization of work and management of facilities at road border crossings,

- participation in harmonization of national legislation with the EU acquis,
- improved infrastructure for implementation of customs procedures and developed administrative procedures with internal procedures,
- promotion and upgrade of software solutions which expedite customs procedures,
- regulation of ownership of structures and land at border crossings, and
- multilateral cooperation with other countries based on signed international agreements,

which has contributed to improving the conditions for carrying out activities at the border crossings.

There has been a significant progress in this area as demonstrated by the increased efficiency in the functioning of road border crossings. However, there are certain areas that require additional action re arranging, managing and maintenance of facilities at the crossings.

6. Efficiency of measures, policies and projects for improving quality of accommodation services in student homes

Student homes as facilities for student standards are created for the interests and needs of students studying outside their place of residence. Organization, operation and management of student homes are part of the education system of students in the country.

Improvement of the quality of upbringing and educational process in the Republic of Macedonia is one of the Government priorities for ensuring equal conditions for all students in the country.



The audit on state-owned student homes has ascertained the following:

- there is a need of a comprehensive analysis of the conditions in student homes in the country, i.e. the needs, requirements and priorities of each student home separately;
- there is a need of introducing a register of student homes that will contribute to the creation of a single database for all student homes in the country;
- there is a need of a software to keep track of students who stay in student homes that will contribute to setting up a system with comprehensive data;
- there is a need of announcing open competition for admission of students to facilitate the procedure for admission and accommodation, as well as for complete filling out of accommodation capacities in student homes;

- it is necessary to continue with the activities for registering the right of ownership and use in order to define the spatial capacity of student homes;
- a number of activities for reconstruction and upgrade of existing structures and building new ones have been taken, which has improved the quality of accommodation services in some of the student homes.

Recognizing the measures taken so far and the activities and results achieved by the relevant institutions for improving the quality of accommodation in state student homes in Macedonia, we believe that by strengthening, improving and upgrading the existing institutional, human, financial and technical capacities, and by enhancing mutual communication, cooperation and coordination between competent institutions, the possibilities and conditions for providing quality services for student accommodation in the student homes will improve as well as the overall conditions in this area.

7. Efficiency and effectiveness of the Public Internal Financial Control System

The Public Internal Financial Control (PIFC) System covers financial management and control, internal audit and their harmonization, compliant with the International Standards for the Professional Practice of Internal Auditing.

In view of the importance and benefits of this system, in line with 2014 Annual Work Programme SAO conducted performance audit on the system of financial management and control (FMC) and internal audit (IA), in order to assess its efficiency and effectiveness, including coordination of development, implementation and maintenance of PIFC system (harmonization and supervision of FMC, harmonization and supervision of IA, preparation and adoption of bylaws, manuals and guidelines). The audit covered 80 entities and SAO prepared separate audit report with recommendations for each auditee.

The performance audit identified focus risk areas in order to obtain answers to the audit questions regarding this process. The main audit objective was translated in the following question:

„Has necessary action been taken to establish and ensure efficiency and effectiveness of the system of financial management and control and internal audit, including harmonization and supervision thereof, and creation and adoption of bylaws, manuals and guidelines?“

The analysis of laws and bylaws within the audit has pointed to several important areas in the system operation that were subject to more detailed analysis.

The performance audit has ascertained shortcomings in the following risk areas:

Legal Framework and Strategic Documents

In the frames of this risk area we focused on detecting possible weaknesses and potential risks in the

legislation that concern auditees' operation and may have an effect on FMC and IA implementation and functioning.

Considering the fact that the auditees perform different activities and have different responsibilities, we questioned whether these activities and responsibilities are covered by the legal acts on FMC and IA.

The audit found discrepancy between the provisions of the Law on PIFC and the Internal Control Standards for the Public Sector (published in line with Article 13 of the Law on PIFC and in force in the Republic of Macedonia, hereinafter referred to as the Standards) in terms of the scope (implementation) of financial management and control. Pursuant to the provisions of the Law on PIFC (Article 4) financial management and control is set up in Budget users of the legislative, executive and judicial power, in the Funds, and the municipalities and the City of Skopje, while public enterprises and joint stock companies predominantly owned by the state (public sector entities) are omitted. On the other hand, the published Standards do not have such differentiation of entities that are required to establish a system of financial management and control; the standards apply to all public sector entities, including public enterprises and joint stock companies predominantly owned by the state. Consequently, public enterprises and joint stock companies are not legally obliged to act in accordance with the provisions of the Law on PIFC, with the exception of the provisions for establishing Internal Audit Unit.

Considering that public sector entities are the Budget users, the Funds, the municipalities and the City of Skopje, the agencies and other institutions established by law, the public enterprises, the public institutions, the legal entities in state ownership and legal entities where the state is shareholder, which all perform activities of public interest in compliance with the principles of reliability of service delivery, continuity and quality of service and transparency of operation, the authorities and managers of the public enterprises and joint stock companies have undertaken part of the necessary activities for setting up a system of internal controls aimed at achieving companies' objectives.

One possible criterion for setting up internal control system in the public enterprises and joint stock companies is the Law on Standardization, which regulates the principles of Macedonian national standardization, preparation, adoption and publication of Macedonian national standards and their application, as well as the Macedonian standard „Quality Management System - Requirements“ (ISO 9001:2008), applied on a voluntary basis.

Recognizing the benefits of setting up internal controls in terms of legal and transparent operation, the competent authorities and the heads of the auditees have taken activities for adoption of:

- **strategic plans** that set out auditee's vision and mission, strategic objectives and activities to be taken in a certain period, aimed at achieving the objectives, with the exception of some joint stock companies and public enterprises that have not taken activities for preparation of strategic plans;
- **annual work programs that determine the annual activities; and**
- **reports on the operation** of auditees, which contain necessary information about the activities carried out in the reporting period and the results achieved, with the exception

of some public healthcare facilities that have not taken activities for preparation of these reports.

The section *Risk Management* gives more details on the action taken and the necessary future activities of certain auditees regarding strategic documents for risk management.

As to the adoption of statute and act on organization and systematization of jobs in **public health care facilities**, the activities are conditioned by the adoption of a bylaw by the relevant Minister. Namely, in line with the provisions of Article 91 of the Law on Health Care, on 09 May 2014 the relevant Minister adopted Rulebook on the scope of work of internal organizational units and the minimum number of employees in internal organizational units, depending on the type of activity carried out by the health care institution and in accordance with the principles of accessibility, rationality, efficiency and continuity of health care. This situation affected the timeliness of activities for adoption and harmonization of these acts in public health care institutions.

The abovementioned circumstances point to the conclusion that competent management and administrative bodies, for the most part, have taken necessary action to define strategic objectives and activities; however, in the following period the public health care institutions need to align the internal acts (Statute and the Rulebook on internal organization and systematization), prepare reports on the operation, and adopt strategic plans.

Financial Management and Control

In the frames of the risk area that deals with issues concerning **financial management and control**, the audit objective was to obtain answers to several audit questions in relation to the following components:

- Control environment;
- Risk management;
- Controls;
- Information and communication; and
- Monitoring.

Control environment

According to Articles 13 and 14 of the Law on PIFC and the Internal Control Standards for the Public Sector, control environment is the basis of the entire internal control system; it provides discipline and structure and creates the ambiance in the legal entity by influencing the control consciousness of employees. Control environment has a general impact on the creation of strategies and objectives, as well as on the structuring of control activities. This component incorporates management's outlook at all levels – general for the overall performance and specific in relation to the control concepts.

The head of the auditee is responsible for enforcing efficient control environment.

Key elements of the control environment are:

- personal and professional integrity and ethical values of management and employees;
- competence - level of knowledge and skills necessary to ensure orderly, ethical, economical, efficient and effective operations, as well as good understanding of individual responsibilities regarding internal control;
- management mindset and work styles - positive and supportive attitude toward internal control and internal audit;
- organizational structure – segregation of duties, authority, accountability, reporting, separate internal audit unit; and
- human resources policies and practice - employment and necessary staffing, professional training, evaluation and counseling, promotion and rewarding of employees.

Following the conducted audit, interviews and assessment of the functioning of the internal control systems, we have ascertained the following:

- with the exception of the public health care facilities, and some of the joint stock companies and public enterprises, the other auditees have undertaken activities for adopting internal act on organization and systematization of jobs which defines the number of organizational units and the number of employees and their responsibilities;
- most of the auditees have a separate organizational unit for financial matters responsible for financial management and control as provided for in Article 9 of the Law on PIFC;
- policies and practices for human resources management have been introduced (recruitment, promotion, evaluation, training), except in some public enterprises, joint stock companies and agencies, which should undertake activities for prescribing these policies in the upcoming period;
- activities taken for appointing person in charge of organizational unit for financial matters range from 50% to 88%; in the following period auditees should take action to overcome this situation and create conditions for control of budget/financial plan, ex-ante financial control, control of execution of established policies and operational management, accounting and other activities set out in Article 11 of the Law on PIFC;
- in the upcoming period large number of auditees will face a challenge regarding adoption of the plan for implementation of financial management and control, because 68% of Budget users, 32% of local government units, 30% of Budget spending units and 11% of public health institutions have implemented this plan, and only a small number of auditees have taken activities for adoption of this internal act during the course of the audit;

- Law on introducing a system of quality management and a common assessment framework for the performance and service delivery in the public administration obliges some of the auditees to adopt procedures for compliance with the requirements of ISO 9001: 2008 on quality management, and ensure their certification. The percentage of implementation of these provisions differs as follows: 67% of the public enterprises, joint stock companies and agencies, 59% of the Budget users, 50% of the Budget spending units, 37% of the local government units, and 22% of public health facilities. This situation points to the need of undertaking additional activities.

Based on the above, the audit concluded that larger part of competent authorities and heads of auditees have taken appropriate action to establish control environment; however, some auditees need to start or continue with the activities for overcoming the identified situation.

As indicated by the audit team, competent authorities and heads of the auditees have undertaken certain activities to prepare necessary internal acts - plan for implementation of financial management and control, and procedures in line with the requirements of ISO 9001: 2008 quality management standard.

Risk Management

According to Articles 13 and 15 of the Law on PIFC and the Internal Control Standards for the Public Sector, risk management is an important component of the financial management and control; it is the process of identifying and analyzing relevant risks that may adversely affect the achievement of organization's objectives, as well as appropriate countermeasures. In the attempt to accomplish their mission and objectives, entities need to manage risks that may affect service delivery and achievement of desired results.

Risk management includes:

- **Identifying objectives** - objectives must be defined before management identifies the risks that could affect the achievement of these objectives and take necessary actions for risk management;
- **Planning** - objectives should be the product of the planning process; if objectives are not clearly set, employees could work inefficiently, ineffectively and/or in opposite directions. In this context, the entity should prepare strategic and annual plans in which objectives are appropriate to the maximum available resources, in order to minimize the risk of failure to meet these objectives;
- **Coordination** – in the attempt to ensure compliance and connection for achieving desired objectives, decisions and activities of organizational parts should always be fully coordinated, and in order to achieve the objectives, the decisions and actions of organizational units should always be fully coordinated; the employees in organizational units should always consider the consequences of their decisions and actions on the institution as a whole;

- **Monitoring performance** – for each policy and activity the entity should provide monitoring and evaluation of the performance, using relevant quantitative and qualitative indicators, including those relating to economy, efficiency and effectiveness;
- **Risk management** – for introducing effective system of internal controls based on risk management, it is necessary to adopt and regularly update risk management strategy. The strategy should identify potential risks, evaluate their importance i.e. identify the significant risks that may have negative impact on the effectiveness and efficiency of operations, compliance with rules and regulations, reliability of financial and management information, protection of assets, preventing and detecting fraud. In addition, the strategy should identify the acceptable level of exposure to these risks, to assess the likelihood of risk occurrence, and its impact, to monitor and assess risks and to set up appropriate internal controls for risk management.

Following the conducted audit, interviews and the examination of bylaws and strategic documents, we have ascertained the following:

- The auditees have started activities regarding risk management, as a component of the financial management and control i.e. activities for adopting strategic, **annual and action plans** which define auditees' objectives, their monitoring through reviews of measures undertaken, regulations adopted for identification, analysis and assessment of risks, and tasks defined for reduction of harmful effects (elaborated in detail within section *Legal Framework*).
- For the purpose of thorough conceptualization of the risk management policy in support of the risk management process and for deciding on the roles and responsibilities of employees in identifying and managing operational risks, most of the auditees have **risk management strategies** for the duration of the audit. The adopted strategies reduce the risk of deviations in implementation of activities to a minimum, and will also contribute to the achievement of the objectives.
- The audit on **Budget users** has ascertained that in 48% of these auditees the administrative and management bodies have taken action for adoption of risk management strategy, which sets the risk management policy, and has favorable impact on the achievement of auditees' objectives. 32% of audited Budget users have fulfilled the obligation to adopt risk management strategy in the course of the audit.

As for the need of performing systematic risk analysis at least once a year, we found that 32% of above mentioned auditees need to undertake additional activities for assessment and analysis of changed conditions in the operation, and align the adopted risk management strategies, thus keeping the risk of failure to meet the objectives to a minimum.

- Large number of audited **public health care facilities** (78%) need to take measures and activities for risk analysis and risk ranking, as well as to adopt risk management strategy in order to achieve their objectives.

- The administrative and management bodies of most audited **Budget spending units** have recognized the need for assessment and control of potential events or conditions that may have negative impact on the achievement of objectives, and in the course of the audit they took measures and adopted risk management strategies in order to provide reasonable assurance that objectives will be achieved. We point out that in cases where risks change significantly, Budget spending units are obliged to update the strategies every three years by continuous monitoring of identified risks.
- The managing bodies of **local self-government units** will face future challenges concerning identification, assessment, monitoring and taking necessary measures for reducing possible events or conditions that may have negative impact on the achievement of objectives and quality performance of services. Out of 19 audited local self-government units, 14 units lack risk analysis associated with their activities and risk management strategy.
- Audited **public enterprises, joint stock companies and agencies** have undertaken activities regarding risk management during the course of the audit and adopted risk management strategies. Small number of auditees will adopt an act on risk management in the following period.

The above conditions indicate that auditees have started risk management activities, which need to continue in order to manage events that may affect and cause deviations in the implementation of auditees' strategic objectives. Permanent monitoring of the activities specified in the risk management strategies, which contain risk management policy and roles and responsibilities of employees, will contribute to unimpeded implementation of auditees' objectives and strengthen the system of financial management and control.

Controls

According to Articles 13 and 16 of the Law on PIFC and the Internal Control Standards for the Public Sector, controls are important component of the financial management and control. Control activities are policies and procedures implemented for tackling risks and achieving objectives. In order to be effective, control activities must be appropriate, must operate continuously according to a plan, must be comprehensive, reasonable and directly related to the control objectives, and must be implemented in all processes at all levels and in all functions.

Control activities include different policies and procedures:

- **Procedures** – auditees should have written procedures that need to be comprehensive, complete and clear, classified for important activities, in particular for the economic operations, and also to be available to all involved employees;
- **Authorization and approval** - for the implementation of financial management and control, the head of the auditee can adopt an act for general or specific authorization;
- **Segregation of duties** - to reduce the risk of error, loss, non-disclosure or wrongful act it is necessary to verify financial and operational elements of each operation by two independent

persons, and to separate the functions of initiation and verification of each operation to ensure effective control;

- **Access control to resources** – in order to ensure access control, as well as protection and proper use of material, financial and information resources of the auditee, it is necessary to appoint persons responsible for access;
- **Supervision** - based on pre-established procedures auditee's management should introduce measures for supervision of operations, including ex-ante and ex-post control, in support of effective realization of transactions;
- **Alignment/Resolving discrepancies** - it is necessary to set up a practice of regular monitoring and alignment of records with relevant documents;
- **IT controls** – IT controls are general and applicative, and the auditee is responsible for establishing thereof. Bookkeeping, data processing and control of data input in information systems is regulated by the Law on Accounting for Budgets and Budget users, the Rulebook on accounting for Budgets and Budget users, the Law on Trade Companies and the Law on PIFC. These provisions require timely and chronological recording of data in business/trade books, while ensuring:
 - Control of data input;
 - Accuracy of data input;
 - Storing data;
 - Possibility to use data;
 - Possibility for examination of records and changes in business/trade books.

Based on the conducted interviews and the assessment of auditees' internal control systems we have ascertained the following:

- Large number of Budget users, public health care facilities, local self-government units and public enterprises, joint stock companies and agencies have started activities for adoption of a separate **act for granting general and specific authorization** by the heads of the auditees;
- Auditees are obliged to designate individuals as **ex-ante and ex-post financial controllers** for checking legality and regularity of financial decisions, and approval or denial thereof provided for in Article 21 of the Law on PIFC. With the exception of local self-government units (characterized by 42% established ex-ante financial control), the ascertained state of affairs in the other auditees is within the legal requirements. Unlike ex-ante financial control, ex-post financial control is not within the specified requirements - the level of established controls in audited Budget spending units is 26%, in local self-government units is 30%, in audited Budget users 48%, and in public enterprises, joint stock companies and agencies 47%, indicating the necessity of taking additional measures to set up the necessary controls;
- Persons are designated for ensuring access control and protection and proper use of material, financial and information resources in auditees.

Following the audit of internal acts, established IT system, prescribed organizational structure and systems of internal control in auditees, we have ascertained the following:

- Actions taken for adoption of **strategic plan for development of IT system** or action plan for implementation of IT system did not yield the expected results; the need of measures for overcoming the ascertained situation and adoption of IT strategy is most evident in public health care facilities (none of the audited public health care facilities had the abovementioned act), local self-government units and public enterprises, joint stock companies and agencies;
- Budget users (72%), public enterprises, agencies and joint stock companies (53%) and Budget spending units (40%) are ahead of the other auditees with respect to adoption of policies and procedures for use and access to the IT system;
- Most of the auditees have taken action to ensure **data backup**. However, all public sector entities are expected to take action in this regard, for reducing the risk of losing data to an acceptable level;
- As to the requirement for **locking of data** from previous years and not allowing changes thereof, 73% of audited public enterprises, joint stock companies and agencies have acted upon this requirement, 64% of audited Budget users, 63% of audited local self-government units, 60% of audited Budget spending units and 22% of audited public health care facilities.

All of the above indicates that most of the audited entities have established adequate control systems; still there are auditees that need to make an effort to improve the internal control systems in the following period and ensure the achievement of objectives.

Following the indications given by the audit team, the competent authorities and the heads of the auditees have taken certain activities during the course of the audit in relation to setting up ex-post financial controller function, implementation of IT strategy and locking of data from previous years.

Information and communication

Information and communication as a component of financial management and control include:

- Identifying, collecting and distributing confidential and reliable information that ensures accountability of each responsible person, effective horizontal and vertical communication at all hierarchical levels in the auditee, as well as external communication.
- Managers and employees need to receive and communicate information necessary for performing tasks in order to ensure sound financial management and effective monitoring, as well as to identify risk circumstances before they arise.
- The head of auditee is obliged to establish efficient system of information and communication within the organization and the environment, thus ensuring effectiveness of the internal

control system in line with the provisions of the Law on PIFC and the Internal Control Standards for the Public Sector.

Efficient information and communication system (ICS) provides appropriate type, quantity, quality and dynamics of reporting for managers and staff (through reception, processing and communication of information) to perform the tasks and implement internal control, as well as a system of internal and external communication, which should provide accurate, unimpeded and fast dissemination of information, for the purpose of complete and timely delivery to end users.

Based on the conducted interviews and the assessment of internal control systems of the Budget users, Budget spending units, local self-government units, public health care facilities, public enterprises, joint stock companies where the state is dominant shareholder and agencies, we have ascertained the following:

- Most of the auditees have **written procedures for document flow** regarding preparation, execution, communication, using and archiving of documents. Written procedures for document flow contribute to clear and precise rules and instructions for employees' roles and responsibilities related to financial management and control.
- The established practice of **information flow**, the method of communication and documentation of all operational processes ensure appropriate, timely, up to date, accurate and accessible information for the administrative and management bodies necessary for decision making directly related to the objectives.
- **Information and reports** prepared and presented to the administrative and management bodies on a regular basis, create opportunity for assessment of legality, economy, efficiency and effectiveness of operations.
- The **established communication** between managers and doers also defines the deadlines for performing tasks. Reporting is done on the degree of realization of tasks, and monitoring the execution of activities should be provided through quantitative and qualitative indicators (performance indicators) which are integral part of the strategic plans.
- In the upcoming period more attention should be paid to **regular communication** between the person in charge of irregularities and those of the organizational unit for financial matters, as well as to reporting to the competent authorities.

The abovementioned state of affairs indicates that auditees have established information system and system for internal and external communication for providing timely information for management and administrative bodies on the degree of realization of tasks, complete and unimpeded dissemination of information at all levels, orderly and credible documentation of operational processes and transactions, getting feedback, and defining deadlines for execution of tasks, aimed at establishing efficient and effective system of financial management and control.

Monitoring

According to Articles 13 and 18 of the Law on PIFC and the Internal Control Standards for the Public Sector, monitoring is an important component of financial management and control. Monitoring of internal control system is required to provide reasonable assurance that internal controls correspond to the changing objectives, environment, resources and risks, given the fact that controls are dynamic process that needs to be adjusted regularly to auditee's risks and changes.

Internal control systems should be monitored in order to assess the quality of functioning thereof. Therefore, entities should prepare plans and programs for the evaluation of internal controls, and the head of the entity should ensure regular check and evaluation of the functioning of the internal control and its elements.

Based on the conducted audits and the analysis of summarized results, we concluded that in 91% of audited entities the leadership has positive attitude about **acting upon recommendations of the external and internal audit**, i.e. they take necessary measures to overcome ascertained weaknesses.

In accordance with the provisions of the Law on PIFC, the heads of first line Budget users of legislative, executive and judicial powers, the Funds and municipalities and the City of Skopje are obliged to submit **annual financial statement** to the Central Harmonization Unit no later than 10 May of the current year for the previous one.

This obligation is relevant for 44 of the audited entities; 36 of them i.e. 82% have fulfilled the obligation.

Important integral part of the monitoring is the assessment of effectiveness of internal control through direct hierarchical control or expert control i.e. **self-assessment of individual processes** of the financial management and control system; more attention should be paid to this activity in the future.

Taking into account the ascertained state of affairs of the internal control system monitoring, we concluded that there is a need of additional activities for providing reasonable assurance for effectiveness of controls for the auditees' management, as well as assurance that internal control system is being adapted to the risks and changes it faces.

The audit of management and control processes for determining effectiveness of internal control system in the implementation of procurement and payments, and protection of assets and liabilities (inventory of assets and liabilities) the following situation was ascertained:

Internal control system in the process of implementation of procurement and payments

According to the Law on PIFC, the Internal Control Standards for the Public Sector and the Public Procurement Law, the head of the auditee is required to establish system of internal controls in the process of implementation of procurement and payments. This activity aims at reducing the risk of

inconsistence in compliance with laws and regulations, and ensuring competition, equal treatment and non-discrimination of economic operators, transparency and integrity in the process of awarding public procurement contracts, rational and efficient use of assets, and establishing appropriate controls regarding occurrence, valuation and real existence of liabilities toward suppliers.

To confirm the effectiveness of the system of internal controls in the procurement and payment process, we have audited the method of implementation of activities for determining needs and initiating procurement, the implementation of procedures for awarding public procurement, the method of realization of signed contracts, as well as the flow, control, approval and payment of financial documentation.

Following the review of submitted documentation and the compliance and detailed testing for assessment of established controls in the procurement process, the audit found the following:

- Audited **Budget users** have introduced separate organizational unit/person for procurement and adopted procurement plans according to the needs and in line with legal regulations. Most of signed contracts (92%) are in accordance with the tender documents, and 96% of procurements are conducted in accordance with the signed agreements.
- The situation in audited **Budget spending units** is as follows: 60% of auditees have adopted procurement plans according to their needs and in line with legal regulations; in 90% of auditees the signed procurement contracts are in accordance with the tender documents; and in 60% of auditees the public procurement has been conducted in accordance with the terms of the signed contracts.
- The situation in audited **local self-government units** is as follows: 89% have established separate organizational unit for procurement, have adopted procurement plans according to the needs and in line with legal regulations, and contracts are in accordance with the tender documents. In 84% of audited local self-government units the procurement is conducted in accordance with the provisions of the signed contracts.
- 93% of audited **public enterprises, joint stock companies and agencies** have adopted procurement plans in line with the needs and the legal regulations, signed contracts are in line with the tender documents and procurements are implemented in accordance with signed contracts.
- Audited **public health care facilities** have organizational unit for public procurement. All audited public health care facilities have adopted procurement plans in line with the needs, and the legal regulations and contracts are in accordance with the tender documents. All audited public health institutions realized the procurements in accordance with the signed contracts.

The audit found that auditees' managers have taken necessary activities for establishing system of internal controls in the procurement processes in accordance with the legal provisions, allowing adequate competition, transparency, equal treatment and non-discrimination of economic operators.

The audit objective was to assess the effectiveness of the system of internal controls in the payment process by obtaining assurance for:

- correct and timely payment;
- payments are made only for goods and services received and to the appropriate supplier; and
- payments made for goods and services procured are recorded in the ledger.

Therefore, we identified several risks or events and circumstances that may affect the achievement of the objectives of this process:

- payment of wrong amount;
- invoice is not in accordance with supporting documents;
- invoice is paid and goods or services are not received;
- double payment of invoice;
- payment made to another entity;
- payment made without approval of an authorized person.

Taking into account the process objectives and the risks that may affect the achievement of objectives, the audit task was to determine whether appropriate controls are in place, whether controls are effective and efficient in covering detected risks, whether controls ensure realization of process objectives, as well as to detect whether management has taken measures to reduce identified risks. For that reason we inspected established controls that verify the existence and functioning thereof. We found that 80% of audited entities have adopted internal procedures for the payment process.

Regarding the need for division of responsibilities among the persons authorized for approving payments, for making payments and for recoding payments, we found that 76% of the audited entities have such division of responsibilities, which prevent a person or organizational unit to control all important phases of an activity, such as authorization, execution and accounting records.

Inventory of assets and liabilities

For unimpeded implementation of activities for organizing, conducting and reporting on results of inventory of assets and liabilities, the auditees need to prescribe and establish a system of controls that will ensure compliance with provisions of the Law on Accounting for Budgets and Budget users, the Rulebook on accounting for Budgets and Budget users, the Law on Trade Companies, the Rulebook on the manner of conducting inventory of assets and liabilities, and alignment of accounting (book) value with the actual value, and the Rulebook on Accounting.

The audit objective was to assess the effectiveness of the system of internal controls in the process of inventory by obtaining assurance that:

- inventory is performed within legal deadlines;
- inventory is comprehensive, i.e. it covered all assets, own and external;
- inventory is of high quality;
- alignment of accounting (book) value with actual value is done;
- inventory report is prepared, reviewed and approved by competent authorities;
- an act for inventory report acceptance is passed, containing detailed guidelines for action.

Budgets and Budget users, as well as joint stock companies are required to make an inventory of assets and liabilities at least once in the business year and to adjust the accounting (book) value of assets and liabilities with the actual value determined with the inventory.

Based on the insight into the overall process of inventory and the audit techniques for control of the inventory process, we found the following:

- Most of the **Budget users and Budget spending units** that were covered by the audit (more than 88%) have adopted internal act for the manner and procedure for organizing and conducting the inventory. With regard to the alignment of book value of assets and their sources, claims and liabilities with the actual value, some auditees need to take additional measures for complete alignment. In future, the Budget users in particular, need to adopt the inventory report on time and to record the results in the financial statements.
- 67% of audited **public health care facilities** have prescribed and passed an act for establishing a system of activities for organizing, conducting and reporting on the results of the inventory of assets and liabilities, which are mostly covered with controls. More than half of the audited public health care facilities in future need to cover all assets and their sources with the inventory, and to make complete alignment of book value with actual one. Most of the public health care institutions have acted in accordance with the legislation concerning statutory deadline for completion of inventory activities, adoption of inventory report and its recording in financial statements.
- In audited **local self-government units** we found a need of strengthening the system of internal controls in the inventory process, notwithstanding the fact that all audited local self-government units (19) have adopted internal regulations for conducting inventory which cover inventory procedures and activities. In future, the inventory process should cover all claims and liabilities, tangible and intangible assets of municipalities; complete alignment of accounting value with actual one should be done, as well as recording of inventory results in the accounting records. By taking these actions, the municipalities will provide complete information on available assets.
- With the audit on the inventory process in **public enterprises, joint stock companies and agencies**, we found that management and administrative bodies have prescribed internal regulations for conducting inventory; however, risks are still present in the implementation of inventory activities, which could have an impact on the financial reporting i.e. on

presenting and verifying items in financial statements. Audit recommendations require making complete inventory of assets, claims and liabilities, as well as aligning book value with actual value identified with the inventory.

Considering the importance of the inventory process, the need of inventory data, as well as their impact on the true and objective preparation of financial statements, we can unquestionably conclude that some auditees have taken necessary measures and action for unimpeded and complete implementation of this process. The other auditees should set up a system of internal controls for planning and execution of inventory of assets and liabilities, which will confirm that activities are carried out completely, timely and with quality, for unrestricted alignment of the accounting with the actual value of assets and their sources.

Internal Audit

In the frames of the risk area concerning internal audit issues we did a research in order to answer several questions related to audit weaknesses and potential risks in this area.

The insight into the submitted documentation, the conducted analysis and interviews with auditees' officials, ascertained the following state of affairs:

- Internal audit is established as independent activity for providing objective assurance and advice to the head of the public institution, and for adding value and improving entity's operation. Recognizing the crucial importance of the independence of the internal audit, we found that the responsible persons of the Budget Funds and the Employment Agency, the audited Budget users and urban local self-government units have planned a separate internal audit unit in their regulations for organization and systematization of jobs.
- Concerning **implementation and functioning** of internal audit we concluded that in audited **Budget users and some local self-government units** (urban municipalities) there is a separate department or unit for internal audit, whose head is directly accountable to the head of the auditee.
- Audits are carried out in accordance with the strategic and annual plans for performing audits; for each audit a report is prepared and submitted to the management. Internal audit reports provide assurance for the functioning of the audited systems and processes and the system for financial management and control, and they contain identified irregularities, inconsistencies and weaknesses.
- We concluded that internal auditors in audit reports give recommendations for improving current situation, minimizing weaknesses and improving efficiency. 60% of audited Budget users have records for the degree of implementation of recommendations; we concluded that managers have positive attitude towards the recommendations and they undertake measures for their implementation. 28% of audited Budget users, in line with the recommendations made during the course of the audit, have initiated activities for setting up the abovementioned records.

- As for audited **Budget spending units and local self-government units** whose average annual budget for the last three years has not exceeded 50 million denars, we found that most of them organize internal audit by engaging internal auditor of another public sector entity, based on agreement between the heads of the two entities, i.e. between the mayors. Taking into account this kind of functioning of the internal audit of these entities, and the high degree of involvement of internal auditors the contracts concluded in need of a greater number of audits performed during one year follow-up or monitoring of the recommendations and their implementation. Taking into consideration this type of internal audit and the high degree of involvement of internal auditors in line with signed contracts, we concluded that there is need of more audits during one year, as well as follow-up or monitoring of the recommendations and their implementation.
- With the audit on **public health care facilities** we found that they have not established internal audit unit and this unit is not envisaged in the regulations for organization and systematization of jobs. Also, during the reporting period these entities have not taken action to hire internal auditor from another public institution. The absence of internal audit results in lack of managers' insight into the functioning of the system of internal controls; this situation creates a risk of not detecting possible deviations in the implementation of laws, bylaws and internal regulations, no reliability and comprehensiveness of financial and operational information, no protection of property and information, and no execution of tasks and achievement of objectives. In the following period audited public health care facilities need to take measures and activities to set up internal audit and recruit internal auditor.

The abovementioned circumstances point to the conclusion that internal audit as independent activity for providing objective assurance and advice to the head of the public entity for improving operation thereof, is an area that needs more attention in the upcoming period in terms of its implementation in public sector entities, creating appropriate conditions for its unimpeded functioning, and development of knowledge and skills of internal auditors.

Coordination of development, implementation and maintenance of public internal financial control system

Creation and adoption of laws, regulations, manuals and guidelines

The need of introducing internal control as an activity for performing financial transactions in accordance with laws is provided for in the provisions of the Budget Law and the Law on Accounting for Budgets and Budget users. Effective and efficient internal control is an elementary requirement of *Secure financial management*, which is one of the eight budgetary principles.

FMC and IA system in the public sector in Macedonia is prescribed in the Law on Public Internal Financial Control (Official Gazette of RM, no. 22/2007), Internal Control Standards for The Public Sector, the Law on Internal Audit in the Public Sector Official Gazette of RM, no. 69/2004, 22/2007),

International Standards for the Professional Practice of Internal Auditing, and in other bylaws for proper setting up and functioning of PIFC.

PIFC is also provided for in the Law on Public Internal Financial Control („Official Gazette of RM, no. 90/09, 12/11 and 188/13), Internal Control Standards, Internal Audit Standards, and the bylaws in this area. The audit on the aforementioned acts, ascertained the following state of affairs:

- There is a need for further defining of FMC in the public sector institutions. According to the information available we concluded that due to lack of human and financial resources some of the audited Budget users and small local self-government units are facing difficulties in meeting requirements of the Law on PIFC and the accompanying bylaws. This situation is pointed out in the Strategy for development of PIFC 2015-2017 stating that difficulties occur in setting up institutional framework for this system in the smaller institutions at central and local level. The question arises whether there is a need of a unit for financial matters in institutions whose realized budget in the previous year is below a certain limit; and the head of the entity could designate responsible person for setting up and developing FMC.

In addition we emphasize the need to review the criteria for defined threshold for setting up internal audit units, in the part for prescribed number of employees / internal auditors.

Based on the above, we point to the need of activities for amending laws and bylaws that regulate setting up and operation of FMC and IA in the public sector entities.

- There is a discrepancy between the provisions of the Law on PIFC and the Standards for Internal Control in the Public Sector in terms of the scope, i.e. the establishment of FMC, published pursuant to Article 13 of the same Law and in force in the Republic of Macedonia. According to Article 4 of the Law on PIFC, FMC is applicable to Budget users of the legislative, executive and judicial power, the Funds, LSGUs and Skopje, while public enterprises are omitted. On the other hand, the published Standards do not have such differentiation of entities that are required to establish a system of financial management and control, and the standards apply to all public sector entities, including public enterprises and joint stock companies predominantly owned by the state.
- Notwithstanding the action taken by the competent ministry for adoption of laws and bylaws and conducting trainings to increase knowledge and skills of those involved in the PIFC system, the audit recommends adoption of a Training program for setting up and development of FMC, as defined in Article 12 paragraph 3 of the Law on PIFC;

Introduction of the PIFC system is systemically guided via strategies for PIFC development in RM, which cover the periods 2006-2008, 2010-2012 and 2015-2017. These strategies envisage Action plans with defined measures and deadlines for implementation of activities through EU-funded projects.

The examination of strategies' planned activities and the degree of realization thereof has demonstrated the following:

- Strategies for PIFC development for the period 2006-2008 and 2010-2012 define measures and activities for strengthening financial control in the public sector of the Republic of Macedonia through implementation of already defined operating EU model on PIFC; this model is a combination of managerial accountability and functionally independent internal audit, and harmonization thereof. The EU model enables redesign of internal control environment and improvement of the control system in the public sector of the Republic of Macedonia in accordance with international standards and EU best practice.

In line with the above strategies, inter alia, the following activities were carried out:

- Creating Central Harmonization Unit as an organizational unit within the Ministry of Finance - CHU is responsible for coordination of activities for implementation and development of the PIFC system. CHU is also responsible for creation of laws and bylaws as well as methodology and work standards for the PIFC system. CHU coordinates training for managers and employees involved in financial management and control and internal audit, maintains the database for internal audit units and financial matters units, and cooperates with national and international institutions responsible for PIFC issues to exchange best practice and implement the same in the PIFC system of the Republic of Macedonia;
- Committee on Financial Management and Control and an Audit Committee were created in 2011 for coordination of activities on issues related to FMC and IA; these are consultative bodies, which according to the Law on PIFC should hold meetings at least four times a year; rules of procedure were adopted for their operation;
- The internationally accepted standards for internal control and the International Standards for the Professional Practice of Internal Auditing were published, thus creating conditions for setting up legal and institutional framework of the PIFC system;
- Organizational setting up of the internal control system in Budget users was also planned and initiated, i.e. creating units for financial matters and internal audit and appointment of heads of these units.

2015-2017 Strategy for Development of Public Internal Financial Control in the Republic of Macedonia was adopted during 2014; the Strategy defines the activities for practical implementation of PIFC system in the public sector and increases awareness of the importance and benefits of this system by strengthening the FMC and IA.

This strategy defines the following general objectives for the system development:

- improved quality of services in the public sector through further development of financial management and control;
- staffed and operational internal audit units;
- strengthened CHU capacity for ensuring effective coordination and support of public sector institutions in the process of implementation of FMC and IA.

The adoption of laws and bylaws as well as individual strategies for development of PIFC in the Republic of Macedonia create necessary legal conditions for setting up the PIFC system which is continuously monitored by the authorities. However, taking into consideration the role, importance and benefits of the system, the authorities need to take action to reconsider the specified scope in relation to setting up FMC and IA.

Harmonization and supervision of financial management and control and internal audit

CHU provides support in the implementation of the system of internal financial control in all Budget users, through coordination and harmonization of activities related to the development and implementation of this system in the public sector in the Republic of Macedonia.

Following the audit on the documents and the assessment of CHU activities we have ascertained the following state of affairs:

- In accordance with the act on organization and systematization of jobs in the Ministry of Finance, CHU functions as Public Internal Financial Control Department with a unit for FCM harmonization and a unit for IA harmonization; 11 out of 23 systematized job posts are filled excluding the post for the Head of Unit for IA harmonization. Also there is no separate organizational unit within the department for supervision of FMC and IA quality, which is envisaged as CHU activity in the Law on PIFC. Therefore, the competent Ministry should reconsider the above situation and take appropriate action.
- CHU is exercising its coordination role by organizing training, providing guidance and arranging working meetings with public sector entities. Although there is no specific training program adopted for establishment and development of FMC, in cooperation with EU countries and implementation of several projects¹, CHU has organized several trainings in the period 2009 - 2013, thus providing continuous guidance to the auditees. Methodology acts² have been prepared which include specific activities for development and implementation of FMC and IA; these acts have been published on the website of the Ministry of Finance to facilitate the implementation of the system. Considering that the Manuals were adopted in 2010, and that since then certain changes were made to the laws and bylaws and to the Standards for the Professional Practice of Internal Auditing, prescribing a completely new approach and „conditions and manner of implementation of training and examination for certified internal auditor in the public sector“, we point out the need to review and update as well as issue new guidelines in accordance with established modules for education of persons interested in taking the exam for certified internal auditor.
- The changes to the Law on PIFC in 2013 describe in detail the procedure for conducting training and examination for certified internal auditor in the public sector, which was previously regulated in a separate bylaw. International certification of internal auditors is still

¹ **Twinning project** “Strengthening the system for public internal financial control”, 2009;

MATRA Project “Strengthening and Implementing Public Internal Financial Control at Central Level”, 2009 and 2010;

Twinning project “Supporting the Process of Fiscal Decentralization through Strengthening the Capacities for Sound Financial Management and Internal Control on Local and Central Level”, 2012;

Project TIAPS “Training of Internal Auditors in Public Sector”

² Manual for financial management and control, Manual for internal audit.

applicable until the launch of the National Certification (8 January 2015) and the adoption of a Program for conducting training and exam for certified internal auditor in the public sector. The implementation of EU project for training of internal auditors in the public sector resulted in CIPFA international certification of 45 internal auditors and 23 accountants.

- CHU is coordinating creation and development of FMC and IA via meetings with persons responsible for creation and development of FMC and IA in order to exchange experience and knowledge, to identify difficulties and weaknesses in the implementation and to propose appropriate solutions in accordance with the standards and best practice examples.
- CHU has not yet started to perform activities for FMC and IA quality supervision in public sector entities, as provided in the Law on PIFC and the Strategy for Development of Public Internal Financial Control in the Republic of Macedonia for the period 2015-2017.
- In 2011 Committee on Financial Management and Control and Audit Committee were introduced as advisory bodies for coordination of activities related to FMC and IA. According to the Law on PIFC, the Committees should hold meetings at least four times a year. Until the end of 2014 the Committees have held four sessions and exchanged information on the degree of implementation of the system. In March 2015 the Committees held the 5th session and prepared Information on the state of affairs re FMC and IA and measures for further development.
- Each year CHU prepares Annual Report on the operation of the PIFC system based on submitted strategic and annual audit plans, and annual financial statements of entities; the Annual Report is submitted to the Government. This report informs on the activities implemented throughout the year in question, the current state of affairs and the future course for development of this system. The Report also contains individual conclusions for future activities of entities with deadlines for action and reporting. According to the Annual Report for 2013 Annual financial statements on the activities for development and implementation of FMC in 2013 were submitted by 66 first line Budget users (87%) and 58 LSGUs (72%). Annual reports on conducted internal audits and internal audit activities in 2013 were submitted by 60 public sector entities (75%) and 52 LSGUs (64%).

Taking into consideration the role, importance and activities taken by CHU for creating institutional framework for setting up the PIFC system, as well as the supervision and harmonization performed by CHU, the audit found that most of the necessary activities have been taken. However, the relevant Ministry should take additional action in relation to providing necessary human resources, adopting bylaws, enforcing supervision of FMC and IA system and holding of quarterly meetings of FMC Committee and the Audit Committee.

The above conclusions provide the basis for the audit objective. We have ascertained that the Ministry of Finance is responsible for coordination of activities for development, implementation and maintenance of the public internal financial control system, while the management and administrative bodies of public sector entities are obliged to create policies and undertake concrete measures and activities for prescribing bylaws and internal regulations, to adopt and implement procedures for

FMC (planning, execution, monitoring and reporting) and IA, which are preconditions for setting up financial management and control and internal audit.

The audit on FMC and IA and their coordination in the auditees, we have ascertained that appropriate system of coordination is established, strategic and annual work plans and annual reports on entities are prepared and adopted, policies and practice for human resources management are introduced, work procedures, rulebooks and policies for regulating current workflows are adopted, ex-ante and ex-post financial control is introduced, proper flow of information and proper communication inside and outside of entities are set, and internal control system for procurement and payment processes is established. This indicates that there is partial introduction of necessary activities for setting up and ensuring efficiency and effectiveness of the system of financial management and control and internal audit for the purpose of unimpeded achievement of auditees' objectives.

There is a need for improving the functioning of FMC and IA, as well as for development thereof.



INTERNATIONAL COOPERATION AND TRANSPARENCY

INTERNATIONAL COOPERATION

In 2014 SAO enjoyed successful international cooperation with supreme audit institutions on bilateral and multilateral basis which contributed to continuous improvement of the quality of its work. Exchange of knowledge and experience on public audit with the colleagues from other SAIs was actualized through the standard forms of cooperation and coordination of INTOSAI³ and EUROSAI⁴. In 2014 SAO has continued with the same enthusiasm and dedication to make contribution to the working groups and bodies for implementation of EUROSAI 2011-2017 strategic objectives and for promotion of ethics and integrity in SAIs and public administration institutions.

The State Audit Office has been an active member of the Network of SAIs of EU candidate and potential candidate countries and the European Court of Auditors for almost a decade and is considered a veteran not only by the length of service, but also by its involvement in the activities of the Network. 2014 is characterized by a significant participation of SAO employees in different international events for professional upgrade in the field of ethics and SAI independence, audit and internal audit, public revenue audit, ISSAIs for compliance audit, and detection and prevention of fraud.

The candidate status of the Republic of Macedonia acquired in 2006 allowed the State Audit Office to attend the meetings of the Contact Committee as an active observer and to keep pace with developments and new challenges faced by the Heads of the SAIs of the European Union and the European Court of Auditors.



³ International Organization of Supreme Audit Institutions; SAO is INTOSAI member since 2001.

⁴ European Organization of Supreme Audit Institutions; SAO is EUROSAI member since 2002.

Activities within EUROSAI and INTOSAI

SAO actively maintains its membership in EUROSAI working groups on Environmental Auditing and IT since 2002 and 2005 respectively. SAO representatives participated in the IT WG meeting in March 2014 in Potsdam, Germany. The host SAI of Germany on the occasion of its 300th anniversary organized symposium dedicated to the latest trends in IT. INTOSAI WG on Environmental Auditing held its regular annual meeting in September 2014 in the Philippines where SAO representatives were also present.

At the invitation of INTOSAI Development Initiative (IDI) SAO was involved in the global IDI program for specialized audits, with a representative in the role of a subject matter mentor for Audit of Public Debt Management.

For a third consecutive year SAO representative participates in the activities of EUROSAI task force on audit and ethics chaired by SAI of Portugal. The task force organizes meetings and seminars for strengthening integrity and ethics among supreme audit institutions and public administration institutions.

In 2014 the State Audit Office gave active contribution to building SAI capacities, application of professional standards and exchange of knowledge among members of EUROSAI and beyond, with its participation in the goal teams for implementation of EUROSAI Strategic Plan 2011-2017.

In June 2014 SAO delegation took part in the IX Congress of EUROSAI held in The Hague, the Netherlands. Central theme of the Congress of European SAIs was innovation in state auditing.

In November 2014, the 69th United Nations General Assembly approved a new Resolution “Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions”:



The General Assembly,

Recalling its resolution 66/209 of 22 December 2011,

Recalling also the commitments in the outcomes of all the major United Nations conferences and summits,

Emphasizing the need to improve the efficiency, accountability, effectiveness and transparency of public administration,

Emphasizing also that efficient, accountable, effective and transparent public administration has a key role to play in the implementation of the internationally agreed development goals, including the Millennium Development Goals,

Stressing the need for capacity-building as a tool to promote development, and welcoming the cooperation of the International Organization of Supreme Audit Institutions with the United Nations in this regard,

- 1. Recognizes that supreme audit institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence;*
- 2. Also recognizes the important role of supreme audit institutions in promoting the efficiency, accountability, effectiveness and transparency of public administration, which is conducive to the achievement of national development objectives and priorities as well as the internationally agreed development goals;*
- 3. Takes note with appreciation of the work of the International Organization of Supreme Audit Institutions in promoting greater efficiency, accountability, effectiveness, transparency and efficient and effective receipt and use of public resources for the benefit of citizens;*
- 4. Also takes note with appreciation of the Lima Declaration of Guidelines on Auditing Precepts of 1977⁵ and the Mexico Declaration on Supreme Audit Institutions Independence of 2007⁶ and encourages Member States to apply, in a manner consistent with their national institutional structures, the principles set out in those Declarations;*
- 5. Encourages Member States and relevant United Nations institutions to continue and to intensify their cooperation, including in capacity-building, with the International Organization of Supreme Audit Institutions in order to promote good governance at all levels by ensuring efficiency, accountability, effectiveness and transparency through strengthened supreme audit institutions including, as appropriate, the improvement of public accounting systems;*
- 6. Acknowledges the role of supreme audit institutions in fostering governmental accountability for the use of resources and their performance in achieving development goals;*

⁵ Adopted by the Ninth Congress of the International Organization of Supreme Audit Institutions, Lima, 17-26 October 1977.

⁶ Adopted by the Nineteenth Congress of the International Organization of Supreme Audit Institutions, Mexico City, 5-10 November 2007.

7. *Takes note of the interest of the International Organization of Supreme Audit Institutions in the post-2015 development agenda;*
8. *Encourages Member States to give due consideration to the independence and capacity-building of supreme audit institutions in a manner consistent with their national institutional structures, as well as to the improvement of public accounting systems in accordance with national development plans in the context of the post-2015 development agenda;*
9. *Stresses the importance of continuing international cooperation to support developing countries in capacity-building, knowledge and best practices related to public accounting and auditing.*

Network of SAIs of EU Candidate and Potential Candidate Countries and the European Court of Auditors

The regular annual meeting of SAI liaison officers (held in Copenhagen in April 2014) focused on the preparation for implementation of activities of the Draft Outline Work Plan agreed at a meeting of the Heads of Network SAIs in Budva in November 2013.



The cooperation with the European Court of Auditors in Luxembourg has been continuous since 2006 through the internship program organized by the Court as its contribution to the preparation of audit structures in SAIs of candidate countries for EU membership: Macedonia, Turkey, Montenegro, Serbia, Albania and Iceland. Until 2014, the five-month program at ECA has been completed by 15 SAO auditors.

Bilateral and regional cooperation

The second phase of the project for improving efficiency and quality of state audit with the implementation of audit management system (AMS) started in 2014. The project is implemented in cooperation with the Office of the Auditor General of Norway. The second phase activities included procurement and installation of necessary equipment for upgrade of SAO IT infrastructure, as well as conducting series



of trainings for the staff for using upgraded IT infrastructure. In addition, SAO conducted public procurement for design and development of AMS software to be implemented during 2015 and 2016.

The Progress Report and the Financial Report were approved at the second Annual Meeting of Project Managers held in October 2014 in Skopje. Encouraged by INTOSAI Donor Cooperation and with financial support from the Ministry of Foreign Affairs of Norway, the project is expected to end in December 2016.



In February 2014 the State Audit Office hosted a study visit of the delegation of SAI of Bosnia and Herzegovina. Delegation members were auditors and audit managers who exchanged firsthand experience with their host-colleagues on audit procedures, reporting and implementation of audit recommendations.

In line with the previously signed agreement of cooperation at the highest level between SAO and SAI of Croatia, during 2014 both SAIs defined activities for implementation of common parallel audit on the topic of tourism.

SAO delegation headed by the Auditor General participated in the regional conference on audit of political parties that took place in Belgrade in December 2014.

Cooperation with SIGMA and the European Union

Since July 2013 the State Audit Office has nominated a representative in the Audit Board of EUROCONTROL. The Agency addressed an invitation to the Republic of Macedonia with a request for a representative from the Supreme Audit Institution in the country to perform this responsible task until 30 June 2017. This nomination has brought another recognition and legitimacy of SAO at the international scene - to be a part of the team of external auditors of an important international agency.

The cooperation with SIGMA and the European Commission in 2014 was carried out within the annual assessment missions on the functioning of financial control in the Republic of Macedonia and EC initiative for organizing and conducting coordinated performance audit by the Network SAIs. As always, this cooperation has positive effects on SAO development as a competent institution for external audit in accordance with EU criteria and the international auditing standards.

TRANSPARENCY

In 2014 SAO maintained transparency in its operation as one of the five strategic objectives defined in the Development Strategy. SAO continuously informed the public on its planned and implemented activities, realization of projects, educational processes and, above all, on the results of operations in 2014, via its established system.

All final audit reports were published on SAO website as an integral element of the realization of SAO Annual Work Programme.

The public was also informed on other SAO activities published on its website such as workshops for continuous professional training of state auditors, meetings with SAI delegations, SAO participation at meetings, seminars, congresses and other audit-related events. In this context, we could single out the participation of SAO delegation at the EUROSAI Congress in The Hague.

The interest shown by the public in the results of SAO operation was made evident by the number of published articles and comments in the media, as well as by the requests submitted to SAO in accordance with the Law on free access to information of public character (12 in total – positive reply given to all requests).

The media also showed interest in the extraordinary parliamentary elections and the presidential elections in 2014, i.e. on conducted audits on the political parties included in 2014 SAO Annual Work Programme

In 2014 SAO informed the public about the implementation of a joint project with the Office of the Auditor General of Norway „Implementation of audit management system (AMS)”. With this project SAO makes a major step towards development and improvement of the quality of audit process and its electronic monitoring for the purpose of efficient, effective and economical use of public funds.

In 2014 we have registered 202.536 visits to SAO website, mostly to the published Final audit reports.



Друштво за ревизија ЦЕНСУМ ДООЕЛ Скопје

Ул. Даме Груев бр.8, 8^{ти} кат
Дом на ветерите инвалиди
Денарска сметка: 210-059213301-68
Деловна сметка: 00-701-0003066-2
+389 (0)2 3233 301
+389 (0)2 3216 186
www.censum.com.mk
SWIFT: TUPNMZK2
Банка: НБВ Тугурска банка АД Скопје

ЕМБС: 5921333
ДДВ бр: МК403004656679
Денарска сметка: 210-059213301-68
Деловна сметка: 00-701-0003066-2
+389 (0)2 3233 301
+389 (0)2 3216 186
www.censum.com.mk
SWIFT: TUPNMZK2
Банка: НБВ Тугурска банка АД Скопје

Користивителите член на адресата на ревизијата Друштвото РСМ

ИЗВЕШТАЈ НА НЕЗАВИСНИОТ РЕВИЗОР

До Собранието на Република Македонија

Извештај за финансиските извештаи

Ние извршивме ревизија на приложените финансиски извештаи на Државниот завод за средствата од Буџетот на РМ, односно за остварени приходи и расходи преку сметката 020021504063710 – Редовна сметка средствата од буџетот на РМ, а коишто го вклучуваат билансот на приходите и расходите за годината којашто завршува на 31 декември 2014, како и билансот на состојба заклучно со таа дата, и прегледот на значајните сметководствени политики и други објаснувачки белешки.

Одговорност на Раководството за Финансиските извештаи

Раководството е одговорно за подготвувањето и објективното презентирање на овие финансиски извештаи во согласност со Законот за сметководството на буџетите и буџетските корисници, Правилникот за сметководството на буџетите и буџетските корисници и Правилникот за примена на Меѓународните сметководствени стандарди за јавниот сектор на готовинска основа, и интерната контрола којашто е релевантна за подготвувањето и објективното презентирање на финансиски извештаи кои што се ослободени од материјално потрешно прикажување, без разлика дали е резултат на измама или грешка.

Одговорност на Ревизорот

Наша одговорност е да изразиме мислење за овие финансиски извештаи врз основа на нашата ревизија. Ние ја спроведовме нашата ревизија во согласност со Меѓународните стандарди за ревизија. Тие стандарди бараат да ги почитуваме етичките барања и да ја планираме и извршиме ревизијата за да добиеме разумно уверување за тоа дали финансиските извештаи се ослободени од материјално потрешно прикажување.



РЕПУБЛИКА МАКЕДОНИЈА
ДРЖАВЕН ЗАВОД ЗА РЕВИЗИЈА
СКОПЈЕ

01-474/11
10-06-2015-003

Користивителите член на адресата на ревизијата Друштвото РСМ



Друштво за ревизија ЦЕНСУМ ДООЕЛ Скопје

Ул. Даме Груев бр.8, 8^{ти} кат
Дом на ветерите инвалиди
Денарска сметка: 210-059213301-68
Деловна сметка: 00-701-0003066-2
+389 (0)2 3233 301
+389 (0)2 3216 186
www.censum.com.mk
SWIFT: TUPNMZK2
Банка: НБВ Тугурска банка АД Скопје

ЕМБС: 5921333
ДДВ бр: МК403004656679
Денарска сметка: 210-059213301-68
Деловна сметка: 00-701-0003066-2
+389 (0)2 3233 301
+389 (0)2 3216 186
www.censum.com.mk
SWIFT: TUPNMZK2
Банка: НБВ Тугурска банка АД Скопје

Ревизијата вклучува извршување на постапки за приобување на ревизорски докази за износите и ослободувањата во финансиските извештаи. Извршените постапки зависат од расудувањето на ревизорот, вклучувајќи ја и проценката на ризиците од материјално потрешно прикажување на финансиските извештаи, без разлика дали е резултат на измама или грешка. Кота ги прави тие проценки на ризикот, ревизорот ја разгледува интерната контрола релевантна за подготвувањето и објективното презентирање на финансиските извештаи на ентитетот за да објективно ревизорски постапки коишто се соодветни во околностите, но не за целта на изразување на мислење за ефикасноста на интерната контрола на ентитетот. Ревизијата исто така вклучува и оценка на соодветноста на користените сметководствени политики и на разумноста на сметководствените проценки направени од страна на раководството, како и оценка на севкупното презентирање на финансиските извештаи.

Ние веруваме дека ревизорските докази коишто ги имаме приобавено се доволни и соодветни за да обезбедат основа за нашето ревизорско мислење.

Мислење

Според нашето мислење финансиските извештаи ја презентираат објективно, од сите материјални аспекти финансиската состојба на Државниот завод за ревизија – Редовна сметка средствата од буџетот на РМ заклучно со 31 декември 2014 година, како и неговите финансиски приходи и расходи за годината којашто завршува тогаш во согласност со Законот за сметководството на буџетите и буџетските корисници, Правилникот за сметководството на буџетите и буџетските корисници и Правилникот за примена на Меѓународните сметководствени стандарди за јавниот сектор на готовинска основа.

Ревизија	Сметководство	Вештачење	Процена
<ul style="list-style-type: none"> Член на МПРМ Деловна сметка издана од МР на РМ на 21.10.2004 Лицата издана од СВПР бр. 08 	<ul style="list-style-type: none"> Управник за сметственост бр. 12 20882/7 Деловна сметка издана од СВПР бр. 08 РР на РМ 	<ul style="list-style-type: none"> Лицата од областа на сметководството на РМ на 21.10.2004 Лицата издана од СВПР бр. 08 07-2521/123 	<ul style="list-style-type: none"> Т.Д. РР и др. издавна има - лиценца бр. 1/1 Национална мост тр. претв. с. т.м. лиценца бр. 1/1 Подготвеност лиценца бр. 1/1 Индустријска сметственост лиценца бр. 1/1 Земјоправност лиценца бр. 2/11541/1

Ревизија	Сметководство	Вештачење	Процена
<ul style="list-style-type: none"> Член на МПРМ Деловна сметка издана од МР на РМ на 21.10.2004 Лицата издана од СВПР бр. 08 	<ul style="list-style-type: none"> Управник за сметственост бр. 12 20882/7 Деловна сметка издана од СВПР бр. 08 РР на РМ 	<ul style="list-style-type: none"> Лицата од областа на сметководството на РМ на 21.10.2004 Лицата издана од СВПР бр. 08 07-2521/123 	<ul style="list-style-type: none"> Т.Д. РР и др. издавна има - лиценца бр. 1/1 Национална мост тр. претв. с. т.м. лиценца бр. 1/1 Подготвеност лиценца бр. 1/1 Индустријска сметственост лиценца бр. 1/1 Земјоправност лиценца бр. 2/11541/1



Друштво за ревизија ЦЕНСУМ ДООЕЛ Скопје

Ул. Даме Груев бр.8, 5^{ти} етаж
 Дом на своите инвентари
 Деловна адреса: М.П. 1000055669
 Деловна адреса: М.П. 1000055669
 Деловна адреса: М.П. 1000055669
 Деловна адреса: М.П. 1000055669
 ИВАН: МК.07.716-300003149-21
 Биланс: НОБ Утреска банка АД Скопје
 Биланс: НОБ Утреска банка АД Скопје

Корпоративен член на мрежата на ревизорски друштва РСМ

Извештај за други правни и регулативни барања

Во согласност со Законот за државна ревизија, Државниот завод за ревизија има обврска да изготвува годишен извештај за извршените ревизии и за работата на Државниот завод за ревизија.

Наша одговорност со согласност со Законот за ревизија е да изразиме мислење во врска со конзистентноста на годишниот извештај за работа со годишната сметка и финансиските извештаји за истата година.

Мислење

Според наше мислење, податоците во годишниот извештај се конзистентни со оние во годишната сметка и финансиските извештаји на Државниот завод за ревизија за 2014 година.

Скопје, 8 јуни 2015

Овластен ревизор
 Миле Ниневски

Друштво за ревизија
 ЦЕНСУМ ДООЕЛ Скопје



Овластен ревизор
 Стојан Јовановски

Ревизија	Сметководство	Вештачење	Процена
<ul style="list-style-type: none"> Мислење на ревизијата издадено од МР на РМ на 21.10.2004 Лиценца издадена од СРМР бр. 08 	<ul style="list-style-type: none"> Сметководство бр. 12 2008/27 регистрационен лист во РМ на 19% 	<ul style="list-style-type: none"> Ревизијата е извршена на материјално. Сметководството и регистрационен лист бр. 07/2321/12. 	<ul style="list-style-type: none"> Т.В. РМ за Ревизија бр. 12/10 Лиценца издадена од РМ на 10/10 Наличност на лиценца бр. 10/10 Наличност на лиценца бр. 10/10 Наличност на лиценца бр. 10/10 Земјоправност, лиценца бр. 21/11/11/1

Државен завод за ревизија
 Финансиски извештај за Сметката на основен буџет 637-19 за годината завршена на 31 декември 2014

БИЛАНС НА ПРИХОДИ И РАСХОДИ

Опис на позицијата	Образложен не	Реализирано		во денари
		Буџет 2014	2014	
Приходи				
Трансфери и донации	3.1.	92.240.000	87.088.391	86.304.193
Вкупно приходи		92.240.000	87.088.391	86.304.193
Расходи				
Тесовни расходи	3.2.			
Плати, пензии и надоместоци	3.2.1.	69.890.000	69.189.257	66.017.995
Стоки и услуги	3.2.2.	18.500.000	15.545.542	16.593.039
Резни трансфери		150.000	30.000	206.830
Вкупно тесовни расходи		88.540.000	84.764.799	82.817.864
Капитални расходи	3.3.			
Капитални расходи		3.700.000	2.223.592	3.486.339
Вкупно капитални расходи		3.700.000	2.223.592	3.486.339
Вкупно расходи		92.240.000	87.088.391	86.304.193

Нето вишок на приходи - добивка во односување

Скопје, 27.02.2015

Главен државен ревизор



Друштво за ревизија ЦЕНСУМ ДООЕЛ Скопје


Ул. Димитар Гушев бр.8, 3^т ет
 Скопје, Македонија
 Деловна адреса: +389 (0)2 3233 301
 +389 (0)2 3233 302
 +389 (0)2 3216 186
 www.censum.com.mk
 ЕМБС: 592133
 Деловен бр.: 6456479
 Деловна адреса: 210-09213301-68
 Деловна адреса: 06-701-0003966-2
 МПР: 06-701-0003149-21
 СМЕТ: ТП/МА/Р
 Банка: НББ Турска Банка АД Скопје

Корпоративни, клиентски и административни услуги РСИ


ИЗВЕШТАЈ НА НЕЗАВИСНИОТ РЕВИЗОР
До Собранието на Република Македонија
Извештај за финансиските извештаји

Ние извршивме ревизија на приложените финансиски извештаји на Државниот завод за ревизија за средствата на приходи наплатени од органи, односно за остварени приходи и расходи преку сметката 020021504063119 – Сметка на приходи наплатени од органи, а коишто го вклучуваат билансот на приходите и расходите за годината којашто завршува на 31 декември 2014, како и билансот на состојба заклучно со таа дата, и прегледот на значајните сметководствени политики и други објаснувачки белешки.

Одговорност на раководството за финансиските извештаји

Раководството е одговорно за подготвувањето и објективно презентирање на овие финансиски извештаји во согласност со Законот за сметководството на буџетите и буџетските корпорации, Правилникот за сметководството на буџетите и буџетските корпорации и Правилникот за примена на Меѓународните сметководствени стандарди за јавниот сектор на готовинска основа, и интерната контрола којашто е релевантна за подготвувањето и објективно презентирање на финансиски извештаји кои што се ослободени од материјално потрешно прикажување, без разлика дали е резултат на измама или грешка.

Одговорност на ревизорот

Наша одговорност е да изразиме мислење за овие финансиски извештаји врз основа на нашата ревизија. Ние ја спроведовме нашата ревизија во согласност со Меѓународните стандарди за ревизија. Тие стандарди бараат да ги почитуваме стечките барања и да ја планираме и извршиме ревизијата за да добиеме разумно уверување за тоа дали финансиските извештаји се ослободени од материјално потрешно прикажување.

Ревизија

Член на ИОРМ
 РМ на 21.12.2004
 Лична издадена од СВРБ бр. 08

Сметководство

Уверение за валидност
 Завод за ревизија бр. 12-288622
 Сметководствено на
 Лична издадена од СВРБ бр. 08

Вештачење

Лична од овластена
 Завод за ревизија бр. 12-288622
 Сметководствено на
 Лична издадена од СВРБ бр. 08

Процена

ТД, ЛН и др. правни лица - лиценца бр. ТД, ЛН
 Лиценца бр. ТД, ЛН
 Лиценца бр. ТД, ЛН
 Лиценца бр. ТД, ЛН
 Лиценца бр. ТД, ЛН
 Лиценца бр. ТД, ЛН

Државен завод за ревизија
 Финансиски извештаји за Сметката на основен буџет 637-19 за годината завршена на 31 декември 2014

БИЛАНС НА СОСТОЈБА

Активна	Опис на позицијата	Образложение	2014	2013
Тековни средства				
4.1.1.	Поборувача од вработените		160.762	144.386
4.1.2.	Активни времески разграничувања		7.788.508	7.789.916
4.1.3.	Залози		952.454	1.394.688
	Вкупно тековни средства		8.901.724	9.328.990
Постојани средства				
4.2.1.	Нематеријални средства		276.112	594.675
4.2.2.	Материјални средства		6.913.552	7.536.251
	Вкупно постојани средства		7.189.664	8.130.926
	Вкупна актива		16.091.388	17.459.916
	Вовлаласна актива		77.829.200	77.829.200
Пасива				
Тековни обврски				
4.3.1.	Контрорачни обврски спрема добувачи		1.734.807	2.266.797
4.3.2.	Контрорачни обврски за плати и други обврски спрема вработените		6.053.701	5.523.118
4.3.3.	Пасивни времески разграничувања		160.762	144.386
	Вкупно тековни обврски		7.949.270	7.934.301
Извори на средства				
4.4.	Извори на капитални средства		8.142.118	9.535.615
	Вкупно извори на капитални средства		8.142.118	9.535.615
	Вкупна пасива		16.091.388	17.459.916
	Вовлаласна пасива		77.829.200	77.829.200

Скопје, 27.02.2015

Главен државен ревизор



М-р Тања Ганевска



Друштво за ревизија ЦЕНСУМ ДООЕЛ Скопје

Ул. Дамска Грива бр. 6, 5^т кат
 Државна агенција за ревизија
 Деловна адреса: 1000 11000
 +389 (0)2 3213 302
 +389 (0)2 3216 186
 www.censum.mk
 www.censum.com.mk

ЕМБС: 5921333
 ДДВ бр.: 710-090133301-68
 Деловна сметка: 00-701-0003986.2
 ИВАН: МК 07-210-300003149-21
 Банкарска сметка: НИБ Угулеска банка АД Скопје

Користователен член на мрежата на ревизионски друштва РСМ

Извештај за други правни и регулативни барања

Во согласност со Законот за државна ревизија, Државниот завод за ревизија има обврска да изготвува годишен извештај за извршените ревизии и за работата на Државниот завод за ревизија.

Наша одговорност во согласност со Законот за ревизија е да изразиме мислење во врска со конзистентноста на годишниот извештај за работа со годишната сметка и финансиските извештаи за истата година.

Мислење

Според наше мислење, податоците во годишниот извештај се конзистентни со оние во годишната сметка и финансиските извештаи на Државниот завод за ревизија за 2014 година.

Скопје, 8 јуни 2015

Овластен ревизор
 Миле Нилески



Ревизија	Сметководство	Вештачење	Процена
<ul style="list-style-type: none"> Член 109/99 Домаша за работа издадена од МЗ на РМ на 21.10.2004 Деловна адреса од СДРБ бр. 08 	<ul style="list-style-type: none"> Училиште бр. 12 Сметководство бр. 12 0882.2 регистран комитет агент во СДРБ на РМ 	<ul style="list-style-type: none"> Адреса на објектот на митрополитско, селскогосподарско и занаеторско рајонско трговно-услугно седиште бр. 07-2521/123 	<ul style="list-style-type: none"> Т.Д. III бр. правен акт, издадена бр. ТД. 10 Национален и трговен с.м.к. издадена бр. 0302 Материјална сметка, издадена бр. МЛТ. 11 Индустриска сопственост, издадена бр. ИС. 10 Домародно, издадена бр. Д. 113/01/1

Друштво за ревизија ЦЕНСУМ ДООЕЛ Скопје

Ул. Дамска Грива бр. 6, 5^т кат
 Државна агенција за ревизија
 Деловна адреса: 1000 11000
 +389 (0)2 3213 302
 +389 (0)2 3216 186
 www.censum.mk
 www.censum.com.mk

ЕМБС: 5921333
 ДДВ бр.: 710-090133301-68
 Деловна сметка: 00-701-0003986.2
 ИВАН: МК 07-210-300003149-21
 Банкарска сметка: НИБ Угулеска банка АД Скопје

Користователен член на мрежата на ревизионски друштва РСМ

Ревизијата вклучува извршување на постапки за приобавување на ревизорски докази за износите и обелоденувањата во финансиските извештаи. Избраните постапки зависат од расудувањето на ревизорот, вклучувајќи ја и проценката на ризиците од материјално погрешно прикажување на финансиските извештаи, без разлика дали е резултат на измама или грешка. Кога ги прави тие проценки на ризикот, ревизорот ја разгледува интерната контрола релеванта за подготвувањето и објективно презентирање на финансиските извештаи на ентитетот за да објективно презентира постапки коишто се соодветни во околностите, но не за целта на извршување на мислење за ефикасноста на интерната контрола на ентитетот. Ревизијата исто така вклучува и оценка на соодветноста на користените сметководствени политики и на разумноста на сметководствените проценки направени од страна на раководството, како и оценка на севкупното презентирање на финансиските извештаи.

Ние веруваме дека ревизорските докази коишто ги имаме прибавено се доволни и соодветни за да обезбедат основа за нашето ревизорско мислење.

Мислење

Според нашето мислење финансиските извештаи ја презентираат објективно, од сите материјални аспекти финансиската состојба на Државниот завод за ревизија – сметката на сопствени приходи наплатени од органи заклучно со 31 декември 2014 година, како и неговите финансиски приходи и расходи за годината којашто завршува тогаш во согласност со Законот за сметководството на буџетите и буџетските корисници, Правилникот за сметководството на буџетите и буџетските корисници и Правилникот за примена на Меѓународните сметководствени стандарди за јавниот сектор на готовинска основа.

Ревизија	Сметководство	Вештачење	Процена
<ul style="list-style-type: none"> Член 109/99 Домаша за работа издадена од МЗ на РМ на 21.10.2004 Деловна адреса од СДРБ бр. 08 	<ul style="list-style-type: none"> Училиште бр. 12 Сметководство бр. 12 0882.2 регистран комитет агент во СДРБ на РМ 	<ul style="list-style-type: none"> Адреса на објектот на митрополитско, селскогосподарско и занаеторско рајонско трговно-услугно седиште бр. 07-2521/123 	<ul style="list-style-type: none"> Т.Д. III бр. правен акт, издадена бр. ТД. 10 Национален и трговен с.м.к. издадена бр. 0302 Материјална сметка, издадена бр. МЛТ. 11 Индустриска сопственост, издадена бр. ИС. 10 Домародно, издадена бр. Д. 113/01/1

Државен завод за ревизија
Финансиски извештај за Сметката на основен буџет 631-19 за годината завршена на 31 декември 2014

БИЛАНС НА ПРИХОДИ И РАСХОДИ

Опис на позицијата	Образложение	во денари	
		Буџет 2014	Реализирано 2014 / Реализирано 2013
Приходи			
Недоволни приходи	3		
Трансфери и донации	3.1.	926.630	1.735.467
	3.2.	5.941.197	4.779.827
Вкупно приходи		6.867.827	6.505.294
Расходи			
Тековни расходи	3.3		
Стовари и услуги	3.3.1.	1.466.000	145.466
Раши трансфери	3.3.2.	174.000	227.758
Вкупно тековни расходи		1.640.000	373.224
Капитални расходи	3.4.	1.000.000	0
Капитални расходи		1.000.000	0
Вкупно капитални расходи		1.000.000	0
Вкупно расходи		2.640.000	373.224
Нето вишок на приходи - добивка по однесување		0	6.494.603
Распоредување на вишокот на приходи			
Дел од нето вишокот на приходи за пренос во следна година		0	6.494.603
Вкупно распоред на вишок на приходи		0	6.494.603

Скопје, 27.02.2015

Главен државен ревизор



Таня Таневска
М-р Таня Таневска

Безमतно кои финансиските извештаји преставуваат интересен дел на овие финансиски извештаји.

- 6 -

Државен завод за ревизија
Финансиски извештај за Сметката на основен буџет 631-19 за годината завршена на 31 декември 2014

БИЛАНС НА СОСТОЈБА

Опис на позицијата	Образложение	во денари	
		2014	2013
Активна			
Тековни средства	4.1.	6.494.603	5.941.197
Парични средства	4.1.1.	4.170.182	5.096.812
Поборувача од крутовите во земјата	4.1.2.	50.102	50.102
Поборувача од работните	4.1.3.	0	0
Активни врземецки разгранувања	4.1.4.	0	0
Вкупно тековни средства		10.714.887	11.088.111
Постојани средства	4.2.	0	0
Нематеријални средства	4.2.1.	0	0
Материјални средства	4.2.2.	0	0
Вкупно постојани средства		0	0
Вкупна актива		10.714.887	11.088.111
Вовобиласна евиденција - актива		2.686.027	2.686.027
Пасива			
Тековни обврски	4.3.	0	0
Краткорочни обврски спрема поборувачи	4.3.1.	10.714.887	11.088.111
Пасивни врземецки разгранувања	4.3.2.	0	0
Вкупно тековни обврски		10.714.887	11.088.111
Извори на средства	4.4.	0	0
Извори на капитални средства		0	0
Вкупно извори на капитални средства		0	0
Вкупна пасива		10.714.887	11.088.111
Вовобиласна евиденција-пасива		2.686.027	2.686.027

Скопје, 27.02.2015

Главен државен ревизор



Таня Таневска
М-р Таня Таневска

Безमतно кои финансиските извештаји преставуваат интересен дел на овие финансиски извештаји.

- 7 -



Друштво за ревизија ЦЕНСУМ ДООЕЛ Скопје

Ул. Дамска Група бр. 6, 2^и кат
110801149-21
Датум: 10.06.2015 год.
Деловна сметка: 210-0992133301-68
+389 (0)2 3233 301
+389 (0)2 3216 186
www.censum.mk
БИЛТ: ТУПМАК2
Банка: НББ Тургуева банка АД Скопје

Користованите член на мрежата на ревизорски друштва РСМ

Ревизијата вклучува извршување на постапки за прибавување на ревизорски докази за износите и ослободувањата во финансиските извештаи. Избраните постапки зависат од расудувањето на ревизорот, вклучувајќи ја и проценката на ризиците од материјално погрешно прикажување на финансиските извештаи, без разлика дали е резултат на измама или грешка. Кога ги прави тие проценки на ризикот, ревизорот ја разгледува интегралната контрола релевантна за подготвувањето и објективното презентирање на финансиските извештаи на ентитетот за да обликува ревизорски постапки коишто се соодветни во околностите, но не за целта на извршување на мислење за ефикасноста на интегралната контрола на ентитетот. Ревизијата исто така вклучува и оценка на соодветноста на користените сметководствени политики и на разумноста на сметководствените проценки направени од страна на раководството, како и оценка на севкупното презентирање на финансиските извештаи.

Ние веруваме дека ревизорските докази коишто ги имаме прибавено се доградни и соодветни за да обезбедат основа за нашето ревизорско мислење.

Мислење

Според нашето мислење финансиските извештаи ја презентираат објективно, од сите материјални аспекти финансиската состојба на Проектот МАК-12/0015 „ИМПЛЕМЕНТАЦИЈА НА СИСТЕМ ЗА УПРАВУВАЊЕ СО РЕВИЗИЈА“ на Државниот завод за ревизија заклучно со 31 декември 2014 година, како и неговите финансиски приходи и расходи за годината којашто завршува тогаш во согласност со Законот за сметководството на буџетите и финансиските корисници, Правилникот за сметководството на буџетите и финансиските корисници и Правилникот за примена на Меѓународните сметководствени стандарди за јавниот сектор на готовинска основа.

Ревизија	Сметководство	Вештачење	Процена
<ul style="list-style-type: none"> Член на ИСРМ Договор за работа издаден од ИМ на 09.06.2015 год. Лицата издадени од СУП бр. 08 	<ul style="list-style-type: none"> Успоредно со одредбите на сметководствениот бр. 12 Општествени 	<ul style="list-style-type: none"> Вештачење од областа на материјалното, финансиското и финансиските работни бр. 07-2521/123 	<ul style="list-style-type: none"> ЈД, ИД и др. правни лица, лиценца бр. ЈД, ИД Национален и странски с.п.с. лиценца бр. С.П.С. Машини и опрема, лиценца бр. МОТ, ИД Индустријална сопственост бр. ИД Земјоправна сопственост бр. ЗО, ИД, ИД

Друштво за ревизија ЦЕНСУМ ДООЕЛ Скопје

Ул. Дамска Група бр. 6, 2^и кат
110801149-21
Датум: 10.06.2015 год.
Деловна сметка: 210-0992133301-68
+389 (0)2 3233 301
+389 (0)2 3216 186
www.censum.mk
БИЛТ: ТУПМАК2
Банка: НББ Тургуева банка АД Скопје

Користованите член на мрежата на ревизорски друштва РСМ

ИЗВЕШТАЈ НА НЕЗАВИСНИОТ РЕВИЗОР

До Собранието на Република Македонија

Извештај за финансиските извештаи

Ние извршивме ревизија на приложените финансиски извештаи на Проектот МАК-12/0015 „ИМПЛЕМЕНТАЦИЈА НА СИСТЕМ ЗА УПРАВУВАЊЕ СО РЕВИЗИЈА“ на Државниот завод за ревизија, а коишто го вклучуваат билансот на приходи и расходите за годината којашто завршува на 31 декември 2014, како и билансот на состојба заклучно со таа дата, и прегледот на значајните сметководствени политики и други објаснувачки белешки.

Одговорност на раководството за финансиските извештаи

Раководството е одговорно за подготвувањето и објективното презентирање на овие финансиски извештаи во согласност со Законот за сметководството на буџетите и финансиските корисници, Правилникот за примена на Меѓународните буџетските корисници и Правилникот за примена на Меѓународните сметководствени стандарди за јавниот сектор на готовинска основа, и интегралната контрола којашто е релевантна за подготвувањето и објективното презентирање на финансиските извештаи кои што се ослободени од материјално погрешно прикажување, без разлика дали е резултат на измама или грешка.

Одговорност на ревизорот

Наша одговорност е да изразиме мислење за овие финансиски извештаи врз основа на нашата ревизија. Ние ја спроведовме нашата ревизија во согласност со Меѓународните стандарди за ревизија. Тие стандарди бараат да ги почитуваме етичките барања и да ја планираме и извршиме ревизијата за да доближеме разумно уверување за тоа дали финансиските извештаи се ослободени од материјално погрешно прикажување.

Ревизија	Сметководство	Вештачење	Процена
<ul style="list-style-type: none"> Член на ИСРМ Договор за работа издаден од ИМ на 09.06.2015 год. Лицата издадени од СУП бр. 08 	<ul style="list-style-type: none"> Успоредно со одредбите на сметководствениот бр. 12 Општествени 	<ul style="list-style-type: none"> Вештачење од областа на материјалното, финансиското и финансиските работни бр. 07-2521/123 	<ul style="list-style-type: none"> ЈД, ИД и др. правни лица, лиценца бр. ЈД, ИД Национален и странски с.п.с. лиценца бр. С.П.С. Машини и опрема, лиценца бр. МОТ, ИД Индустријална сопственост бр. ИД Земјоправна сопственост бр. ЗО, ИД, ИД



Друштво за ревизија ЦЕНСУМ ДООЕЛ Скопје

Ул. Ристе Галеви бр. 8, 1^о кат
 Дом на четвртиот ниво
 Деловна сметка: 210-059213301-68
 Деловна сметка: МК07 210-900003149-21
 СМЕТ. ТИПМК022
 Бана: НИБ Утурска банка АД Скопје
 БИРС: 501333
 ДВБ бр.: МК00004536679
 Деловна сметка: МК07 210-900003149-21
 СМЕТ. ТИПМК022
 Бана: НИБ Утурска банка АД Скопје

Користејќи ги члените на мрежата на ревизорски друштва РСМ

Извештај за други правни и регулативни барања

Во согласност со Законот за државна ревизија, Државниот завод за ревизија има обврска да изготви годишен извештај за извршените ревизии и за работата на Државниот завод за ревизија.

Наша одговорност со согласност со Законот за ревизија е да изразиме мислење во врска со конзистентноста на годишниот извештај за работа со годишната сметка и финансиските извештаи за истата година.

Мислење

Според наше мислење, податоците во годишниот извештај се конзистентни со оние во годишната сметка и финансиските извештаи на Државниот завод за ревизија за 2014 година.

Скопје, 8 јуни 2015

Овластен ревизор
 Миле Ниневски



Друштво за ревизија
 ЦЕНСУМ ДООЕЛ Скопје
 Овластен ревизор
 Стојан Јанков

Ревизија	Сметководство	Вештачење	Процена
<ul style="list-style-type: none"> Член на ИОИРМ Деловна сметка издадена од МК на 210-059213301-68 Лицеца издадена од СУИР бр. 08 	<ul style="list-style-type: none"> Уверение за валутен трансферен лист бр. 12-2888/22 Овластен ревизорски асистент бр. 08 ИР на МК 	<ul style="list-style-type: none"> Лицеца од областа на финансиското и сметководството бр. 001-11-К/07-22/11/23 	<ul style="list-style-type: none"> ТД, ИТ и др. првонадлежни лица бр. 1-Д, 10-10-10 Лицеца издадени од МК бр. 001-11-К/07-22/11/23 Платен лист бр. 001-11-К/07-22/11/23 Минимална сметка бр. 001-11-К/07-22/11/23 Земјоправство бр. 37-11/24/17

Државен завод за ревизија
 Финансиски извештај за Проект МАК-12/0015 на годишната завршена на 31 декември 2014

БИЛАНС НА ПРИХОДИ И РАСХОДИ

Опис на позицијата	Образложение	во денари	
		Бюџет 2014	Реализацио. Резултатно 2014
Приходи			
Трансферни и донации	3.1.	19.025.000	34.339.539
Вкупно приходи		19.025.000	34.339.539
Расходи			
Тековни расходи	3.2.	7.108.000	3.437.456
Стоани и услуги	3.2.1.	7.108.000	3.437.456
Вкупно тековни расходи		7.108.000	3.437.456
Капитални расходи			
Капитални расходи	3.3.	2.105.000	6.546.366
Вкупно капитални расходи		2.105.000	6.546.366
Вкупно расходи		9.213.000	9.983.822
Нереализирани средства од буџетот		9.812.000	24.355.417
Даноци, придоноси и други лавачки од вишокот на приходи - добивка пред оданочување			
Нето вишок на приходи - добивка по оданочување		9.812.000	24.355.417
18.417.385			

Скопје, 27.02.2015

Главен државен ревизор



Државен завод за ревизија
Финансиски извештај за Проект МАК-12/0015 за годината завршена на 31 декември 2014

БИЛАНС НА СОСТОЈБА

Активa	Опис на позицијата	Образложение		во денари
		2014	2013	
Тековни средства				
Жиро сметка	4.1.	24.355.417	18.417.885	
Активни временски временски разгранувања	4.1.1.	2.635.222	824.247	
Вкупно тековни средства	4.1.2.	26.990.639	19.242.132	
Постојани средства				
Нематеријални средства	4.2.	3.747.597	0	
Материјални средства	4.2.1.	3.448.353	0	
Вкупно постојани средства	4.2.2.	7.195.950	0	
Вкупна актива		34.186.589	19.242.132	
Воведиласна актива				
Пасива				
Тековни обврски				
Краткорочни обврски опрема добавувачи	4.3.	2.635.222	824.247	
Пасивни временски разгранувања	4.3.1.	24.355.417	18.417.885	
Вкупно тековни обврски	4.3.2.	26.990.639	19.242.132	
Извори на средства				
Извори на капитални средства	4.4.	7.195.950	0	
Вкупно извори на деловни средства	4.4.1.	7.195.950	0	
Вкупна пасива		34.186.589	19.242.132	
Воведиласна пасива				

Скопје, 27.02.2015

Главен државен ревизор



М-р Тања Таневска



Republic of Macedonia
State Audit Office
Makedonija Str. 12/3
Palata Makedonija
1000 Skopje

Tel: ++389 2 3211 262
Fax: ++ 389 2 3126 311
E-mail: dzr@dzr.dov.mk
www.dzr.gov.mk