

Based on article 13, paragraph 2 from the Law on Public Internal Financial Control ("Official Gazette of the Republic of Macedonia" No.90/2009) the Minister of Finance has published

INTERNAL CONTROL STANDARDS IN THE PUBLIC SECTOR

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Standard 1

ETHICS, INTEGRITY

1.1. Description of the standard

Each public institution ensures the conditions so that the employees to know the regulations which governs their behavior, the prevention and reporting of the frauds and irregularities.

1.2. General requirements

- The manager and the employees must have a corresponding degree of personal and professional integrity¹ and to be aware of the importance of the activity they are carrying on;

- The manager, through his/her decisions and personal example, supports and promotes the ethical values² and the personal and the professional integrity of the employees. The decisions and the personal example must reflect:

- valuing the transparency and the probity in activity;
- valuing the professional competency;
- initiative, through examples;
- conformity with laws, regulations, rules and specific policies;
- observing the confidentiality of the information;
- equal treatment and respect of the individuals;
- loyal relationships with the collaborators;
- complete and exact character of the operations and documentation;
- professional manner of approaching the financial information.

- The employees manifest that behavior and develop those actions perceived as ethical within the public institution;

- The manager and the employees have a positive approach to the financial control, whose functioning they support.

Standard 2

FUNCTIONS, ATTRIBUTIONS, TASKS

2.1. Description of the standard

Each public institution permanently transmits to employees and updates:

- the document comprising the attributions of the public institution;

¹ Integrity: characters, dignity feelings; right and knowingly that are directing human behaviour; sincerity, probity and propriety.

² The ethical values are part of the culture of public institution and constitute an unwritten code, based on what the behaviours are evaluated. However, the public institution must have an official code of conduct, written, which is a mean of an uniform communication of the ethical values to all the employees.

- job descriptions;
- the document comprising the allotted tasks and the expected results³.

2.2. General requirements

- The attributions of the public institution can be achieved only if they are known by the employees and they act concisely;
- Each employee has a well defined role in the public institution, established with job description;
- The tasks are allotted and the results are communicated only in the manager-employee-manager report (chief-subordinated-chief);
- The managers have to identify the sensitive tasks, in the carrying out of which the employees can be exposed to some difficult situations and influence in a negative way the financial management.
- The manager should support employees in their job performance

Standard 3

COMPETENCE, PERFORMANCE

3.1. Description of the standard

The manager ensures that the filling of the position is by the competent person, allotting tasks at the level of competence and to ensure development of professional capacities of the employees⁴.

3.2. General requirements

- The manager and the employees must have knowledge, abilities and experience that make possible the efficient and effective carrying out of the tasks;
- The competence of the employees and the allotted tasks must be in a permanent, stable balance. Actions to ensure this balance:

³ The management of the public institution will communicate to all the employees which are the institution's tasks resulted from the legal act of organizing and functioning. As well, will take care that these tasks to be found in the institution's Regulation of organizing and functioning, to which all the employees to have access. There will be drafted and updated, all the times the necessities will request, the job descriptions for all the civil servants and the contracting personnel from the public institution. This is a permanent obligation of each management level.

⁴ The employees of the public institution must have the expertise, the competencies, the attributions and the necessary instruments to contribute to the achievement of the activity's object of the organization.

It is established, by the law that occupying the functions of a public institution is made through contest. In this way are assured the premises of fulfillment the tasks of institution by the competent and capable persons, as well as the attainment the objectives for the future of the organization. The management of the institution evaluates continuously the needs and the requirements of the organization that permits taking justified decisions on formation, supervising, distribution of the tasks and on reorganization. The leadership may resorts to external services to answer needs, which could not be fulfilled with the resources of the organization.

The personnel training can be focused upon those competencies, which encourage the individual performances, and upon inter-personnel abilities regarding taking decisions and group learning.

- defining the necessary knowledge and skills for each work place;
 - carrying out recruitment interviews, based on a different evaluation document;
 - keeping the recordings of the interview;
 - identifying the base training plan of the new employee, even in the recruiting stage process;
 - ensuring that the identified training necessities are immediately satisfied;
 - developing the internal training capacity, complementary to the training forms outside the public institutions;
 - defining the training/mobility policy, having as target the growth of the employees' experience.
- The performances of the employees are reviewed at least once a year and are discussed with those by the person that makes the report;
 - Competence and performance must be sustained with adequate instruments, which include the computer, software, patents, working methods, etc.;
 - The necessary competence level is the one that constitutes the base for efficient and effective performance.

Standard 4

SENSITIVE POSITIONS

4.1. Description of the standard

The public institutions identify the positions that are sensitive and establish an adequate policy for the rotation of the employees that fill those positions.

4.2. General requirements

- In each institution are created:
 - the list of sensitive positions;
 - the list of the employees that fill sensitive positions;
 - the plan to insure the rotation of the employees in sensitive functions, so that an employee will not be active in that position for more than 5 years.
- In the inventory of sensitive positions, usually, are reflected those positions that present a significant risk for goal achievement;
- - The rotation of employees must be made with a minimum effect on the activity of the public institution as well as on the employees.

Standard 5

DELEGATING

5.1. Description of the standard

The manager establishes, in writing, the limits of competencies and responsibilities, which he delegates.

5.2. General requirements

- The manager proceeds to the delegation, taking into account the importance of the decision and the risks associated to it;
- The delegated employees should have knowledge, experience and the necessary ability to perform the entrusted authority act;
- Assuming the responsibility by the delegated employee is confirmed by signature;
- Sub delegating is possible with the agreement of the manager;
- Delegating the competence does not exonerate the manager of responsibility.

Standard 6

THE ORGANISATION STRUCTURE

6.1. Description of the standard

Each public institution defines the own organizational structure. The competencies, the responsibilities, the tasks and the obligations of reporting are precisely defined for each structural component and are transmitted, in writing, to the employees⁵.

6.2. General requirements

The competence⁶, the responsibility⁷, the task and the obligation of reporting⁸ are duties associated to the post; these must to be clear, coherent and defined in writing;

Standard 7

OBJECTIVES

7.1. Description of the standard

⁵ On the basis of the legal act on organizing and functioning of the public institution, the manager approves the organizational structure: departments, units, offices, working posts. The appointment with managers and execution personnel of these structures is reflected in the staffing chart. The purpose of this action is the effective and efficient fulfilment of the institution's objectives.

⁶ Competence presents capacity for decision making in the frames of defined limits with aim to realize the activities connected to the working post.

⁷ Responsibility presents an obligation to perform the task in the frames of defined competence.

⁸ Information presents an obligation to inform about achievement of the goals.

Each public institution must define the main objectives⁹, linked with the purposes of the entity, as well as to define the complementary purposes, linked with the reliability of the information, conformity with laws, regulations and internal policies, and also communicates the defined objectives to the all employees and the interested parties.

7.2. General requirements

- The general objectives are in accordance with the mission of the public institution;
- Each public institution transposes the general objectives into specific objectives and communicates them to the staff;
- The objectives must be defined so that to answer to the requirements "S.M.A.R.T.", meaning they have to be:
 - S - Specific;
 - M - Measurable and verifiable;
 - A - Appropriate;
 - R - Realistic;
 - T- Time - dependent;
- The settlement of the objectives represents the duty of the manager; the responsibility of their achievement comes to both the manager and the employees;
- The multitude and complexity of the objectives lead to the use of diverse criteria of their classification, with the purpose to facilitate the materialisation of the accountabilities, responsibilities, to ensure the promptness in knowing the results, etc.

Standard 8

PLANNING

8.1. Description of the standard

The public institutions should make plans through which the necessary activities for achieving targets are put in concordance with the maximum possible allocated resources, so as the risks of not achieving the targets to be minimal.

8.2. General requirements

- Planning is one of the essential functions of management;
- Planning refers to the allocation of resources, starting from the establishment of requirements for achieving objectives. Having in view

⁹The general objectives of any public institution are the realization of good quality public services in conditions of maximum efficiency and efficacy, in the way that those objectives are presented in the normative act that regulates the organisation and functioning of the institution.

the limited character of resources, their allocation necessitates decision regarding the best way of allocating them;

- Planning is a continuous process, which gives the plan a dynamic character. The change of objectives, resources or of any other element of the fundamentation process imposes the updating of the plan;
- The structuring grade of the planning process, the precision and the grade of detailing of the plan varies depending on diverse factors, as: the size of the public institution, the decisional structure of that institution, the necessity of the formal approval of some activities, etc.
- After the time horizon it refers to, in general, are elaborated:
 - annual plans;
 - multi-annual plans;
- Specific to the multi-annual planning it is necessary to establish the measures that must be taken to achieve the objectives.

Standard 9

COORDINATION

9.1. Description of the standard

For achieving the objectives, the decisions and the actions of the structural components of the public institution must be coordinated for the purpose of assuring their convergence and coherence.

9.2. General requirements

- The management ensures the coordination of decisions and actions of the structural compartments of the public institution;
- Then when necessities impose it, specialized structures can be organized, which support the management in the coordination activity;
- Coordination influences decisively the results of the interaction between the employees of the organizational structure within the framework of professional relationships;
- The employees of some organizational compartments must take account of the consequences of their decisions and of their actions on the whole institution;
- The efficient coordination presumes previous consultations, in the framework of an institution as well as between the respective structures.

Standard 10

MONITORING PERFORMANCE

10.1. Definition of the standard

The public institutions ensure, for each policy and activity, the monitoring of the performance, using relevant quantity and quality indicators, including those regarding cost-effectiveness, efficiency and effectiveness.

10.2. General requirements

- The manager must receive systematic reports on each activity that is comprised in the plan;
- The manager evaluates the performances, ascertaining the eventual deviations from the objectives, for the purpose of taking the imposed corrective measures;
- The monitoring system of performance is influenced by the size and the nature of the institution, by the modification/changing of the objectives and/or indicators, by the access mode to information of the employees.

Standard 11

RISK MANAGEMENT

11.1. Description of the standard

The public institution systematically analyses, at least once a year, the risks¹⁰ linked to carry out its main activities, to develop appropriate plans in order to limit the possible consequences of these risks and appoints the employees responsible with applying respective plans.

11.2. General requirements

- Subject from the public sector should establish an efficient internal control system based on risk management;
- The manager should establish and maintain efficient system of internal controls, based on:
 - identifying important risks¹¹ which can have negative influence on the effectiveness and the efficiency of the activities, observing the rules and regulations, reliance on financial and management information, protecting the assets, preventing and finding the frauds;
 - defining the acceptable level of exposure to these risks¹²;

¹⁰ Every activity or not implementing an activity represent a risk for not accomplishing the goals.

¹¹ Important risks do not appear especially not as a result of:

- not appropriate relations of the management of the subject from the public sector towards the environment where the subject is functioning;
- too centralized management systems.

¹² The risk is acceptable if the measures that should be taken to avoid the risks are not financially justified.

- evaluating the probability that risk to be materialised, as well as evaluating the size of its impact;
- monitoring and evaluating the risks and of adequacy degree of internal controls to the risk management
- check of the reports for budget execution, including those for the performance of the programs.

Standard 12

PROCEDURES

12.1. Description of the standard

The public institution elaborates written procedures for the important activities and, especially, for the economic operations, which are communicated to all the involved employees.

12.2. General requirements

- For any action and/or significant event, the public institution must ensure that an adequate documentation exists and the operations are put down in documents;
- The documentation must be complete, precise and to correspond with the structures and policies of the public institution.
- The documentation contains administrative policies, manuals, operational instructions, check-lists or other forms of presenting the procedures;
- The documentation must be updated, useful, precise, easy to examine, available and accessible to the manager, employees, as well as to third persons, if is the case;
- The documentation ensures the permanence of the activity, despite the fluctuation of staff;
- It should be taken into account that the absence of documentation, the incomplete character or/and not updating represent risks in carrying out the objectives.
- The public institution should prepare documentation flow for every level of responsibility and to follow their implementation.

Standard 13

SEPARATION OF DUTIES

13.1. Description of the standard

Two persons verify the financial and operational aspects of each operation, independent one related to the other, taking into consideration that the functions of initiating and verifying each operation must be separated.

13.2. General requirements

- Separation of duties and responsibilities should ensure reducing the risks for arising and not detecting errors, fraud and not respecting the legislation.
- By separation of duties are created the conditions that any person or compartment cannot control all the important stages of an operation or of an event;
- Separation of duties and responsibilities between more persons creates the premises of an effective equilibrium of powers;
- The managers of institutions where the possibility to apply the separation of duties and responsibilities is limited due to the small number of employees must be aware of risks and must compensate this limitation through other measures.

Standard 14

SUPERVISING

14.1. Description of the standard

The public institutions establish adequate measures of supervising the operations, based of pre-established procedures, including by ex-post control, in order to carrying out the transactions in an effective way.

14.2. General requirements

- The manager must dispose the performance of the supervising controls in order to ensure that the procedures are observed by the employees in an effective manner and continuously;
- The controls of supervising involve revises regarding the activity of the employees, reports on exceptions, tests through sampling or any other modalities that confirm the procedures' observing;
- The manager verifies and approves the employees' activity, gives the necessary instructions in order to decrease the errors, eliminate the fraud, observe the legislation and to watch on understanding and applying the instructions;
- Supervising of activities is adequate if:
 - the duties, the responsibilities and the limits of competence conferred are communicated to each employee;
 - the activity of each employee is systematically evaluated;
 - the obtained results of activity in various stages of carrying out the operation are approved.

Standard 15

ADMINISTRATION OF DEVIATIONS

15.1. Description of the standard

Each public institution ensures that, for all the situations in which, due to special circumstances, deviations appear from the established policies or procedures¹³, the adequate documents are drawn up, approved at an adequate level, before carrying out the transactions.

15.2. General requirements

- The registered deviations must be documented and justified, in view of their presentation for approval;
- The periodical analysis of circumstances and of the mode of how the actions were administered is necessary, in view of drawing some conclusions of good practice for the future.

Standard 16

CONTINUITY OF THE ACTIVITY

16.1. Description of the standard

The public institution ensures the adequate measures in order that, in any moment and in any circumstances, its activity can continue on all levels, especially on the economic-financial one.

16.2. General requirements

- The public institution is an entity the activity of which must go on continuously, through the component structures. The eventual interruption of its activity¹⁴ affects the reach of proposed objectives;
- For each of the situations that appear, the institution must act in view of ensuring the continuity, through diverse measures, as for example:
 - hiring of employees to replace the pensioned ones or the ones that leave the institution on other considerations;
 - delegation, in case of temporary absence (holidays, missions, etc.);
 - service contracts for the maintenance of the equipment from the endowment;
 - procurement contracts for replacing the equipment from the endowment.
- The public institution should prepare a list of situations that can cause discontinuity of the activities, as well as a list of measures for preventing their arising.

¹³ Several specific circumstances may occur during exercise of activities, that could not be anticipated in front and that can procure deflections in exercise of the transactions through implemented procedures.

¹⁴The public institution confronts itself with different situations, which affects the continuity of the activity: the mobility of employees; defects of equipment from the endowment; disfunctionalities produced by some of its suppliers of services; changes of procedures, etc.

Standard 17

CONTROL STRATEGIES

17.1. Description of the standard

The public institution should build control strategies and programs conceived for the achievement of objectives and to ensure their maintenance.

17.2. General requirements

- The control strategies should be in correlation with elaborated strategies, policies and programs for the achievement of objectives¹⁵. Without an adequate control strategy, increases the risk of manifesting deviations from the strategy, policy and programs of the institution and, so, of not achieving the objectives at the level of expected exigencies;
- Control strategies should be prepared in conformity with the strategy concept, that understands determination of control objectives, necessary resources, scheduling in time, training of the control employees, improvement of the control methods and procedures, evaluation mode of the controls, etc.;
- The control strategies refer to the types of control applicable to the situation. In the large palette of the control modalities and of the classification criteria of those we find:
 - control activities: observation; comparison; approving; communication of reports; coordinating; checking; analyzing; authorizing; supervising; examining; monitoring, etc.;
 - classification of control taking into account the comprising mode of objectives: total control; selective control (through sampling);
 - classification of control taking into account the wanted scope: conformity control; control of advanced training; adaptation control, etc.;
 - classification of control taking into account the affiliation of the control bodies: internal control; external control;
 - classification of control taking into account the persons carrying out the control: self control; specialty control;
 - classification of control taking into account the mode the control is carried out: direct control; indirect control; cross control;
 - classification of control taking into account the normative base: normative control; practical control; theoretical control;
 - classification of control taking into account the institution's interest: control for itself; control for others;
 - classification of control taking into account the moment of the carrying out of the control: *ex-ante* control; ongoing control; *ex-post* control;

¹⁵ Control strategies would be more complex and stronger, if the processes for establishment and implementation of the objectives of the public institution are more complex and stronger.

Standard 18

ACCESS TO RESOURCES

18.1. Description of the standard

The manager establishes, by issuing authorizing documents, the persons who have access to the material, financial and informational resources of the public institution and appoints the persons responsible for the protection and correct use of these resources.

18.2. General requirements

(2) To restraint the access to resources with aim to reduce the risks of their inadequate use;

(3) The severity of the restriction should be determined depending of the vulnerability of the type of resource and on the risk of potential losses, which have to be appreciated periodically.

(4) Depending of the exposure of goods for inadequate use and their value, the frequency should be determined of periodical comparisons of these goods with their evidenced value (inventory)

(5) In determining the vulnerability of goods and values cost, potential risk and inadequate use are kept in view.

Standard 19

INFORMING

19.1. Description of the standard

The public institution establishes the type of information, quantity, quality, frequency of sources and theirs receivers, so that managers and employees, through reception, processing and transmission of information, can fulfill the tasks.

19.2 General requirements

- The information is indispensable for a sound financial management, an effective monitoring for identifying the risk situations in the incipient stages of their manifestation;
- The culture of public institution has a major impact on the quantity, nature and viability of the information, as well as concerning the enlargement of scale in the field of the ethical values, policy, strengthness, responsibilities and obligations to report, institutions' objectives, plans, etc.
- The information must be correct, credible, clear, complete, at the right time, useful, easy to understand and receive;

- The manager and employees must receive and transmit the necessary information to fulfill the tasks;
- The information must benefit of a fast and opened circulation in all senses, including inside and outside;

Standard 20

COMMUNICATION

20.1. Description of the standard

- The public institution must develop an efficient system of internal and external communication, which to ensure a precise, fluent and fast dissemination of the information, so that these to arrive complete and on time to users.

20.2. General requirements

- The manager ensures functioning of an efficient system of communication;
- The system of communication, by its components, serves to the users' purposes;
- The system of communication must be flexible and fast inside the institution, as well as between this one and the external environment;
- The system of communication must be adapted to the capacity of the users, as concerns processing the information and fulfilling the responsibilities regarding communication.

Standard 21

CORRESPONDENCE

21.1. Definition of the standard

Each public institution organizes the receiving/sending, registering and archiving of correspondence, so that the system be accessible to the manager, as well as to the employees and third parties with abilities in the field.

21.2 General requirements

- The object of the action of correspondence constitutes the entrance-outgoing of information in/out of the public institution,
- Correspondence uses different information supports (paper, magnetic, floppy, CD, etc.) and is realized through different means (carrier, mail, electronic mail, fax, etc.);

- The percentage in which the public institution uses one or the other of the supports and calls on one or the other of the means to realize the correspondence is determined by a series of factors, as for example: the level of internal equipment and/or of the third's party, the training level of the employees, urgency, distance, cost, safety, the restrictions in the regulations etc.
- Depending on the type of support used and the means used regarding the correspondence, the entry, outgoing, registration and stocking operations must be properly adapted, based on plans that should ensure:
 - assurance of receiving, respectively outgoing of correspondence;
 - stocking (archiving) of correspondence;
 - access to the made correspondence.

Standard 22

HYPOTHESIS, REEVALUATIONS

22.1. Description of standards

The setting of the objectives takes into consideration hypothesis accepted consciously, by consensus. The modification of hypothesis, as a follow-up of the changing of the environment, imposes the reevaluation of the objectives.

22.2. General requirements

- Hypothesis are formulated linked with/and are at the base of the setting of any objective that follows to be achieved;
- The employees implicated in the achievement of an objective must be conscious of the formulated and accepted hypothesis linked to the said objective, because if contrary they will harder accept the objectives;
- If the hypothesis are changed based on which the objective have been determined, the needs for information should be reevaluated as well, that will result with needed information that have to be collected, the way of collection, contents of the reports or the appropriate information system.

Standard 23

POINTING OUT IRREGULARITIES

23.1. Description of the standard

The employees, aside from the communications they realize regarding the achievement of the objectives in which they are involved to, have the possibility, based on distinct procedures, to point out presumed irregularities, without this kind of pointing out to draw a non equitable or discriminatory treatment toward the employee who conforms to these kind of procedures.

23.2. General requirements

- The managers have to establish and communicate to the employees the corresponding procedures, applicable in the case of pointing out presumed irregularities;
- The managers have the obligation to conduct adequate investigations and whenever needed to take the measures that are imposed;
- The employees that point out, in conformity with procedures, deeds and actions of fraud/corruption, of which, directly or indirectly, they have knowledge of, will be protected against any discrimination.
- Pointing out of irregularities should be on a transparent way with aim to elude the impression that secrets are revealed.
- The manager should promote the reverence of laws and mutual trust.

Standard 24

CHECKING AND EVALUATION OF CONTROL

24.1. Description of the standard

The public institution establishes an evaluation function of internal control and elaborates the plans and programs for the carrying out of these actions.

24.2. General requirements

- The manager must ensure continuously the checking and the evaluation of the functioning of the internal control and of its elements. Disfunctionalities or other problems that are identified must be solved operatively, through corrective measures;
- The checking of operations guarantees that the internal controls contribute to the achievement of objectives;
- The evaluation of the control's effectiveness can refer, either to the whole of the institution's objectives, or to some of those, option that reverts to the manager;
- The manager should establish the way of evaluation of the effectiveness of the controls.

Standard 25

INTERNAL AUDIT

25.1. Description of the standard

The public institution establishes or has access to an audit capacity, which has in its structure competent auditors, whose activity is carried out, usually, in conformity with programs based on risk evaluation.

25.2. General requirements

- The internal audit should ensure an independent and objective evaluation of the internal control system of the public institution;
- The internal auditor elaborates his/hers actions through audit reports in which he/her enunciates the weak points identified in the system and formulates recommendations for their elimination;
- The manager disposes the necessary measures, keeping in view the recommendations made in the internal audit reports, for the purpose of eliminating the weak points ascertained by the audit missions.

No. _____
_____ 2010 year
Skopje

MINISTER OF FINANCE

Msc. Zoran Stavreski

