

**National Bank of the Republic of North Macedonia**



**INFORMATION**

**for the implementation of the internal audit function in the National Bank of  
the Republic of North Macedonia**

December 2024

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## **1. INTRODUCTION**

The internal audit function in the National Bank of the Republic of North Macedonia (hereinafter: the National Bank) shall be performed by Internal Audit Department (hereinafter: IAD). This information describes the mission and International Professional Practices Framework, the main objective of the internal audit, the scope of work of IAD, the type of internal audit activities, the governance of IAD, the execution of planning and auditing processes, the quality assurance of IAD, and the manner of reporting to the Governor, Audit Committee and National Bank Council.

## **2. INTERNATIONAL PROFESSIONAL PRACTICES FRAMEWORK OF INTERNAL AUDITORS**

IAD shall operate in accordance with the International Professional Practices Framework of Internal Auditing of the Institute of Internal Auditors in Florida, USA.

Mandatory elements of the International Professional Practice Framework of internal auditors shall be the International Audit Standards (hereinafter: Standards) and the Topical Requirements (hereinafter: Requirements). Supplemental elements of the International Professional Practices Framework shall be Global Guidelines, which provide detailed advices and best practices for implementation of internal audit activities.

## **3. MAIN OBJECTIVE OF THE INTERNAL AUDITING**

The main objective of internal audit is to support the National Bank in creating and maintaining the values of the institution, providing the members of the National Bank Council and the strategic management with independent and objective risk-based assurance, counsel, insight into the conditions and assessments.

Internal audit contributes to:

- successful achievement of strategic objectives;
- improvement of corporate governance, risk management and internal control processes;
- improve the decision-making and oversight process;
- improve the reputation and credibility before stakeholders;
- achievement of the public interest in the National Bank.

## **4. SCOPE OF WORK OF THE IAD**

The IAD shall evaluate and contribute to improving risk management processes, internal controls and management, by applying risk-based approach.

### **Risk management process**

IAD shall assess the effectiveness of risk management process and it shall contribute to its improvement. IAD shall assess whether:

- organizational objectives support and are consistent with the strategic objectives;
- significant risks have been identified and assessed;
- appropriate activities have been undertaken to address risks within the accepted risk levels (risk appetite);
- relevant information on risks has been provided in a timely manner, which will enable employees, management and the National Bank Council to carry out their responsibilities.

Operational risks in the National Bank are identified and assessed within each organizational unit, in accordance with the applicable internal regulations.

### **Internal controls**

IAD shall assess the adequacy and effectiveness of the internal controls system in the National Bank and it shall contribute to its continuous improvement. In response to risks inherent to the governance process, work processes, projects and information systems, it shall also assess the following:

- attainment of the strategic objectives;
- financial and operational information, in terms of reliability, validity and integrity. The methods of measurement, analysis, classification and reporting are secure (confidentiality, integrity and availability);
- operations and programs are implemented effectively, efficiently, ethically and in a consistent manner, resources and assets are procured economically, used efficiently and sustainably, and are appropriately safeguarded;
- the established processes and systems ensure compliance with policies, procedures, agreements and regulations, which may significantly affect the National Bank.

### **Process of organizational management assessment**

IAD shall assess the National Bank's management process and it shall give advice/appropriate recommendations for its improvement, in terms of:

- the process of making strategic and operational decisions;
- supervising the risk management process and controls;
- promoting appropriate ethics and values within the National Bank;
- ensuring effective management of the operations of organizational units;
- the activities of managers, directors, management, employees and external economic operators or other relevant parties, and whether they are in compliance with the policies and procedures of the National Bank and applicable regulations and governance standards;
- providing information about the risks and controls to relevant persons and organizational units of the National Bank and
- coordination of activities and communicating the information to the National Bank Council, external and internal auditors, and the responsible persons of the organizational units.

## **5. TYPE OF INTERNAL AUDIT ACTIVITIES**

IAD shall conduct activities through which it shall provide assurance and counseling. Internal auditors may participate in the activities of working groups or bodies as consultants, observers or representatives.

In terms of planning, the IAD shall perform regular or extraordinary audit, while regarding the audit scope, it may perform operational audit, finance audit, compliance audit, information system audit, integrated audit, project audit, audit of the implementation of the given recommendation (follow up) and forensic audit.

## **6. GOVERNANCE OF THE IAD**

The Chief Internal Auditor shall strive for internal auditors to:

- work in accordance with the Standards and Requirements, including the ethical and professional principles of: integrity, objectivity, competence, due professional care and confidentiality;
- understand, respect, comply with and contribute to the implementation of the regulations and ethical principles of the National Bank, and at the same time have the ability to recognize behavior that is contrary to those expectations;
- encourage and promote a culture of ethics in the National Bank;
- report behavior that is contrary to the ethical principles regulated by the Code of Ethics of the National Bank.

## **7. EXECUTION OF PLANNING AND AUDITING PROCESSES**

### **Preparation of IAD work programs and schedule of audits**

IAD shall prepare a medium-term and annual work program that includes audit activities of the IAD.

The medium-term program shall be prepared for a three-year period with an annual update.

The annual work program shall be prepared in accordance with the medium-term program and it shall have the following structure:

- plan of regular audits;
- resources of extraordinary audits;
- other regular activities of the IAD; and
- IAD Quality Assurance and Improvement Program.

The IAD's medium-term and annual work program shall be submitted to the National Bank Council by the end of January of the current year. The medium-term work program shall define the internal audit development strategy and the scope of audit of all

relevant processes for a period of three years, through effective and efficient deployment of human and other resources.

The Chief Internal Auditor shall prepare a risk-based Audit Plan, and revise it in case of changes in the operations, risks, processes, programs, systems and controls and reports to the Governor of the National Bank thereof.

The mid-term and annual program of regular audits shall be prepared on the basis of the overall risk assessment Methodology. This Methodology identifies, analyzes, assesses and ranks categories and risk factors that may affect the National Bank's operations, as well as other current findings in terms of expected changes, new work processes, planned projects etc.

### **Conducting an audit**

Internal Auditors shall conduct the audit in conformity with the Policy and the Regulation on the Activities of the IAD adopted by the National Bank Council, the Guidelines and the written work procedures of the IAD. The Chief Internal Auditor shall have the sole responsibility for conducting audit oversight.

The audit report shall present findings, on the bases of which the potential risk level is assessed, i.e. low, moderate, intermediate and high level of risk, as well as recommendations for reducing the risks to an acceptable level.

The data presented in the audit report must be accurate, objective, clear, concise, constructive, complete and timely.

Based on the findings and assessments of risk levels, an opinion on the adequacy and effectiveness of the internal control system shall be given, which shall be assessed as: good, satisfactory, partially satisfactory and unsatisfactory.

The audit report shall be submitted to:

- the Governor;
- the competent strategic/sectoral manager of the audited organization; and
- the responsible person in the audited organization.

The Chief Internal Auditor shall establish and implement a manner of monitoring the implementation of the recommendations given in the audit reports.

## **8. QUALITY ASSURANCE OF THE IAD ACTIVITIES**

### **IAD Quality Assurance and Improvement Program**

Chief Internal Auditor shall prepare and ensure implementation of IAD Quality Assurance and Improvement Program. The Program may entail compliance with the regulations relevant for the internal audit. The Chief Internal Auditor may, if necessary, revise Quality Assurance and Improvement Program and implement adequate control activities.

## **Internal and external assessment of the IAD Quality Assurance and Improvement Program.**

The IAD Quality Assurance and Improvement Program shall include internal and external assessment.

Internal assessment shall include:

- ongoing supervision of the internal auditing;
- periodic internal self-assessments by IAD or assessments by other qualified persons from the National Bank, having relevant knowledge of internal audit, appointed by the Governor.

Periodic internal self-assessment shall be performed at least once a year, by determining appropriate scope.

External assessment shall be focused on the following elements:

- internal audit operations in conformity with the Standards and Requirements;
- audit tools and techniques, as well as professional competence of the employees in the IAD; and
- the ability of the IAD to contribute to the improvement of the National Bank operations.

The external assessment shall be performed by an independent team of external persons who have an appropriate level of competence in the field of internal audit, at least every five years, of which at least one assessor must hold a valid certificate for certified internal auditor from the Institute of Internal Auditors.

Alternative to the external assessment is the self-assessment made by the Chief Internal Auditor verified by an independent team of external professionals with the same competencies as aforementioned.

The last external assessment was carried out 2021 by experts from the Central Bank of the Netherlands, with an assessment that the operations of IAD "generally complies"<sup>1</sup> with the Standards and the Code of Ethics.

## **9. REPORTING TO THE GOVERNOR, AUDIT COMMITTEE AND THE NATIONAL BANK COUNCIL**

The internal audit shall, for its work from a functional aspect, i.e. with respect to the oversight of efficiency and effectiveness of its operations shall be directly be held accountable to the National Bank Council, while from an administrative aspect, i.e. from the aspect of its day-to-day operations, shall be directly accountable to the National Bank Governor. IAD, as needed, shall prepare reports and information intended for the Audit

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<sup>1</sup> There are three levels of compliance: generally compliant, partially compliant and not compliant.

Committee and the National Bank Council.

The Chief Internal Auditor shall prepare semi-annual and annual reports on the operation of the IAD and its effects, and submit them to the Governor, Audit Committee and the National Bank Council. These reports shall have the following structure:

- reporting on the realization of the objectives and the tasks set in the annual Audit Work Program;
- changes in the annual audit plan;
- time spent for audits,
- information about the extraordinary (special) audits;
- the level of implementation of the recommendations;
- reporting on other activities performed;
- reporting on the employees and their training and professional development; and
- financial reports and record, accounting procedures, risk management, internal control system, management process, efficiency and operating costs of the National Bank.

The Annual Report also provides a general opinion of the IAD on the adequacy and effectiveness of internal control system about the audited work processes/activities, as well as the structure of risks identified in the audit findings, in the Quality Assurance and Improvement Program, as well as on the results of internal assessments (ongoing supervision and periodic self-assessments) and external assessments..

The Audit Committee shall also revise the annual and mid-term program on the IAD operations, as well as its acts that regulate the IAD operations, prior to their approval by the Council. The Chief Internal Auditor shall inform the Audit Committee and the National Bank Council in case of influence on the internal audit and indicates the possible consequences.