

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



## **INFORMATION**

### **On conducting internal audit in the National Bank of the Republic of North Macedonia**

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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 internal audit objectives, the scope of work of the IAD, the types of internal audit, the management and planning of IAD activities, the execution of the internal audit process, the quality assurance of the internal audit department activities and the manner of reporting to the Governor, Audit Committee and National Bank Council.

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

The IAD operates in accordance with the International Professional Practices Framework of the Institute of Internal Auditors in Florida, USA, as well as according to the Code of Professional Conduct, accepted as national internal audit standards.

This framework defines the internal audit Mission, as well as its mandatory elements, which the internal audit operation should be harmonized with.

**Internal audit mission** - The mission of the internal audit is to enhance and protect the organization's assets by providing objective risk-based assurance, advisory services and insight in the internal situation, to all interested parties (members of the National Bank Council, the Governor, responsible persons of the organizational units, external auditors and other interested parties).

**Mandatory elements of the International Professional Practices framework are the following:**

- Definition of internal audit.
- Core principles for effective internal audit;
- Standards for the Professional Practice of Internal Auditing; and
- Code of professional conduct.

Definition- Internal audit is an independent function that provides objective assurance and advisory services designed to add value and contribute to improving the National Bank operations. Internal audit helps the National Bank achieve its objectives by applying a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance processes.

Core principles for effective internal audit- the internal audit is effective when all core principles are accepted and respectively applied. While operating, the IAD must apply the following principles by which it:

- demonstrates integrity,
- demonstrates competence and due professional care,
- is objective and independent

- operates in accordance with the organization's strategies, objectives and risks,
- has an appropriate organizational set up and adequate resources,
- demonstrates quality and continuous improvement,
- communicates effectively
- provides assurance based on risk assessment
- has a good insight in the internal situation, is proactive and forward-looking, and
- promotes positive changes in the organization.

### Standards for the Professional Practice of Internal Auditing and Code of professional conduct

IAD applies the Standards and the best professional practices, by using attribute and performance standards. Attribute standards (objective, authorizations, responsibilities, independence, competences) refer to organization's attributes and individuals that perform internal audit. Performance standards (management, planning, performing audit, following recommendations, verification of the quality of operations) describe the nature of internal audit operation and determine quality criteria, compared to which the effectiveness and efficiency of the internal audit are measured.

The use of Code promotes the internal auditors' ethical culture, by applying principles (relevant to the profession and practice of internal auditing) and rules of conduct (describe the behavior norms expected of internal auditors), in terms of their independence, objectivity, confidentiality and competence.

## **3. INTERNAL AUDIT OBJECTIVES**

The internal audit primary objective is to contribute to improving the National Bank operations by providing advisory services and assurance to the National Bank Council that risk management, internal control systems and governance processes are adequate and functioning in a manner that ensures that:

- the National Bank operations are consistent to the laws, bylaws and the internal regulations of the National Bank,
- monitoring the significant regulatory changes and their appropriate implementation,
- the programs, plans and objectives are achieved,
- the financial, managerial and operational data/information submitted to the National Bank's management are accurate, reliable and timely,
- the assets are acquired economically, used efficiently, are protected adequately, and there is a control mechanism to prevent fraud,
- the risks associated with the performances of functions, processes or activities are identified and managed appropriately,
- the established internal control systems are adequate and effective and encourage quality and continuous improvement, and
- there is an adequate interaction between all management levels.

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

The internal audit evaluates and contributes to improving risk management process, internal controls and management, by applying risk-based approach. Internal audit credibility increases when the internal auditors are well-informed about the internal situations and organization's operations, are proactive and perceive the future implications on the National Bank's operations.

##### **Risk management process**

IAD assesses the effectiveness of risk management process and contributes to its improvement. IAD assesses whether:

- organizational objectives support and are in accordance with the National Bank's strategic objectives,
- relevant risks are identified and assessed,
- risk management activities are appropriate and within the accepted risk levels (risk appetite),
- adequate information on the risks are timely submitted to the employees, management and the National Bank Council, due to implementation of their obligations.

Operational risks in the National Bank are identified and assessed within each organizational unit, in accordance with the applicable risk management internal regulations and other international standards and practices.

##### **Internal controls**

IAD assesses the adequacy and effectiveness of the internal controls system in the National Bank and contributes to its continuous improvement. In order to reduce risks and maintain them at acceptable level, each organizational unit of the National Bank prepares written internal operating procedures, with embedded internal controls which should be applicable by the organizational unit. In case the IAD identifies faults/weaknesses in the internal control system or unidentified risks in the organizational unit, it gives recommendations to improve internal controls.

##### **Governance process**

IAD assesses the National Bank's management process and gives 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,
- 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. TYPES OF INTERNAL AUDIT**

In the field of its operations, the IAD provides assurance and advisory services and participation in committees for execution of regulatory requirements, as well as recommendations for improvement of corporate governance.

In terms of planning, the IAD performs regular or extraordinary audit, while regarding the subject of audit it performs operational audit, finance audit, compliance audit, information system (IS) audit, integrated audit, project audit, audit of the implementation of the given recommendation (follow up).

## **6. OPERATION MANAGEMENT OF THE IAD**

The Chief Internal Auditor should effectively manage the IAD to ensure that its work adds value to the National Bank.

The internal audit management is effective when the IAD:

- fulfills its objectives and tasks,
- operates in accordance with the Standards,
- internal auditors operate in accordance with the Standards and the Code, and
- takes into account the trends and new developments (contingencies) that could affect the operation of the National Bank.

## **7. EXECUTING PROCESSES OF PLANNING AND CONDUCTING THE AUDIT**

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

The Chief Internal Auditor prepares a medium-term and annual work program that includes audit activities of the IAD.

The medium-term program is prepared for three years with an annual update.

The annual work program is prepared in accordance with the medium-term program and has the following structure:

- plan of regular audits,
- other regular activities of the IAD, and
- IAD Quality Assurance and Improvement Program.

The IAD's medium-term and annual work program are submitted to the National Bank Council by the end of January of the current year. The medium-term work program defines 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 financial resources.

The Chief Internal Auditor prepares a risk-based Audit Plan, and revises it in case of changes in the operations, processes, programs, systems and controls.

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.

### **Audit implementation**

Internal Auditors perform the audit in accordance with 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.

A view of the adequacy and effectiveness of the internal control system is provided on the basis of findings and assessments on the risk levels, which is assessed as: good, satisfactory, partially satisfactory and unsatisfactory.

The audit report shall be submitted to:

- the Governor
- the 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. IAD QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

### **Proficiency and due professional care**

Internal auditors shall have knowledge, skills and other competencies to perform their individual responsibilities.

IAD, collectively, shall have or obtain the knowledge, skills and other competencies to perform its responsibilities.

The internal auditors shall apply the standards for individual objectivity, competence and due professional care, and the standards for the performance of their duties.

The Chief Internal Auditor shall also be required to ensure full compliance of the internal audit activities with the internal audit standards.

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

The Chief Internal Auditor shall prepare and implement a Quality Assurance and Improvement Program of the IAD that covers all aspects of internal audit by:

- evaluating the compliance of the IAD operations with the Standards and the Code,
- evaluating the effectiveness and efficiency of the IAD operation by presenting appropriate criteria and indicators,
- perceiving opportunities for improvement and promotion of the IAD operations.

The Chief Internal Auditor shall revise this program and implement appropriate control activities, as needed.

### **Internal and external assessment of the IAD activities**

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

Internal assessment shall include:

- ongoing supervision of the internal audit,
- 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 performs at least twice a year, by determining appropriate scope.

External assessment shall be focused on the following elements:

- compliance of the operations of the internal audit with the Standards and the Code,
- audit tools and techniques, as well as professional expertise of the employees in the IAD, and
- the ability of the IAD to contribute to the improvement of the operations of the institution.



The external evaluation shall be performed by an independent team of external persons who have an appropriate level of expertise and experience in the field of internal audit.

Alternative to the external assessment is the self-assessment made by the Chief Internal Auditor confirmed/approved by an external professional and independent person or team. The external assessment of the IAD operations shall be made at least once in five years.

The disclosure that the IAD operations are in accordance with the Standards and the Code is adequate only if it is evaluated with external assessment.

Several external assessments of the IAD operations have been carried out so far. The first external assessment was carried out in 2007, while the last one in 2021 by experts from the Central Bank of the Netherlands, with assessment that the operations of IAD “Generally complies” with the Standards and the Code<sup>1</sup>.

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

IAD uses dual reporting, administratively to the Governor of the National Bank and functionally to the Audit Committee and the National Bank Council, ensuring independence of the internal audit.

The Audit Committee, as assisting work body of the National Bank Council, shall assist in its supervisory activities of the operations of internal audit, external audit, accounting policies and financial reports, internal controls and compliance of the National Bank operations with the regulation.

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

- achievement of the goals and objectives set in the annual Audit Work Program;
- changes in the annual audit plan,
- time spent for audits,
- information about the extraordinary (special) audits,
- level of risks identified in the audit findings,
- the level of implementation of the recommendations,
- information about other activities performed, and
- information about the employees and their training and development.

The annual Report provides a general view of the IAD of the adequacy and effectiveness of internal control system in the audited work processes/activities, and the structure of risks identified in the audit findings.

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<sup>1</sup>There are three levels of compliance: General compliance, Partial compliance and Non-compliance.

The Audit Committee also revises the annual and mid-term program on the operations of the IAD, as well as its acts that regulate the operations of the IAD, prior to approval by the Council.

The Chief Internal Auditor shall inform the Audit Committee and the National Bank Council in the case of influence on the internal audit when determining the scope of audit, performing the audit, or submitting the audit results and indicates possible implications.