

Consolidated Report on Ad Hoc/Planned Audits of the Internal Control System for the Process of Implementation of the Activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, due by December 2025

Skopje, December 2025

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1. Introduction

Regulation (EU) 2024/1449 of the European Parliament and of the Council established the Reform and Growth Facility for the Western Balkans to support the enlargement process by accelerating the alignment with the EU acquis, the regional economic integration, and the socio-economic convergence with the Union.

In relation to the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, and in accordance with the indications/guidance provided at the “Control and Audit” seminar organised by DG ENEST of the EC and SIGMA (held on 18 and 19 June 2025 in Tirana), as well as the guidance reiterated by DG ENEST at the “First Monitoring Committee” held on 02.07.2025, it follows that the need has arisen for internal audit units, when preparing their audit planning documents, to take these elements into account and, on the basis of a risk assessment, to plan and conduct audits of activities envisaged under the Reform Agenda, as a result of the conclusion is as follows:

“Public entities responsible for the implementation of the Growth and Reform Plan shall ensure the establishment of proper internal control and audit functions.

The National Coordinator for the Implementation of the Reform Agenda, together with the entities responsible for the performance and/or coordination of the audit functions (for example, internal audit units, the Central Harmonisation Unit and the State Audit Office), shall ensure effective coordination in order to conduct audits of the functioning of the internal controls, the risk management processes and the governance arrangements of the entities concerned, where the implementation of the steps is relevant, in accordance with the risk assessment approach.

Each Declaration of Assurance/Confirmation is expected to rely on the governance declarations submitted by the heads of the entities concerned and shall include a summary of the audits conducted to date, thereby ensuring transparency and accountability in the monitoring and implementation process.”

Following an initiative and notification by the Central Harmonisation Unit to the relevant organisational units of the Ministry of Finance, and having regard to the Annual Internal Audit Plan of the Ministry of Finance, an audit of the internal control system for the activities under the Reform Agenda 2024-2027 has been planned within the Ministry of Finance. The results of the audit are presented in this consolidated report.

Having regard to the fact that not all public entities entrusted with the implementation of the steps under the Reform Agenda have established their functional internal audit units, the Ministry of Finance, acting through the Central Harmonisation Unit, aiming to contribute to the process of implementation of the steps under the Reform Agenda across all entities concerned, within the scope of its responsibilities under Article 52, paragraph 1, indent 10 of the Law on the Public Internal Financial Control System (Official Gazette of the Republic of North Macedonia No. 255/2024), in the period from October to December 2025, organised and coordinated ad hoc audits, which were conducted in all public entities responsible for the implementation of the activities/steps of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, up to December 2025.

The ad hoc audits were conducted by audit teams composed of internal auditors from various public entities, based on the objective of the audit, the nature of the audit subject matter, and the added value of applying a multidisciplinary approach.

Full responsibility for the organisation and coordination of the ad hoc audits lay with the Central Harmonisation Unit of the Ministry of Finance.

The audits were conducted with the objective of providing reasonable assurance regarding the design, establishment and functioning of the internal control system in the process of implementation of the activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, across all entities covered by the audit, up to and including December 2025.

The audits were conducted in the period from October to December 2025, whereby the audit teams prepared Final Audit Memoranda reflecting the audit results, which were submitted by the Ministry of Finance to the audited entities.

The Ministry of Finance - Central Harmonisation Unit, having regard to its overall role in the organisation and coordination of the process of conducting the ad hoc audits, and based on the reports submitted on all ad hoc audits conducted in relation to the needs and requirements of the Reform Agenda, has prepared this Consolidated Report on Ad Hoc/Planned Audits of the Internal Control System for the Process of Implementation of the Activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans.

The Consolidated Report on Ad Hoc/Planned Audits presents the key segments and conclusions of the Final Audit Memoranda of the ad hoc/planned audits of the internal control system in the process of implementation of the activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans in the following areas:

I Policy Area 1. Governance/Public Administration Reform and Public Finance Management in the Ministry of Public Administration;

II Policy Area 1. Governance/Public Administration Reform and Public Finance Management in the Ministry of Finance

III Policy Area 2.1. Energy/Digital Transition in the Ministry of Energy, Mining and Mineral Resources and the Ministry of Environment and Physical Planning;

IV Policy Area 2.2 Energy/Digital Transition in the Ministry of Digital Transformation;

V Policy Area 3. Human Capital in the Ministry of Education and Science;

VI Policy Area 4. Private Sector Development and Business Environment in the Ministry of Economy and Labour, the Commission for Protection of Competition, the Agency for Innovation, Scientific and Technological Development and Entrepreneurship, the Ministry of Transport and the Customs Administration of the Republic of North Macedonia; and

VII Policy Area 5. Fundamentals/Rule of Law in the Ministry of Justice, the Judicial Council, the Council of Public Prosecutors, the Public Prosecutor's Office of the Republic of North Macedonia, the Ministry of Interior and the Agency for Managing Confiscated Property.

2. Summary of ad hoc audits conducted

The Final Audit Memoranda present the results of the ad hoc audits of the internal control system for the process of implementation of the activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans. Policy Area 1. Governance/Public Administration Reform and Public Finance Management in the Ministry of Public Administration, Policy Area 2.1 Energy/Digital Transition in the Ministry of Energy, Mining and Mineral Resources and the Ministry of Environment and Physical Planning; Policy Area 2.2 Energy/Digital Transition in the Ministry of Digital Transformation; Policy Area 3. Human Capital in the Ministry of Education and Science; Policy Area 4. Private Sector Development and Business Environment in the Ministry of Economy and Labour, the Commission for Protection of Competition, the Agency for Innovation, Scientific and Technological Development and Entrepreneurship, the Ministry of Transport and the Customs Administration of the Republic of North Macedonia.

The ad hoc audits were conducted with the objective of providing reasonable assurance regarding the design, establishment and functioning of the internal control system in the process of implementation of the activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, across all areas.

The subject matter of the ad hoc audits was the internal control system in the process of implementation of the activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, Policy Area 1. Governance/Public Administration Reform and Public Finance Management in the Ministry of Public Administration.

I Policy Area 1. Governance/Public Administration Reform and Public Finance Management in the Ministry of Public Administration

The ad hoc audit covered the internal control system in the process of implementation of the activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, Policy Area 1. Governance/Public Administration Reform and Public Finance Management in the Ministry of Public Administration, in relation to the steps envisaged under the Reform Agenda falling within the responsibilities of the Ministry of Public Administration, with a time limit for implementation by December 2025.

The audit was conducted based on Authorisation No. 18-5831/1 of 27.10.2025, issued by the Minister of Finance, and organised and coordinated by the Central Harmonisation Unit of the Ministry of Finance.

The audit identified 2 (two) findings, relating to the following:

- The Ministry of Public Administration has not appointed reform-level coordinator(s), step-level coordinator(s) and step-level verifier(s), who are part of the priority area or sub-area. (Finding of medium significance);
- The Ministry of Public Administration has not appointed an internal auditor within its Internal Audit Department. (Finding of high significance).

Additionally, the audit, in the “Disclosure” section of the Audit Memorandum, identified certain matters that are not treated as findings, but which the management of the Ministry of Public Administration should consider when managing the work processes, relating to the following:

- The Ministry of Public Administration has not prepared an internal working procedure for the implementation of the activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, Policy Area 1. Governance/Public Administration Reform and Public Finance Management, falling within the responsibilities of the Ministry of Public Administration

With regard to the steps envisaged under the RA falling within the responsibilities of the Ministry of Public Administration, with a time limit for implementation by December 2025, the following risk has been identified that may negatively affect their successful implementation:

- Untimely implementation of the steps envisaged under the RA in the Ministry of Public Administration.

The audit assessment concludes that, while the internal control system has been formally established, several elements of its design require refinement to ensure effective risk mitigation. Some controls do not comprehensively address the identified risks, and the responsibilities are not always clearly defined. The refinement of the control design and their alignment with the operational risks would increase the effectiveness.

The audit identified the need for the management of the Ministry of Public Administration, acting as coordinator of the Priority Area Governance, Sub-area Public Administration Reform, to take appropriate measures and actions to address the identified weaknesses and findings, in line with the recommendations provided in the Audit Memorandum and the Action Plan, which forms an integral part thereof.

II Policy Area 1. Governance/Public Administration Reform and Public Finance Management in the Ministry of Finance

The audit report presents the results of the audit of the internal control system for the activities of the Reform Agenda 2024-2027 in the Ministry of Finance.

The audit was conducted with the objective of providing reasonable assurance regarding the design, establishment and functioning of the internal control system for the activities of the Reform Agenda 2024-2027 in the Ministry of Finance.

The audit was conducted in the period from 16.09 to 03.12.2025.

The audit identified 6 findings, of which 4 are of medium significance and 2 are of low significance.

The findings, presented in detail, relate to the following:

- The Ministry of Finance needs to refine the design of the internal control system for the activities of the Reform Agenda by developing a written procedure therefor;
- The Ministry of Finance and the Public Procurement Bureau need to enhance their risk management system by integrating risks directly associated with the Reform Agenda or the Reform and Growth Facility;
- Annex VI to the Commission Implementing Decision approving the Reform Agendas and the multiannual work programme under the Reform and Growth Facility for the Western Balkans and Annex 1 - Steps and payment conditions by policy area, are not aligned with regard to the institutions responsible for monitoring and reporting on the reform steps.
- The EU Anti-Fraud Coordination Service (AFCOS) has not developed a methodology for managing suspicious cases related to the Reform and Growth Facility for the Western Balkans;
- Reform and Step Coordinators from the Ministry of Finance and the Public Procurement Bureau have not been appointed in line with the Regulation on the Implementation and Control of the Reform and Growth Facility for the Western Balkans;
- The nomination for Deputy Coordinator for steps 3, 4, 5 and 6 of Reform 4.1.3, entitled “Foster SMEs development by adopting and implementing the new SME strategy” is not in compliance with the Regulation on the Implementation and Control of the Reform and Growth Facility for the Western Balkans.

On the basis of the review and testing conducted, the audit concluded that the design of the internal control system for the activities of the Reform Agenda needs to be refined through the development of a written procedure therefor.

The audit also identified certain weaknesses in the establishment and functioning of the internal controls.

The Internal Audit Department issued recommendations to refine the design, establishment, and functioning of the controls, the implementation of which will address the identified weaknesses and enhance the effectiveness of the internal control system for the audited activities.

III Policy Area 2.1. Energy/Digital Transition in the Ministry of Energy, Mining and Mineral Resources and the Ministry of Environment and Physical Planning

The ad hoc audit covered the internal control system in the process of implementation of the activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, Policy Area Energy and Digital Transition, Sub-area Energy Transition for the steps envisaged under the Reform Agenda falling within the responsibilities of the audited entity - Ministry of

Energy, Mining and Mineral Resources and Ministry of Environment and Physical Planning, with a time limit for implementation by December 2024, June 2025 and December 2025.

The audit was conducted on the basis of Authorisation No. 18-18-5830/1 of 27.10.2025, issued by the Minister of Finance, and organised and coordinated by the Central Harmonisation Unit of the Ministry of Finance.

The audit identified one finding, relating to the following:

- The Ministry of Environment and Physical Planning has not appointed a reform-level coordinator, a step-level coordinator and a step-level verifier, who are part of the priority Policy Area Energy and Digital Transition, Sub-area Energy Transition. (Finding of medium significance).

Notwithstanding the absence of a formal procedure within the audited entities (Ministry of Energy, Mining and Mineral Resources and Ministry of Environment and Physical Planning) for the appointment of reform-level coordinator(s), step-level coordinator(s) and step-level verifier(s), during the audit, the auditors were unable to obtain evidence that the Ministry of Environment and Physical Planning had formally submitted nominations (reform-level coordinator, step-level coordinator and step-level verifier) to the Ministry of Energy, Mining and Mineral Resources and to the Ministry of European Affairs for individuals who would perform the tasks, activities and responsibilities assigned in line with the Regulation.

The audit concludes that the identified situation is attributable to weaknesses in the functioning of the internal control system within the Ministry of Environment and Physical Planning, which give rise to risks of reduced accountability and responsibility, non-standardised implementation of the activities, delays in the implementation of reforms, an increased risk of errors or operational inconsistencies, and deficiencies in information flow and communication.

During the ad hoc audit, the audit team received an official letter from the Ministry of Environment and Physical Planning concerning the appointment of a reform-level coordinator and a step-level coordinator, addressed to the Ministry of Energy, Mining and Mineral Resources and the Ministry of European Affairs, under Arch. No. 02-4773/2 of 12.12.2025.

Furthermore, the Ministry of Environment and Physical Planning prepared and submitted a draft Decision on the appointment of a reform-level coordinator under Arch. No. 02-4815/1 of 12.12.2025 and a Decision on the appointment of a step-level coordinator under Arch. No. 4814/1 of 12.12.2025.

Additionally, the audit, in the “Disclosure” section of the Audit Memorandum, identified certain matters that are not treated as findings, but which the management of the Ministry of Energy, Mining and Mineral Resources and the Ministry of Environment and Physical Planning should consider when managing the work processes, relating to the following:

- it was identified that the Ministry of European Affairs has not prepared an internal working procedure for the implementation of the activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, Policy Area Energy and Digital Transition, Sub-area Energy Transition, falling within the responsibilities of the Ministry of Energy, Mining and Mineral Resources and the Ministry of Environment and Physical Planning;

- Having regard to the fact that the responsibilities for specific steps/activities/reforms under the National Energy and Climate Plan (NECP) fall within the Ministry of Energy, Mining and Mineral Resources, while, pursuant to Article 13 of the Law on Energy, the Ministry of Environment and Physical Planning is also designated as a responsible authority, the audit discloses this newly emerged situation and advises that, in the event of any amendments to the RA, consideration should be given to initiating amendments or supplements in this respect;
- The Ministry of Energy, Mining and Mineral Resources, following a request from the MEA, made nominations and amendments to nominations, whereby relevant decisions were adopted accordingly;
- The Ministry of Energy, Mining and Mineral Resources has established a Risk Register. A risk assessment related to the Reform Agenda is currently being prepared.

The Ministry of Environment and Physical Planning has established a Risk Register, and the audit assesses that the register requires further alignment with the new Methodology for Risk Management in Public Entities, updating, and the inclusion of risks associated with activities arising from the RA.

In relation to the steps envisaged under the RA that fall within the responsibilities of the Ministry of Energy, Mining and Mineral Resources and the Ministry of Environment and Physical Planning, with a time limit for implementation by December 2025, the following risks have been identified within the Ministry of Environment and Physical Planning that may negatively affect their successful implementation:

- Non-adoption of the Law on Climate Action (final stage, but has still not been published in the Official Gazette);
- Non-preparation of a new functional analysis (under preparation);
- Non-adoption of a new act on the organisational structure, which would provide for the strengthening of the capacities required to fulfil the obligations arising from the RA.

The audit concluded that, while an internal control system has been formally established (due to the non-issuance of a Manual by the MEA), elements of its design require refinement in order to ensure effective risk mitigation. Some controls do not comprehensively address the identified risks, and the responsibilities are not always clearly defined. The refinement of the control design (following the issuance of the Manual by the MEA) and their alignment with the operational risks will increase their effectiveness and is essential for the full functioning of the control system.

The audit concluded that, in general, the internal control system within the Ministry of Environment and Physical Planning functions effectively and has a solid design and structure. Nonetheless, several high-risk areas require attention to strengthen the control activities, improve the monitoring mechanisms, and ensure the sustainability of the control performance. The implementation of the recommended measures will further enhance the maturity of the internal control system.

The audit identified the need for the management of the Ministry of Energy, Mining and Mineral Resources, acting as coordinator of the Priority Area “Energy and Digital Transition”, Sub-area “Energy Transition”, to take appropriate measures and actions to address the identified weaknesses and findings, in line with the

recommendations provided in the Audit Memorandum and the Action Plan, which forms an integral part thereof.

IV Policy Area 2.2 Energy/Digital Transition in the Ministry of Digital Transformation

The ad hoc audit covered the internal control system in the process of implementation of the activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, Policy Area 2.2 Energy/Digital Transition in the MDT, for the steps envisaged under the Reform Agenda falling within the responsibilities of the audited entity - MDT, with a time limit for implementation by June 2025 and December 2025.

The audit was conducted on the basis of Authorisation No. 18-5829/1 of 27.10.2025, issued by the Minister of Finance, and organised and coordinated by the Central Harmonisation Unit of the Ministry of Finance.

The audit established that the Ministry of Digital Transformation has implemented three steps with a time limit for implementation by June 2025, which have been accepted by the EC.

The audit identified findings, relating to the following:

- The titles of the members and the roles of the individuals nominated to the working group are unclear and do not comply with the requirements set out in Articles 9 and 10 of the Regulation;

The audit identified that the situation arose because the Regulation on the Implementation and Control of the Reform and Growth Facility for the Western Balkans (Official Gazette of the Republic of North Macedonia No. 106/25) entered into force on 29.05.2025, while the Decision on the Establishment of a Working Group was drafted in January 2025, prior to the entry into force of the Regulation. In the period from January to June 2025, the responsible staff undertook all the necessary activities to implement four steps of the RA within the planned time limit, or by June 2025.

The positions within the MDT, which is the legal successor to the Ministry of Information Society and Administration (MISA), are not fully staffed according to the approved organisational structure, which may, in the long term, give rise to risks of untimely execution of the activities, delays in the implementation of reforms, an increased risk of errors or operational inconsistencies, and deficiencies in information flow and communication.

The Risk Register does not cover risks related to processes included in the RA and its steps.

Additionally, the audit, in the Audit Memorandum, disclosed certain matters that are not treated as findings, but which the management of the MDT should consider when managing the work processes, relating to the following:

- The MDT has not prepared an internal working procedure for the implementation of the activities of the RA, whereby the development of new procedures is currently ongoing;
- Documentation related to the RA is not registered under a unique organisational number with a retention period as prescribed by the Regulation, which would ensure easier retrieval;

- The staff responsible for the implementation of the steps received support in the drafting of laws and ensured the prevention of double financing.
- The 2026 Budget Circular included allocation of funds for material costs related to the implementation of Steps 2.2.2.1. and 2.2.2.2 of the RA.
- The staff responsible for the implementation of the steps have not been informed/notified whether an information system has been established within the Ministry of European Affairs for monitoring and reporting on the implementation of the Facility.
- The Ministry implemented four steps concerning the adoption of legal regulations, with a time limit for implementation by June 2025, which were published in the Official Gazette of the Republic of North Macedonia No. 135/25 of 04.07.2025.

Regarding the steps envisaged under the RA falling within the responsibilities of the MDT, with a time limit for implementation by December 2025, the following risks have been identified that may negatively affect their successful implementation:

- Failure to comply with the requirements of the Regulation governing the implementation and control of the Facility, due to insufficient staffing;
- Incorrect application of the adopted laws;
- Incomplete application of the laws by the relevant entities;
- Delayed commencement of the training sessions for employees in the institutions on the application of the laws.

The audit concluded that the internal control framework has been designed and the structure has been established, but certain weaknesses were identified concerning documentation requirements, namely ensuring the provision of an adequate audit trail in relation to the establishment of the organisational structure for the Reform Agenda, the risk assessment, and the methods of internal communication and reporting.

For each identified requirement, the audit recommended that appropriate corrective measures and actions be implemented to address the observed non-compliances, in order to strengthen the control environment and enhance the effectiveness of the control activities aimed at preventing potential deficiencies.

The audit identified the need for the management of the Ministry of Digital Transformation, acting as coordinator of the Priority Area Energy/Digital Transition, Sub-area Digitalisation, to take appropriate measures and actions to address the identified weaknesses and findings, in line with the recommendations provided in the Audit Memorandum and the Action Plan, which forms an integral part thereof.

The Ministry of Digital Transformation has submitted an official letter to the Ministry of European Affairs, reference No. 02-1979/1 of 30.10.2025, requesting that the letter entitled “Request for Inclusion of the Republic of North Macedonia in the List of Trusted Services from Third Countries in the EU for the Validation of Advanced Electronic Signatures” be forwarded to the European Commission. On 14.11.2025, a formal electronic reminder was sent to the responsible staff at the MEA requesting a response.

V Policy Area 3. Human Capital in the Ministry of Education and Science

The ad hoc audit covered the internal control system in the process of implementation of the activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, Policy Area Human Capital for the steps envisaged under the Reform Agenda falling within the responsibilities of the audited entity - Ministry of Education and Science, with a time limit for implementation by December 2025.

The audit was conducted on the basis of Authorisation No. 18-18-5828/1 of 27.10.2025, issued by the Minister of Finance, and organised and coordinated by the Central Harmonisation Unit of the Ministry of Finance.

No findings were identified during the audit; however, the audit did observe certain matters, which were disclosed in the Audit Memorandum and are not treated as findings, relating to the following:

- The Ministry of Education and Science has not prepared an internal working procedure for the implementation of the activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, Policy Area Human Capital, which falls within the responsibilities of the Ministry of Education and Science.
- In the Decision on the Establishment of a Working Group for Implementation and Monitoring of the Reform Agenda 2025/2027, Policy Area Human Capital, Arch No. 11-3969/1 of 03.03.2025, no step-level verifier was appointed, as required by Article 11 of the Regulation on the Implementation and Control of the Reform and Growth Facility for the Western Balkans. During the audit, a Decision amending the Decision on the Establishment of a Working Group for Implementation and Monitoring was adopted, which addressed the previously identified situation;
- A Regulation on establishing a new primary education financing methodology has also been adopted.
- The review of the working documentation for Reform 3.1.5, Step 2 established that a total of 144 primary schools have been fully equipped with network and/or IT equipment, while 22 primary schools are currently being equipped with network infrastructure.
- In relation to Reform 3.1.1, Step - Share of 95% of primary and secondary schools have at least one qualified career guidance professional - activities have been undertaken and are ongoing to ensure full implementation of this step.
- In relation to Reform 3.1.1, Step - Number of private companies involved in dual education. (Indicator 700) – activities are currently ongoing to implement this step.
- In relation to Reform 3.1.3, Step – a Regulation introducing a new financing methodology in secondary and VET education has been adopted.

The audit concluded that, overall, the Ministry of Education and Science implements activities under the Reform Agenda that fall within its responsibilities in a generally effective manner and in compliance with the applicable laws/bylaws. The internal control system is adequately designed, properly established, and functionally effective.

Nonetheless, the audit identified opportunities for improvement in the areas of process efficiency, documentation of practices, and monitoring of the internal control system, which constitute potential risks

that, if not adequately addressed, could negatively affect the implementation of the activities under the Reform Agenda.

- Preparation of an internal working procedure for the implementation of the activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, which should comply with “Standard 12 - Procedures” of the Internal Control Standards for the Public Sector;
- The process of implementation of all steps of the Reform Agenda of North Macedonia 2024-2027, Policy Area Human Capital, should be conducted through internal monitoring and continuous control by the appointed monitoring staff;
- In relation to the steps to be implemented of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, it is necessary to record risks related to the implementation of these activities in the Risk Register of the Ministry of Education and Science.
- The communication regarding the implementation of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans should be conducted according to a defined schedule of informational meetings of the Working Group for Implementation and Monitoring of the assigned tasks.

VI Policy Area 4. Private Sector Development and Business Environment in the Ministry of Economy and Labour, the Commission for Protection of Competition, the Agency for Innovation, Scientific and Technological Development and Entrepreneurship, the Ministry of Transport and the Customs Administration of the Republic of North Macedonia

The ad hoc audit covered the internal control system in the process of implementation of the activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, Policy Area 4. Private Sector Development and Business Environment, for the steps envisaged under the Reform Agenda falling within the responsibilities of the audited entity - Ministry of Economy and Labour, Commission for Protection of Competition, Agency for Innovation, Scientific and Technological Development and Entrepreneurship, Ministry of Transport and Customs Administration, with a time limit for implementation by June 2025 and December 2025.

The audit was conducted on the basis of Authorisation No. 18-5827/1 of 27.10.2025, issued by the Minister of Finance, and organised and coordinated by the Central Harmonisation Unit of the Ministry of Finance.

The audit identified one (1) finding, relating to the following: “In the institutions covered by the audit, it was found that the structure for the implementation of the Reform Agenda is not fully established with regard to the formal appointment of individuals involved in the implementation of the steps of the Reform Agenda”.

Additionally, the audit identified and disclosed certain matters that are not treated as findings, but which the audited entity should consider when managing the work processes, relating to the following:

- Documentation concerning the implementation of the steps of the Reform Agenda is not kept in a unified manner across the respective institutions. In the majority of cases, the audit found

that documentation is kept under the organisational unit implementing the step or under the organisational unit to which the step coordinator is affiliated. No dedicated archival codes have been defined for the Reform Agenda. Such an arrangement presents a risk of inadequate storage and classification of archival and documentary material with respect to retention periods;

- Step - Ease the access to lending for SMEs by amending relevant legislation to allow the use of intangible assets as collateral in lending to SMEs of Reform: 4.1.3. Foster SMEs development by adopting and implementing the new SME strategy, has been assigned to and fallen within the responsibilities of the Ministry of Finance.

With regard to the steps envisaged under the RA, with a time limit for implementation by December 2025, the following risks have been identified that may negatively affect their successful implementation:

- Dependence on external consultants, which may result in delays in the time limits for implementation of specific steps of the Reform Agenda;
- Lack of formalised processes for managing changes and risks in the process of implementation of the steps of the Reform Agenda;
- Potential risk of losing funds from the Reform and Growth Facility arising from the failure to implement the steps of the Reform Agenda within the established time limits.

The audit assessed that, while a formal process for appointing reform-level coordinator(s), step-level coordinator(s) and step-level verifier(s) has not been fully established, the nominated individuals are performing the assigned tasks, activities, and responsibilities, and the internal control systems governing the processes of implementation of the activities of the Reform Agenda function in line with the internal organisational structures of the respective institutions.

The audit identified the need for the Ministry of Transport, as the authority responsible for Priority Area 4. Private Sector Development and Business Environment, in cooperation with the MEA, to take appropriate measures and actions to address the identified weaknesses and findings, acting in line with the recommendations provided in the Audit Memorandum and the Action Plan, which forms an integral part thereof.

VII Policy Area 5. Fundamentals/Rule of Law in the Ministry of Justice, the Judicial Council, the Council of Public Prosecutors, the Public Prosecutor's Office of the Republic of North Macedonia, the Ministry of Interior and the Agency for Managing Confiscated Property.

The ad hoc audit covered the internal control system in the process of implementation of the activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, Policy Area 5. Fundamentals and Rule of Law for the steps envisaged under the Reform Agenda falling within the responsibilities of the audited entities, with a time limit for implementation by December 2024, June 2025 and December 2025.

The audit was conducted on the basis of Authorisation No. 18-5826/1 of 27.10.2025, issued by the Minister of Finance, and organised and coordinated by the Central Harmonisation Unit of the Ministry of Finance.

The audit identified one (1) systemic finding relating to the established internal control system, specifically the absence of an appointment act or the absence of a formal act for the appointment of each individual

with delegated duties and responsibilities as a member of the structure responsible for the implementation of the Reform Agenda.

The audit concluded that the internal control system within Policy Area 5. Fundamentals and Rule of Law is designed and prescribed by an international agreement, laws and bylaws; however, it has been only partially established. In the areas of coordination, documentation, and clear delegation of responsibilities for the key controls envisaged for monitoring and implementation of the steps within the established system, in certain institutions it was not possible to perform testing of the internal controls in order to determine the precise level of implementation of the steps and to obtain reasonable assurance regarding the effectiveness of the internal control system.

The audit found that, across most of the institutions covered, the existing control mechanisms are still in a developmental stage and that certain controls are either applied inconsistently or are not fully aligned with the identified risks. These weaknesses affect the effectiveness of the internal control system and pose a risk to the timely and high-quality implementation of the activities under the Reform Agenda.

The audit identified the need for the management of the institutions covered by the audit to take appropriate measures and actions to address the identified finding, in line with the recommendation provided in this Report and the Action Plan, which forms an integral part thereof.

The audit highlights the need for the responsible authorities to give due consideration to the Disclosures presented in the Audit Memorandum concerning the status of the established internal control system, and to take into account the risks identified by the audit that may affect the timely implementation of the steps. Additionally, the audit identified and disclosed certain matters that are not treated as findings, but which the audited entity should consider when managing the work processes, relating to the following:

- The audit found that institutions covered by Policy Area 5. Fundamentals and Rule of Law have not prepared a formal internal procedure for the implementation of the activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans, which is not in compliance with “Standard 12 - Procedures” of the Internal Control Standards for the Public Sector that requires established, clearly formalised and accessible internal procedures as a prerequisite for ensuring effective, compliant and controlled functioning of the processes.

Pursuant to Article 18, paragraph 2 of the Regulation on the Implementation and Control of the Reform and Growth Facility, the National Coordinator of the Facility is obliged to prepare a Facility Implementation Manual, regulating the methods of communication, reporting, record-keeping and document retention among all structures responsible for the implementation of the Reform Agenda.

If the institutions do not have formal internal procedures established and the Manual is either unavailable or not applied in practice, the following risks may arise:

- potential errors and inconsistencies in the submission of documentation,
- non-standardised approach to tracking, monitoring and reporting,
- inconsistent compliance with the implementation and reporting time limits,
- unclear roles and responsibilities across various structures,
- limited audit trail due to insufficient documentation.

Although the aforementioned situation is treated as a disclosure and not a formal finding concerning the institutions covered under Policy Area 5 of the Reform Agenda, the Priority Area Coordinator should notify the NFC about the identified situation and brief them on the potential risks related to it.

- The audit found that the institutions covered under Policy Area 5. Fundamentals and Rule of Law do not have an information system for monitoring and reporting on the implementation of the activities of the Reform Agenda of North Macedonia 2024-2027 under the Reform and Growth Facility for the Western Balkans and this situation is not in compliance with “Standard 19 - Information and Standard 20 - Communication” of the Internal Control Standards for the Public Sector.

The absence of an information system for monitoring and reporting on the implementation of the Facility, combined with the lack of digital connectivity among all institutions engaged in the implementation of the Reform Agenda, gives rise to the following risks:

- difficulties in accessing an audit trail,
- risk of incomplete or lost documentation,
- weaknesses in the verification and monitoring process,
- inconsistent interpretations among responsible staff,
- non-standardised reporting,
- potential delays in the implementation of the steps.

Although the aforementioned situation is treated as a disclosure and not a formal finding concerning the institutions covered under Policy Area 5 of the Reform Agenda, the Priority Area Coordinator should notify the NFC about the identified situation and brief them on the potential risks related to it.

The audit could not assess the level of implementation of the 14 steps with implementation time limits by December 2024, June 2025 and December 2025, as envisaged under Policy Area 5. Fundamentals and Rule of Law, due to the absence of complete data, information, and documentation provided by the institution responsible for implementation.

The audit identified the following risks that may negatively affect the timely and high-quality implementation of the steps envisaged under the Reform Agenda, which fall within the responsibilities covered by Policy Area 5. Fundamentals and Rule of Law:

- Risk of delays in the inter-institutional coordination, caused by the participation of multiple bodies in the drafting and finalisation of the legislative amendments.
- Risk of limited human and technical capacities for drafting legislative texts, which may lead to delays in the execution of the activities.
- Risk of incomplete or low-quality documentation, which may complicate the process of verification by the MEA.
- Risk of absence of formal procedures for monitoring and documentation, which may result in an incomplete audit trail and an inability to demonstrate timely implementation.
- Risk of non-compliance of the legislative amendments with the EU *acquis*, which may require further consultations and cause delays in the adoption process.
- Risk of insufficient operation or non-appointment of coordinators and verifiers, which directly disrupts the monitoring and reporting process.
- Risk of non-compliance with time limits for the submission of reports and documents, which may lead to delayed or negative verification of the step.
- Financial risk - funds related to the step may remain unclaimed if the activities are not implemented and verified by the MEA in a timely manner.



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- Sustainability risk - steps that have been implemented and have led to the disbursement of funds may, due to their lack of sustainability or in cases where they are not applied continuously in line with the prescribed payment conditions and indicators, result in the return of funds.