

## TWINNING LIGHT PROJECT FICHE

### Improving capacity of Internal Audit Department of the Indirect Taxation Authority (ITA) of BiH

#### 1 Basic Information

##### 1.1 *Publication reference*

*EuropeAid/138-533/DD/ACT/BA*

##### 1.2 Programme

IPA 2013 023-590

##### 1.3 Twinning Number

BA 13 IPA FI 01 16 TWL

##### 1.4 Title

Improving capacity of Internal Audit Department of the Indirect Taxation Authority (ITA) of BiH

##### 1.5 Sector

Customs and Taxation

##### 1.6 Beneficiary Country

Bosnia and Herzegovina

#### 2 Objectives

##### 2.1 Overall Objective

Function of the Internal Audit Department of the ITA is in line with International standards for the professional practice of internal auditing.

##### 2.2. Project purpose

To improve performance of Internal Audit of the ITA by applying well developed and effective systems of internal control in order to improve business operations of the institution.

##### 2.3. Contribution to Accession Partnership (AP)/ European Partnership (EP)/ Stabilisation and Association Agreement (SAA)/ Annual Country Report

Article 111 of the **Stabilisation and Association Agreement (SAA)** concluded between BiH and the EU in June 2008, stipulates cooperation of Parties to the Agreement in improving development of effective and responsible public administration. In the most part, the cooperation will be directed toward development of institutions, encompassing all levels of public administration in Bosnia and Herzegovina. Article 97 stipulates establishment of cooperation in the area of customs duties in order to align the customs duties system of BiH with the EU system, as well as customs laws of BiH with the *acquis*. Article 98 stipulates

establishment of cooperation in the area of taxation, including measures of further tax system reforms with the aim of ensuring more efficient tax revenues collection and combating tax fraud.

**The Indicative Strategy Paper for Bosnia and Herzegovina (ISP) 2014-2017** underlines the need for further public administration reforms, including, inter alia, comprehensive public financial management reform. It has been concluded that Public Administration Reform is being implemented very slowly, showing weaknesses in different areas including policy planning and coordination, human resources management, budget planning, transparency and vertical coordination. Different public finance sub-systems still show certain weaknesses. There is a need for defining timely, upgraded and efficient fiscal policies. Therefore, as the result of IPA financing between 2014 and 2017, it is expected for the public financial management capacities of BiH to be strengthened, including more efficient management and collection of revenues, as well as budget preparation and execution.

**In Country Report for Bosnia and Herzegovina for 2016**, customs and taxation part is stated that: Bosnia and Herzegovina is **moderately prepared** on customs and taxation. **No progress** was made in these areas. The customs policy law has not been implemented, and VAT and excise legislation remain to be aligned with the EU *acquis*.

In the coming year, Bosnia and Herzegovina should in particular:

- adopt implementing rules to enable the implementation of the new customs policy law;
- improve cooperation between the Indirect Taxation Authority (ITA) and the tax administrations of the entities, including through joint audits;
- amend the law on excises and align it with the EU *acquis*.

**In the BiH Reform Agenda 2015-2018**, measures are envisaged for improvement of collection of tax revenues, including improvement of exchange of information between tax administrations and introduction of e-Services for VAT. Likewise, BiH should support increase of excise duties on tobacco and alcohol representing direct revenues of the Health Insurance Fund. It is stated that implementation of the new Law on Customs Policy will be ensured, thus simplifying customs processing and decrease the number of administrative requests, resulting in facilitation of trade. In addition, it is envisaged for the renewed Public Administration Reform Strategy to be prepared, under which the Public Financial Management Reform Strategy represents one of the main pillars of the Public Administration Reform Strategy.

Obligation of Bosnia and Herzegovina in the field of internal audit has been established under Article 90 of the SAA between the European Communities and their Member States (MS) and Bosnia and Herzegovina, in the part entitled “Audit and financial control cooperation” (“Official Gazette of BiH-International Treaties”, issue 10/08).

Pursuant to the Law on Internal Audit of BiH Institutions, a Central Harmonisation Unit of the Ministry of Finances and Treasury of BiH (CHU) was established with the obligation of establishing and developing the system of financial control in BiH institutions, while a special segment of the system was to establish a structure of internal audit in BiH institutions.

Internal audit system in BiH institutions foresees that the PIFC concept in the field of financial management and control and internal audit should be introduced and the development of management responsibility ensured.

Through an objective and independent assessment of financial management and control system the internal audit provides assistance to managers in detecting certain weaknesses and

irregularities not previously detected in daily activities and in timely undertaking measures to address the weaknesses.

In the Standards of internal audit in BiH institutions it has been established that the institution should ensure that internal audit be implemented as independent, objective assurance and consulting activities in order to add value and improve business operations of the institution.

### **3. Description**

#### **3.1 Background and justification**

Bosnia and Herzegovina is a potential candidate country for the EU membership. The Stabilisation and Association Agreement (SAA) entered into force in June 2015. Application for membership was submitted in February 2016. In September 2016 the EU Council invited the European Commission to present an Opinion on the merits of the Bosnia and Herzegovina's EU membership application.

The Parliament of Bosnia and Herzegovina, in 2003, adopted the Law on Indirect Taxation System and thus ensured the legal basis for establishing the Indirect Taxation Authority (ITA), the biggest state level institution with over 2 400 employees. The Indirect Taxation Authority is an autonomous administrative organisation responsible for its activities, through its Governing Board, to the Council of Ministers of Bosnia and Herzegovina. Its jurisdiction is in the field of indirect taxes (customs, value added tax, road tolls, and excises).

The Internal Audit Department is a newly established organisational unit in the ITA and staff of the department does not have sufficient experience in the field of internal audit. Internal audit, carried out in line with international standards of internal auditing, has just come to life in Bosnia and Herzegovina, so that this department does not have significant sources of good practice in the country. Internal auditors attend training sessions organised by Institute of Internal Audit but they merely get theoretical knowledge in the field of internal audit, whereby there are missing specific practical examples pertaining to the functioning of internal audit.

Given the fact that the business process in the ITA were managed in a traditional way, last year the Internal Audit Section initiated the establishment of a modern internal audit system based on the international standards for internal auditing that were elaborated through the components of the COSO Framework (Committee of Sponsoring Organisations of the Treadway Commission) in all ITA's organisational units. The main goal of establishing the modern internal audit system is application of well-developed and effective system of internal audit; the concept of internal audit was elaborated by the European Commission (Public Internal Financial Control-PIFC). This type of audit is based on the risk management that both facilitates forecasting of unfavorable circumstances or developments that might impede achievement of the institution's goal and focuses the internal audit procedure and limited resources on key activity areas and related risks. Since this is a complex process demanding high level of expertise, it would be of significant importance for ITA's Internal Audit Department to learn more about the experiences of the EU Member State(s) in order to continue with future proper development of the internal audit system.

One of the main objectives of this project is to get familiar with practices of the EU Member State(s) in the area of internal audit and to apply its best practices in the ITA BiH.

As part of the previous Twinning project (Further harmonisation to EU practices and Acquis on customs and taxation, implemented from January 2013 until January 2015), the internal auditors gained specific practical knowledge, especially during the study visit. That was a

good opportunity to establish direct communication with internal auditors, ask specific questions and address different ambiguities appearing in their work, as well as to improve working methods. However, internal auditors still have a great need to improve their working methods in many fields concerning the functioning of internal audit.

### **3.2 Related activities and donor coordination**

The Indirect Taxation Authority of BiH is supported by the EU since its establishment in 2004, first through CAFAO mission but also with numerous supplies of office equipment, hardware, software and later on through twinning assistance.

Currently, the ITA is preparing for implementation of three IPA 2014 funded projects: one twinning project to start in December 2016, service contract for development of international transit module (NCTS) planned for late 2017 and supply of equipment for customs laboratory also planned for late 2017 and pending provision of adequate facility for customs laboratory by the ITA.

The twinning project is aimed to provide assistance in NCTS introduction in BiH, legislative approximation and third component will be working on improving cooperation and data exchange.

### **3.3 Results:**

Result 1: To contribute in improvement of performance of internal audit department of the ITA by application of standards and methods aligned with International standards for the professional practice of internal auditing

Sub-result 1.1: Training on management, policies and procedures of internal audit activities provided;

Sub-result 1.2: To contribute in preparation of risk assessment based on which audit priorities are made;

Sub-result 1.3: To contribute in preparation of strategic and annual planning of audits, identification and evaluation of controls in audit process and testing controls;

Sub-result 1.4: To contribute in assessment and preparation of conclusions and evaluation of the system through formulating findings, opinions and recommendations including reporting on adequacy of internal audit system;

Sub-result 1.5: To provide training on IT audit and supervision over audits;

Sub-result 1.6: To contribute in carrying out and documenting advisory audits, documenting and audit files, programme of assuring and improving quality of audits (internal and external evaluation), hiring external experts, audit board, risk management;

Sub-result 1.7: To contribute in mapping business processes and making a risk register at the ITA level;

Sub-result 1.8: To contribute in establishing and implementing internal control system;

Sub-result 1.9: To contribute in practical presentation of carrying out an audit shown through all steps;

Sub-result 1.10: Study visit conducted.

### **3.4 Means/ Input from the Member State Partner Administration:**

The project will be implemented in the form of a Twinning Light Contract between the EU representing the beneficiary country and EU Member State.

The implementation of the project requires an MS Twinning Light Project Leader (MS PL) with responsibility for the overall coordination of project activities. In addition short-term experts will be engaged for specific activities. It is essential that the team have sufficiently broad expertise to cover all the areas included in the project description, which also requires thorough understanding of the functioning of the Beneficiary Institution.

The interested Member State institution shall include in its proposal the CVs of the designated Project Leader and short term experts proposed to play key role in the implementation of the project.

#### **3.4.1 Profile and tasks of the Member States Project Leader**

The Member States Project Leader will conceive, supervise and co-ordinate the overall thrust of the project, lead project activities, and ensure attainment of the projected output. He/she is expected to ensure that all the support from the management and staff on the MS side is available for the project. He/she will act as the counterpart of the Beneficiary Country Project Leader and will ensure in close co-operation the overall steering and co-ordination of the project also through the Project Steering Committee. The MS Project Leader is fully responsible for co-ordination of the work of the experts.

The proposed MS Project Leader must be a public servant of an EU MS institution. He/she should be a high-ranking civil servant or equivalent staff from the respective MS Customs and/or Taxation institution.

##### Qualifications and skills

- University degree;
- Fluent written and spoken English.

##### General professional experience

- At least 10 years of general professional experience in the area of customs and/or taxation gained within an EU MS Customs and/or Taxation Administration;

##### Specific professional experience

- At least 3 years of experience in a managerial position within an EU MS Customs and/or Taxation Administration;

##### Tasks:

1. Conceive, supervise and coordinate the overall preparation of the project;
2. Coordinate and monitor the overall implementation of the project;
3. Ensure coordination of the work of the short term experts;
4. Liaise with the Project Leader from the Beneficiary Institution;
5. Co-chair, with the Beneficiary Country Project Leader, the project implementation at the Steering Committee meetings;
6. Execute administrative issues (i.e. signing quarterly reports, Operative side letters, addenda, etc.)

### **3.4.2 Profile and tasks of Key short-term experts (STEs)**

The pool of MS experts to support the MS PL should indicatively comprise at least three short-term experts (STE) playing leading role in the implementation of project activities as listed below. They should be proposed by indicating the area they cover.

Their profile should cover the following expertise:

#### *Short term expert 1 (STE 1) – Internal Audit Manager*

- Minimum 3 years of experience on managerial position in internal audit department of customs and/or tax administration of an EU MS;
- Fluency in written and spoken English language

#### *Short term expert 2 (STE 2) - Internal Auditor*

- Minimum 3 years of experience from working as internal auditor in internal audit department of customs and/or tax administration of an EU MS;
- Fluency in written and spoken English language

#### *Short term expert 3 (STE 3) - IT Auditor*

- Minimum 3 years of experience from working as IT auditor in internal audit department of customs and/or tax administration of an EU MS;
- Fluency in written and spoken English language

Further short term experts may be involved based on the methodology of project implementation according to the proposal of the MS implementing institution. All further participating short term experts must have at least 3 years relevant professional experience in the area of the activities they are nominated for.

### **3.4.3 Beneficiary's contribution**

The BC must provide free of charge the MS experts, with the requisite facilities for professional use. Accordingly the following costs are not eligible under the Twinning contract:

- adequately equipped office space
- telephone
- email services
- fax
- photocopiers
- computer
- internet access
- secretarial support
- venues and equipment for conferences, training and workshops
- access to information

### **3.4.4 Working languages**

Activities involving MS experts and reporting shall be carried out in English. Translation of mentioned documents into one of the official languages in Bosnia and Herzegovina should be provided.

Activities may be carried out in English and in one of the local languages. The MS with the assistance of BC Project Leader will ensure that the necessary translation and interpretation services are provided, and their cost will be covered by the project's budget.

## **4 Institutional Framework**

### **4.1 Beneficiary Institutions**

The Indirect Taxation Authority (ITA) of Bosnia and Herzegovina is an autonomous administrative organisation responsible for its activities, through its Governing Board, to the Council of Ministers.

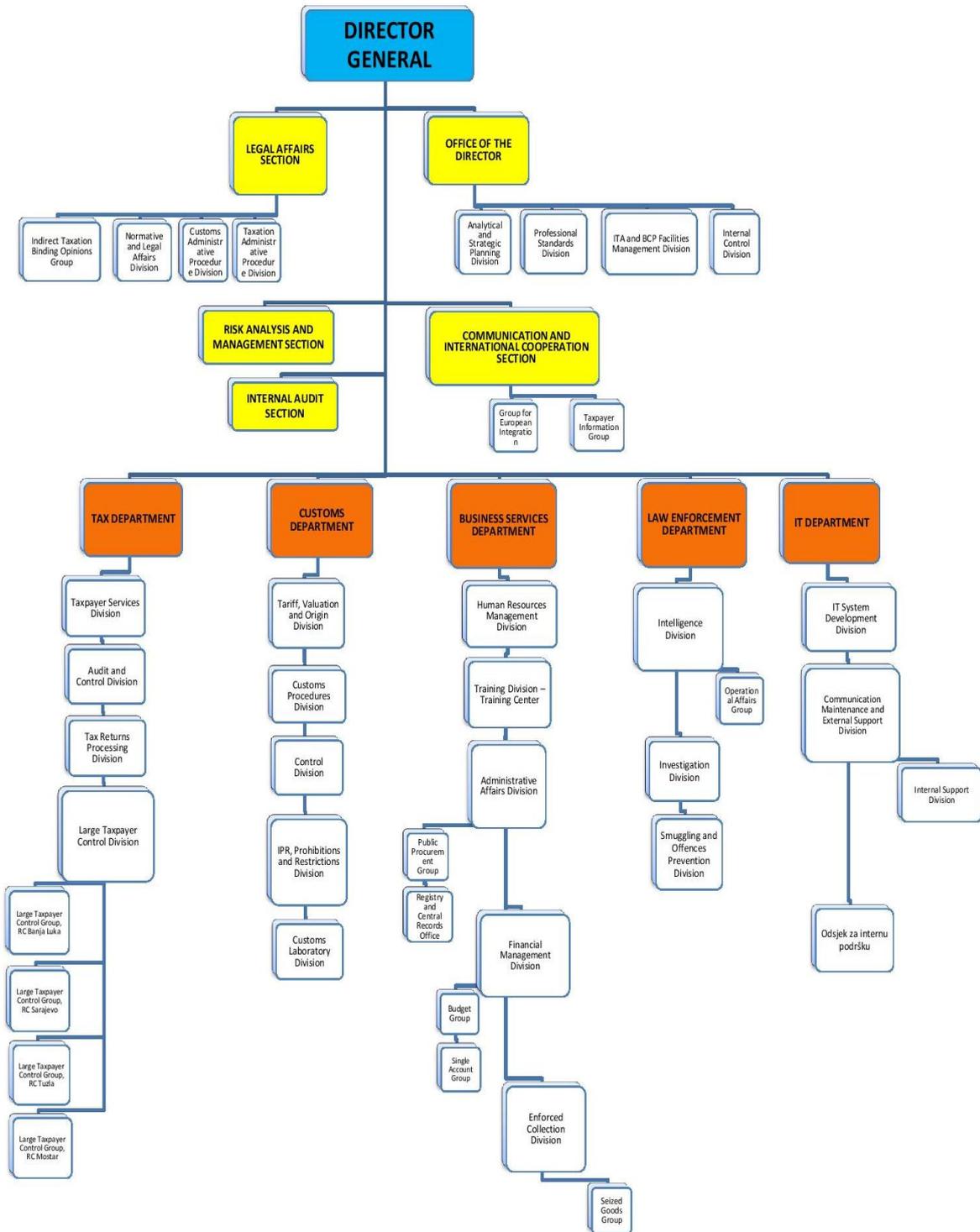
ITA is responsible for enforcement of legal provisions and policy on indirect taxation, as well as for the collection and allocation of indirect taxes revenue (of all indirect taxes in Bosnia and Herzegovina: value added tax, customs duties, excise duties and road taxes). The ITA keeps the Single account, and all indirect tax based revenues are paid to this account, with the allocation and disbursement of indirect tax based revenues defined in the law on allocation and disbursement of the aforementioned revenues. The ITA has branch offices and sub-offices in the entire BiH territory.

In 2005 the Indirect Taxation Authority entered the final stage of preparations for the introduction of value added tax and commenced with the registration of VAT taxpayers. According to the data provided by entities' tax administrations 20,000 VAT taxpayers were anticipated, however the Indirect Taxation Authority has currently registered and is maintaining a VAT taxpayer population of over 50,000. The Indirect Taxation Authority has set the following goals towards future EU integration:

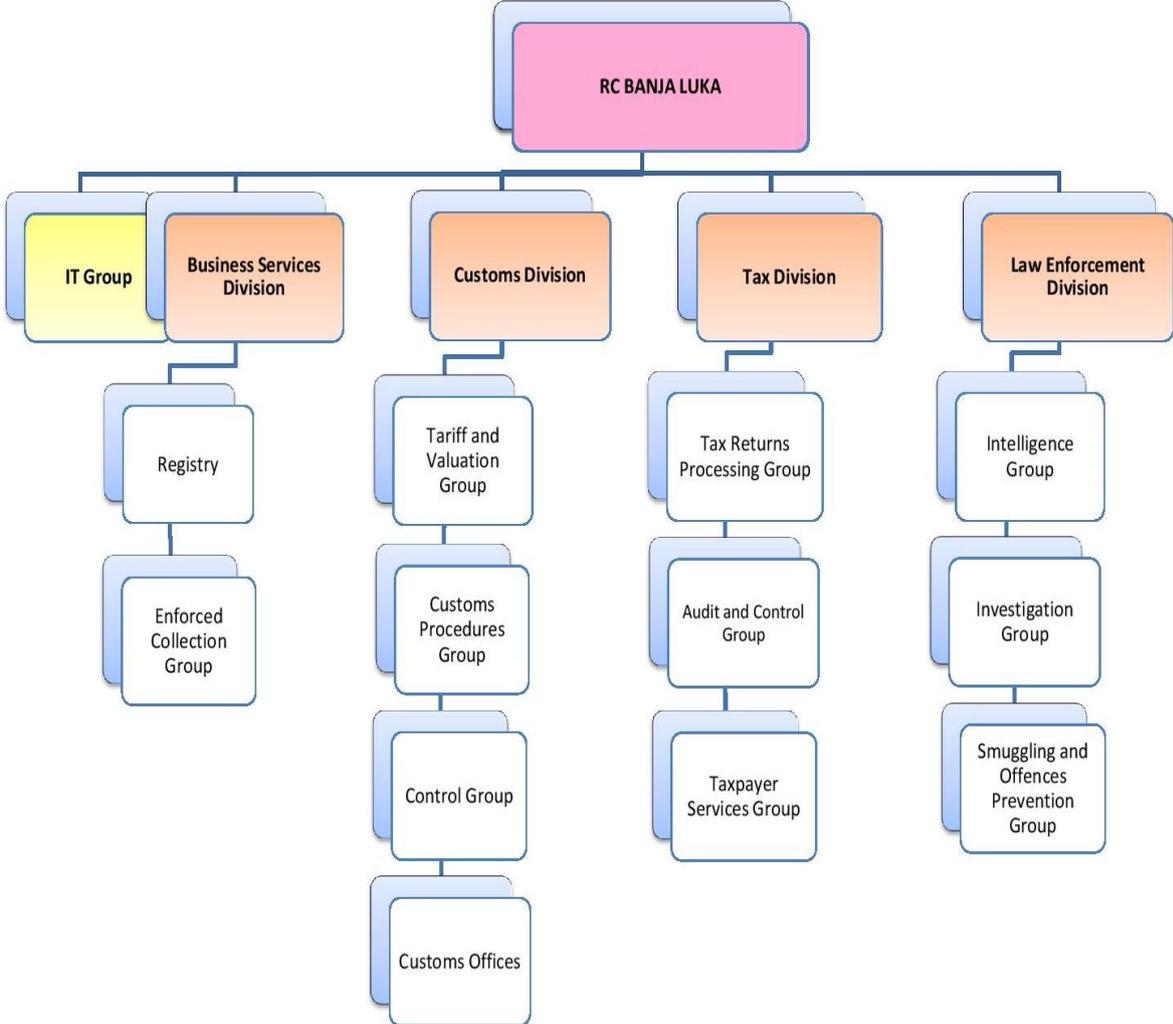
- To accelerate the flow of goods and people while simultaneously intensifying the targeted controls,
- To enhance the level of security of the citizens, to develop cooperation with other national and international institutions aimed at harmonizing the procedures and aligning the legislation with the EU standards,
- Better exchange of information between other institutions and the successful fight against trafficking and all other types of customs or tax frauds.

Operational line of responsibility extends throughout the headquarters and all the way to the branch office and sub-office and encompasses taxes, customs, law enforcement, business services and information technology. The organisational structure of the Indirect Taxation Authority (Head Quarters and Regional Centres) is presented down below as follows:

# ITA HQ STRUCTURE ORGANOGRAM



**ITA RC STRUCTURE ORGANOGRAM**



**THE SAME ORGANOGRAM IS FOR EACH REGIONAL CENTER- BANJA LUKA, MOSTAR, SARAJEVO, TUZLA**

## 4.2 BC Project Leader (BC PL)

The beneficiary country Project Leader will act as the counterpart of the MS PL and will ensure close cooperation in the overall steering, co-ordination and management of the Project from the beneficiary side. He/she will be a staff of Indirect Taxation Authority of BiH. He/she will support the Twinning Light project team in organisational and technical matters and will also coordinate the Steering Committee on behalf of the BC. The role of the BC PL and the MS PL are complementary.

### Tasks:

1. Carry out day-to-day implementation of the Twinning Light Project in the Beneficiary Country;
2. Provide technical advice and support to the twinning partners;
3. Guarantee smooth implementation of the different activities delivered;
4. Assess continuously the Twinning Light Project in all stages and provide link to compare it with the specified benchmarks/results and time-frame;
5. Prepare monthly reports;
6. Make recommendations for maximising project outputs.

## 4.3 Steering Committee

Preparation of the start-up report covering the first two months of the contract is anticipated after two months of the project implementation (submitted during the third month), and a final report. (Templates are as for standard Twinning). These reports in English will be presented in electronic version and in hard copies with signatures of both, MS and BC Project Leaders. For the purpose of efficient project coordination, a Steering Committee (SC) will be established at the beginning of the project. The SC will comprise of the Project Leaders, relevant representatives of the ITA BiH and representative of the EUD.

The SC will take the necessary decisions related to project implementation and will be the forum to discuss any matters that may arise. Extraordinary SC meetings can be convoked in case of exceptional needs.

The SC meetings are called and chaired by both Project Leaders.

## 5 Budget

The project will be implemented through a Twinning Light Contract with the maximum budget of EUR 250,000.

IPA Contribution	National Co-financing	TOTAL
95%	5%	
EUR 237,500	EUR 12,500	EUR 250,000

The co-financing requirement foreseen under IPA will be considered fulfilled according to the provision of the relevant Financing Agreement.

All twinning contracts as a rule must provide Beneficiary co-financing on the side of the beneficiary institution, for the purpose of covering costs not covered by the EU as per Twinning manual, point 5.13, as follows:

- Facilities for the Member State experts: adequately equipped office space, telephone, e-mail services, fax, photocopiers, computer, internet access, secretarial support and access to information;
- Organisation of events (incl. hall rental, provision of refreshments, printing seminar materials, interpretation equipment and other logistical support).

The following expenses are to be covered with the project budget:

- Visibility Cost (Visibility activities will be according EU visibility requirements);
- Expenditure verification costs;
- Interpretation and translation costs

## **6 Implementation Arrangements**

### **6.1 Implementing Agency responsible for tendering, contracting and accounting**

The EU Delegation in Bosnia and Herzegovina is the implementing agency responsible for all procedural aspects of the tendering, contracting, payments, accounting and overall supervision of the implementation of the project.

#### **Contact point:**

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### **6.2 Main counterpart in the BC**

**Ms. Jasna Pavic, BC Project Leader**

Indirect Taxation Authority of Bosnia and Herzegovina

### **6.3 Contracts**

One Twinning Light Contract for improving capacity of Internal Audit Department of the Indirect Taxation Authority of BiH.

## **7 Implementation Schedule (indicative)**

### **7.1 Launching of the call for proposals (Date)**

The date for the launching of the call for proposals is: Quarter 1, 2017.

### **7.2 Start of project activities (Date)**

The start of project activities is tentatively scheduled for: Quarter 2, 2017.

### **7.3 Project completion (Date)**

The project completion is tentatively scheduled for: Quarter 1, 2018.

### **7.4 Duration of the execution period**

The maximum duration of the project is limited to 6 months for implementation of the action.

## **8 Sustainability**

The project sustainability will be reflected in the internal auditors' ability to use the lessons learned so as to conduct their internal auditing responsibilities in line with the International Standards for the Professional Practice of Internal Auditing. This will finally result in the quality recommendations produced by the Internal Audit Section that will facilitate the institution in achieving its goals: improvement of risk management and internal audit practices, as well as operative management processes.

The sustainability of results will be dependent on the commitment of the Beneficiary institution. The prospects for sustainability are good, as the introduction of legal acts and practices aligned with EU legislation and trained staff is likely to have sustainable effects. As this is capacity building project, the key issue is maintaining in the Indirect Taxation Authority (ITA) of Bosnia and Herzegovina the staff gaining know-how through the activities implemented. The MS will also propose its own approach to ensure sustainability of the project achievements.

## **9 Crosscutting issues**

### **9.1 Equal opportunities and non-discrimination**

Equal opportunity principles and practices in ensuring equitable gender participation and non-discrimination within the project will be guaranteed.

### **9.2 Minority and vulnerable groups**

Participation in the project activities will be guaranteed on the basis of equal access regardless of racial or ethnic origin, religion or belief, disability, sex or sexual orientation.

### **9.3 Environmental considerations**

The projects will not lead to any negative environmental effects.

### **9.4 Civil Society development and dialogue**

N/A

### **9.5 Good governance, with particular attention to fight against corruption**

All relevant requirements to insure a sound financial management of the Twinning Light Project will be fulfilled in accordance with the principle of good governance.

All necessary provisions will be taken to fight against corruption in accordance with the IPA Implementing Regulation.

## **10 Conditionality and sequencing**

### **10.1 Conditionality**

N/A

### **10.2 Sequencing**

Key milestones will be:

1. Approval of the Twinning Light Project Fiche;
2. Completion of the selection of the twinning partner;
3. Signature of the Twinning Light Contract;

4. Establishment of the Steering Committee;
5. Commencement of the implementation of the Twinning;
6. End of the implementation period;
7. Submission of the final report.

#### **ANNEXES TO PROJECT FICHE**

1. Logical framework matrix in standard format

## ANNEX 1

LOGFRAME PLANNING MATRIX	Programme name and number IPA 2013; 023-590		
Improving capacity of Internal Audit Department of the Indirect Taxation Authority (ITA) of BiH		<b>Total budget:</b> <b>€ 250 000</b>	<b>IPA budget:</b> <b>€ 237 500</b>

<b>Overall objective</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>
Function of the Internal Audit Department of the ITA is in line with International standards for the professional practice of internal auditing.	Number of internal audits in the ITA BiH performed in accordance with International standards.	EU country report ITA reports BIH Audit institution reports Monitoring reports Final report

<b>Project purpose</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
To improve performance of Internal Audit of the ITA by applying well developed and effective systems of internal control in order to improve business operations of the institution.	Internal Audit Department is functional and performed audits in line with well-developed and effective systems of internal control.	EU country report ITA reports BIH Audit institution reports Monitoring reports Final report	
<b>Results</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
To contribute to work of internal audit harmonized with International standards for the professional practice of internal auditing.	Compliance with each standard: - Policies and procedures for directing internal audit activities defined; - risk analysis and assessment	ITA reports BIH Audit institution reports Monitoring reports Final report	N/A

<p>Sub-result 1.1: Training on management, policies and procedures of internal audit activities provided;</p> <p>Sub-result 1.2: To contribute in preparation of risk assessment based on which audit priorities are made;</p> <p>Sub-result 1.3: To contribute in preparation of strategic and annual planning of audits, identification and evaluation of controls in audit process and testing controls;</p> <p>Sub-result 1.4: To contribute in assessment and preparation of conclusions and evaluation of the system through formulating findings, opinions and recommendations including reporting on adequacy of internal audit system;</p> <p>Sub-result 1.5: To provide training on IT audit and supervision over audits;</p> <p>Sub-result 1.6: To contribute in carrying out and documenting advisory audits, documenting and audit files, programme of assuring and improving quality of audits (internal and external evaluation), hiring external experts, audit board, risk management;</p> <p>Sub-result 1.7: To contribute in mapping business processes and making a risk register at the ITA level;</p> <p>Sub-result 1.8: To contribute in establishing and implementing internal control system;</p> <p>Sub-result 1.9: To contribute in practical presentation of carrying out an audit shown through all steps;</p> <p>Sub-result 1.10: Study visit conducted.</p>	<p>document as the basis for the selection of audits drafted;</p> <ul style="list-style-type: none"> <li>- strategic and annual audit plan drafted;</li> <li>- all stages of each audit documented,</li> <li>- IT audit plan made,</li> <li>- programme of assuring and improving quality of internal audit elaborated,</li> <li>- proposal of Business Processes Map and Risk Register at the ITA level made</li> </ul>		
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