



TWINNING LIGHT FICHE

Project title: Further improvement of internal control system

Beneficiary administration: Ministry of Finance

Twinning Reference: MK 14 IPA FI 02 18 TWL

Publication notice reference: EuropeAid/160329/DD/ACT/MK

EU funded project

TWINNING INSTRUMENT

1. Basic Information

- 1.1 Programme: European Union Integration facility 2014 - Commission Implementing Decision of 17.12.2014 C (2014)9847 final, Dec.no. IPA 2014/037701

For British applicants: Please be aware that eligibility criteria must be complied with for the entire duration of the grant. If the United Kingdom withdraws from the EU during the grant period without concluding an agreement with the EU ensuring in particular that British applicants continue to be eligible, you will cease to receive EU funding (while continuing, where possible, to participate) or be required to leave the project on the basis of Article 12.2 of the General Conditions¹ to the grant agreement.

- 1.2 Twinning Sector: Public finance -FI
1.3 EU funded budget: 250.000 EUR
1.4 Beneficiary Country: the Beneficiary country¹ as per Financing Agreement

2. Objectives

2.1 Overall Objective(s):

Improvement of internal control system in the country in order to ensure efficient managerial accountability, transparency and sound financial management of public funds in compliance with international standards and EU best practice.

2.2 Specific objective:

Further development of PIFC system through improvement of legislation, elaboration of methodological tools in financial management and control (FMC) and internal audit (IA), building up capacities of budget users on central and local level to manage efficiently public funds and enhancing the co-ordination and supervision role of the Central Harmonisation Unit (CHU), Ministry of Finance.

2.3. Contribution to National Development Plan/Cooperation agreement/Association Agreement/Action Plan

The beneficiary country signed a cooperation agreement with EU in 1996 as well as a **Stabilisation and Association Agreement (SAA in 2001 providing a duty-free access to the EU market and a political framework for its European integration process. The country formally applied for EU membership in March 2004 and it was granted candidate status by the European Council in December 2005. Since 2009 the Commission has assessed that the country sufficiently meets the political criteria and recommended eight times opening on EU accession and association.**

The global economic crises has underlined the need for the country to strengthen its economic governance.

The **Accession Partnership** focuses on reinforcement of the established institutional structures and strengthening administrative capacity in the areas of programming, project

¹ As per Financing Agreement concerning the IPA II 2014 Annual Action Programme - entered into force on 23 December 2015.

preparation, monitoring, evaluation and financial management and control, particularly at the level of line ministries, to implement EU pre-accession programmes as a preparation for the implementation of the Community's cohesion policy. In line with the project purpose, the **Accession Partnership** focuses on full completion of the decentralization process, and in the area of financial control, it states that there is a need to complete the establishment of internal control and audit units in central state institutions, create similar units at municipal level where appropriate and ensure adequate staff, training and equipment.

For management capacity of EU funds, having an accountable administration able to complete the necessary preparations to enforce programmes and create the necessary mechanisms to manage the EU funds under, is a high priority in the **National Plan for Adoption of Acquis**. For fiscal decentralisation, the **NPAA** envisages full implementation of the PIFC in the country and strengthening the administrative capacities of the institutions responsible for financial control and management on central and local level.

The government prepares an Annual economic reform program which is evaluated by the commission. The EU also provides guidance of the reforms needed to achieve further progress towards meeting the economic accession criteria. The country has adopted the EU macroeconomic criteria and is also invited to embark on a comprehensive and credible reform of its public financial management system (PFM reform program 2018-2021), to enhance competitiveness of the local business and support job creation and employment. For the implementation of the PFM reform program 2018-2021 the Action plan is prepared. It will significantly improve the strategic framework and address key challenges identified in the PFM system, such as, strengthening the fiscal consolidation and discipline, improving revenue collection, enhancing budget control and managerial accountability.

2016 Country Progress Report (Chapter 32)

"The country is **moderately prepared** in this area. **Some progress** was made in the past year, especially in strengthening public internal financial control (PIFC) and external audit.

However, significant efforts are needed with ensuring coherent implementation of the PIFC legislation across public administration and delegation of responsibilities. In the coming year, the country should in particular:

- ensure that there is a more systematic follow up to government's recommendations following the annual PIFC review;
- ensure efficient implementation of risk assessment and other tools and techniques in public sector organisations' management processes;"

SIGMA Monitoring report 2017

- Implementation of FMC at an institutional level is lagging behind the development of the policy framework. The common weaknesses in ensuring internal control include the following: key positions required by the FMC regulation are not filled, FMC action plans are not always developed, risk management procedures are not implemented, lack of delegation of decision making authority in financial management beyond the level of the minister and the state secretary.
- The overall legal and policy framework for internal audit is in place but implementation is not ensured by all budget organisations that are required to implement IA. Many organisations have not met the requirements in establishing IA units or ensuring

minimum staffing, training needs are not taken into account when planning central training and the share of internal auditors with IA certificates is low.

PEFA

- Substantial efforts have been made since 2009 to institute effective Public Internal Financial Control (PIFC) arrangements on the EU model throughout the government. Commitments now have to be registered with the Treasury when contracts are placed, and will be rejected if they are not consistent with available budget provision. But it is not clear whether these requirements are fully respected. Other aspects of financial management and control have been reorganized in all main budget user institutions in accordance with the PIFC Law, although these are not yet fully operational throughout the government, and coverage remains limited at local level. The arrangements in a number of large Ministries, whereby the Minister continues to sign all payment orders, are not consistent with the separation of functions required by the PIFC Law or with the arrangements prescribed in the 2010 Rulebook for General Financial Processes. They also carry the implication of continuing political involvement in determining who receives government funds. Internal audit is now operational in all main budget user institutions in accordance with the PIFC Law, and works to international standards, although it needs to focus more on the improvement of systems rather than simply on providing assurance. However, available staffing resources are limited, and not all managers yet respond appropriately to recommendations. The work is coordinated by the Central Harmonisation Unit (CHU) in Ministry of Finance; copies of reports are given to CHU and the State Audit Office (SAO).

3. Description

3.1 Background and justification:

The planned PIFC reforms are expected to affect the economic growth of the country in the long term by respecting the principle of good governance which basically means efficient management of public funds at all levels.

A key element in transparent and accountable public management is the concept of Public Internal Financial Control (PIFC) system. The successful establishment of such a system is not only strongly related to the Decentralised Management of EU funds, it is also pivotal in the ongoing decentralisation process and maintaining appropriate insight in the increasingly complex public financial management.

Where previously significant support has been provided to the central and municipal level in general management skills, in the present phase of decentralized FMC system and stable internal audit, the new activities under the project will provide further improvement and will finish in a modern internal financial control system which is essential not only to safeguard public funds, but also to ensure an appropriate level of transparency and managerial accountability.

Building on previous support to the internal audit units the establishment of a Public Internal Financial Control (PIFC) system on central level as well as the different support projects related to the overall management of the decentralisation process, the present project will focus on the improvement of an internal control system for local self government units.

With its three key elements of Financial Management Control Systems, Internal Audit, and Central Harmonisation, a PIFC system covers internal control systems as well as government procedures and regulations to manage overall government revenue, expenditures, assets and liabilities.

Current legislation related to PIFC regulates the scope of PIFC i.e. the public sector entities obliged to establish decentralized FMC system and conditions for establishing IA units. Although the FMC and internal audit units at a central and local level have been established and staffed, there is a need for further improvement of the capacities, working procedures, quality assessment, self assessment and managerial accountability.

In the area of internal audit still there is a need for improving capacities for conducting all types of audit as well as improving audit training based on risk assessment.

In order to achieve this there is a need of further improvement of legal framework and methodological tools both for FMC and IA. This means preparing of a new PIFC Law, bylaws and manual for managerial accountability.

Improvement of administrative capacities for FMC an IA on central and local level would be activate on preparing training program and conducting trainings. Also promotion of the work of CHU at the entities would hold through building a PIFC network and promoting the new PIFC policy paper and the new PIFC law.

Financial management and control systems help to mitigate the risks that threaten an organisation and provide reasonable assurance that it will achieve its objectives in a legal, transparent, economic, efficient and effective way. The head of the organisation is responsible for establishing the framework for financial management and control systems, for operating the controls and also to assuring management that the control systems are working effectively.

An independent internal audit activity will supplement management's decisions and actions by providing objective assurance that the financial management and control systems are operating as required to manage risks to an acceptable level. It will also be able to support management by providing consulting services, facilitating management's efforts to improve its internal control systems.

This project will primarily focus on methodologies for developing internal control systems, with particular emphasis on efforts to strengthen the efficiency of the Internal Audit capability. Further development of qualified, accountable PIFC system and public administration is needed in order to provide more efficient and effective coordination and collaboration of all the authorities collectively responsible for the public funds management.

The main impact the project will be focussed on strengthening of the competences of the staff. Furthermore, this includes the practical application of tools and techniques for efficient implementation of FMC and IA tasks. Trainings will be provided in order to qualify staff to perform the task according the required international standards and to perform well in the day-to-day job. In parallel, at central level support will be given to coordinate activities in the respective domains of FMC and IA (such as guaranteeing sustainability via “train the trainer”).

The enhancement of capacities on both central and local level in PIFC implementation will have a positive impact of the management capacities of EU funds, and it will also improve the transparency and managerial accountability of the public administration, which will directly impact the fight against corruption.

This project would directly create bases for next twining project funded under IPA 2018. Competition of the planed IPA 2018 twinning project will round up the process of building of qualified public administration for dealing especially with public funds.

3.2 Ongoing reforms:

In December 2017, the Government of the Beneficiary Country adopted a Public Finance Management Program for the period 2018 to 2021. Part of this program is the internal control which is identified as a priority 6 in the program. The goal of this priority is the establishment of a sound financial management and control system and it will be achieved through strengthened legal regulations for PIFC (FMC and IA) and methodological frameworks and strengthened administrative capacities for FMC and IA at central and local level.

The Ministry of Finance, CHU started the preparation of a new PIFC Policy Paper for the period 2018 to 2021 and will be guided by the recommendations contained in the SIGMA report during its preparation. The document will be adopted by the government by the end of March.

Within the planned activities is also the preparation of a new Law on the system of internal controls in the public sector, as well as its bylaws. The law will ensure the development of FMC and IA by developing a sound and efficient system of decentralized managerial responsibility for using public funds among the entities, the scope of implementation of the provisions related to FMC and IA will be expanded, and simplification of the organization and operation of smaller budget users is foreseen.

According to SIGMA's suggestions, the public administration regulation is not aligned with the management responsibilities in the management of the budget, human resources management and other areas defined in the PIFC regulation. Therefore, the Ministry of Finance and the Ministry of Information Society and Administration will analyse existing budget management practices, human resource management and other areas that determine managerial responsibilities in the public sector and will lay down provisions that need to comply with the PIFC regulations.

MISA has prepared a PAR strategy and it is in a public debate phase. During the preparation, the indications contained in the SIGMA report were taken into consideration.

3.3 Linked activities:

EU funded project:

Twinning project “Supporting the process of fiscal decentralisation through strengthening the capacities for sound financial management and Internal Control on central and local level”

Donor: IPA 2008 (1.350.000 Euros)

Duration: 23 February 2011 to 23 February 2013 (24 monts)

Description: The aim of the project is to help the Ministry of Finance and the Ministry of Local Self-Government, as well as the municipal administration to establish, strengthen and monitor the internal control systems in the local self-government units. This support to the decentralization process will be addressed through:

- Further improvement of the central capacities for sound financial management and control and internal audit in accordance with the EU internal financial control systems
- Further improvement of local capacities for sound financial management and control and internal audit in accordance with the EU internal financial control systems

The overall objective: The main objective is to contribute to enhanced central and local administrative capacity to properly implement the decentralization process by strengthening sound financial management and control systems.

Twinning project 2015-2017 “Strengthening the medium term budgeting for effective public financial management”

Donor: IPA 2011-MK11 IB FI 01

Duration: 01.12.2015-20.11.2017

Description: The activities aimed at improving the effectiveness of medium-term budget planning, program budgeting and budget classification, as well as fiscal reporting in line with EU standards. This contributes to formulating sustainable medium-term fiscal planning and strengthening fiscal discipline and credibility.

The Project provided the MoF with useful tools and increased capacity for the future reforms in the area of public financial management.

Main achievements

Program budgeting was improved by creating a new program classification and Manual developed for program budgeting. This included also development of performance-oriented budgeting where programs are connected with objectives and indicators. Beneficiary knowledge and capacity was increased to understand the benefits of program budgeting – and to have all the knowledge to make the reform in the future.

Improved medium-term budgeting aimed at developing the capacity within the MoF and pilot budget users for medium term budget planning with stricter fiscal rules. During the Project medium term fiscal framework MTFF, medium term budget framework MTBF and medium term expenditure framework MTEF were designed for the country in cooperation between the project experts and MoF. -Fiscal rules, medium term budget framework and more efficient expenditure ceiling system designed for the country following the key aspects of EU budget framework directive.

- Reform for the annual budget calendar and procedures.
- Draft prepared for new Budget Law (incl. also e.g. fiscal rules) in cooperation between the project experts and Ministry of Finance.
- Ideas to improve the Fiscal Strategy contents as a medium term budget framework documentation.
- Manual developed for medium term budget reform.

Improvements of IT-systems were made, as well as recommendations for future development.

- New IT-module for Budget and Funds Department to collect and report data of commitments and unpaid liabilities.
- Upgraded IT-module for Budget and Funds Department control of salaries. Improvements made into the Access-system in use and a report prepared for more long term recommendations.

Under Improved fiscal reporting a training course was organized for fiscal reporting in accordance with EU standards and requirements. It started with general information of ESA2010 government finance statistics (GFS) methodology and continued with more specific issues of EU fiscal reporting.

The overall objective: The overall objective of the Project was to ensure and maintain sustainable and sound public finances by improving public financial management.

Ongoing cooperation with EC/OECD SIGMA program:

During 2016/17, a horizontal audit of the efficiency and effectiveness of FMC systems in public sector entities was carried out. In cooperation with SIGMA, preparatory meetings and workshop were organized, where the engaged internal auditors took part. After finalised of the audit, a workshop was held to present the findings and recommendations.

In cooperation with SIGMA during the course of 2016/17, a revision of the Financial Management and Control Manual was made. At the end of 2017, joint activities for the preparation of the PIFC Policy Paper 2018-2020 started.

Ongoing activities and current situation in the sector

Recognized as one of the most important preconditions for reforms in different sectors and further economic development of the country, the public administration reform (PAR) is among the key priorities of the BC Government. In this regard and to ensure clear, transparent and comprehensive approach in the process, the PAR Strategy 2018 – 2022 and its Action Plan were adopted on February 20, 2018, after series of consultative meetings with external relevant stakeholders such as representatives from the civil society, international community, trade unions and other partners. The new energy, devotion, commitment and enthusiasm was also noted by the European partners, which is reflected in the latest EC report on the country. The preparation of the PAR Strategy and the Strategy for reforming of the public finance management was coordinated, so as to ensure a coherent approach to the overall PAR process.

Taking into consideration the limited financial capacities and human resources, one of the key priorities of the PAR is to optimize the institutional setup through horizontal functional review of the state administrative bodies, agencies and inspection services on central level, but also through internal functional analyses of the institutions, beginning with line ministries. The importance of this process was recognized from the international partners and is supported from the EU through the Instrument for Pre-accession Assistance (IPA 2017²), British Embassy and UNDP.

As other segments of the public administration reform must not be halted, several important projects are currently implemented. Establishment of the National Population Register and National portal for e-Services should be completed by the end of the year and the same will significantly improve the quality of the public service delivery and the policy-making process. This process will continue with the implementation of the IPA 2017 project which should ensure equal access to public services, improve the administrative transparency, decrease the risks of corruption and strengthen the credibility of the public administration.

The Government also is determined to improve the efficiency of the administrative procedures through ensuring consistent application of the Law on general administrative procedures. Furthermore, analysis on the Law on Administrative Servants and Law on Public

² For this and other EU supported activities within IPA 2017 please see https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/ipa_2017_040200.3_mk_european_support_to_the_public_administration_reform_statistics.pdf

Sector Employees should provide recommendations and draft amendments which will minimize the risks of influences and subjectivism and will contribute in the process of depoliticization of the administration.

Impact assessment and public consultations

The Regulatory Impact Assessment (RIA) is an integral part of the policy-making and coordination process and preparation of laws. The Action Plan of the PARS envisages activities which should improve the quality of RIA and several other activities which should improve the quality of policies and laws and ensure transparency and participation of the stakeholders.

The Rules of Procedure of the Government regulate the obligation and the manner of consultation both between the ministries and other state administration bodies, and with the stakeholders. The methodology and regulations governing the RIA process also envisage mandatory involvement of stakeholders, and transparency in the process of preparation of draft laws. There are also guidelines that elaborate the process and manner of involvement of stakeholders and ensure transparency. To enhance consultations with stakeholders, the Single National Electronic Registry of Regulations (ENER) was introduced, a tool intended for electronic information and interaction with the citizens of the BC, representatives from non-governmental organizations, chambers of commerce, business entities, as well as representatives of the GRM and the ministries in the process of drafting laws. Regarding consultations with stakeholders, experience shows that stakeholders join the process of preparation of draft laws at the very end, at best, through publication of the draft law on ENER. The late adoption of AWPG in the past years has reduced the possibility to provide timely information to stakeholders on the GRM Work Plan and the planned legislative programme through the Annual Plan for Implementation of the RIA. Due to the delay, both plans have failed to fully achieve the expected results, both in terms of timely involvement of stakeholders, and in terms of monitoring the GRM work.

Coordination mechanisms

The Government of the BC has set 2019 as a target for achieving a fully-fledged sector approach. Among other criteria, the Sector Approach entails the existence of a national leadership and institutional capacity, inclusive sector coordination among stakeholders, donors and development partners and performance monitoring framework. In this regard, the **Sector Working Group for Public Administration Reform** was established as a principal expert-level coordination body for preparation and alignment of the national planning documents. The SWG should be the engine of the reform process and it is coordinated by the Ministry of Information Society and Administration. Currently there is ongoing process for revision of the Sector Working Group.

For attainment of the goals of the PAR Strategy 2018-2022, but primarily for coordination of the overall PAR process at the political level, a **Council for Public Administration Reform** has been formed, chaired by the President of the GRM, and composed of ministers from institutions that are responsible and/or participate in the implementation of the activities listed in the Strategy.

Expert and technical support to the PAR Council is provided by the **PAR Secretariat**, composed of senior administrative officers from institutions responsible or participating in the activities defined in the Action Plan of the PAR Strategy 2018-2022. For implementing and monitoring the public administration reform, **PAR Team** has been established in the Ministry of Information Society and Administration – as a key institution for managing and monitoring the implementation of the process.

3.4 List of applicable *Union acquis*/standards:

International frameworks and standards and EU good practice.

3.5 Results per component:

Component 1:

Mandatory Result 1: Improved legal framework and methodological tools in FMC and IA

The measurable indicators in relation with Mandatory Result 1 are:

- Reviewed and harmonised draft Public internal control (PIFC) law and Prepared report with recommendations for improvement of the draft³, as well as recommendations/necessary changes to other relevant legislation (as indicated in footnote 2 below). Prepared final version of PIFC law ,
- Reviewed and improved existing methodological tools on internal control (including IA and FMC)
- Developed new methodological tools (guidelines, instructions, and manuals) based on the new PIFC Law and PIFC Policy Paper (including an approach to the definition and implementation of managerial accountability).

Result 2: Developed administrative capacities of key budget users on FMC and IA on central and local level

The measurable indicators in relation with Mandatory Result 2 are:

- Performed Training needs assessment (TNA) of CHU and key budget users⁴ on central and local level,
- Development and implementation of a Training program based on the TNA to train staff in financial management and control and internal audit through train-the-trainers and 3-5 workshops
- Performed 3 pilot audits that involved internal auditors of budget users on central and local level (performance audit, compliance audit and IT audit)

Result 3: Strengthened co-ordination, supervision and reporting capacities of the CHU

The measurable indicators in relation with Mandatory Result 3 are:

- **Enhanced strategic role of the CHU for the coordination of any related reforms (PAR, PFM, anti-corruption)**
- Developed quality assessment manual based on Public Expenditure Management Peer Assisted Learning (PEM PAL) model (including guidelines on the supervision of the CHU over FMC and IA systems in budget users)
- Organized conference for the promoting of the new PIFC legislation
- Analysed and proposed improvement to the model of annual reporting of PIFC system (FMC and Internal audit)

³ The draft PIFC law will be harmonized with all relevant legislation in the country (draft Budget Law, Law on Inspection, Law on Administrative procedures and other legislative acts in PAR and PFM related to internal control as well as with all EU standards in internal audit and international standards in FM/C).

⁴ Key budget users on central and local level will be selected during the implementation of this component based on clear prioritisation and risk assessment (such as: MISA, MoT, MoJ, MoF, MoD, some first class agencies and main municipalities). However, it should be noted that all methodological tools developed under the project will be disseminated among all budget users.

- Organised study trip to Member State (MS) focussing on implementation of FMC and IA⁵

3.6 Expected Activities:

The Twinning assistance will be provided in the form of know-how transfer, and could be delivered through the activities that will indicatively include:

Activities related to Result 1:

- 1.1 To review the existing draft PIFC law and harmonise with other related laws, by-laws and to prepare a report with recommendations for improvement
- 1.2 To prepare final version of PIFC law
- 1.3 To review and improve existing methodological tools on internal control
- 1.4 To develop new methodological tools (guidelines, instructions, and manuals) based on the new PIFC Law and PIFC Policy Paper (including a manual on managerial accountability)

Activities related to Result 2:

- 2.1 To carry out TNA of CHU and key budget users on central and local level
- 2.2 Based on the TNA to elaborate a Training program to train staff in financial management and control and internal audit through train-the-trainers and 3-5 workshops
- 2.3 To carry out 3 pilot audits involving internal auditors of budget users on central and local level (performance audit, compliance audit and IT audit)

Activities related to Result 3:

- 3.1 To develop quality assessment manual based on PEM PAL model (including guidelines on the supervision of the CHU over FMC and IA systems in budget users).
- 3.2 To analyse and propose improvement to the model of annual reporting of PIFC system (FMC and Internal audit)
- 3.3 To organise conference for the promotion of new PIFC legislation and policy
- 3.4 To organise a study trip to MS for approximately 10 beneficiary staff, focussing on implementation of FMC and IA

⁵ The study trip will involve representatives of CHU, MoF and other key budget users involved in implementation of activities under Comp.2

3.7 Means/input from the EU Member State Partner Administration:

The project will be implemented in the form of a Twinning Light contract envisaged to provide exchange of experience and know-how with a MS Institution with good practice in the stated project activities. The Twinning Partner shall provide an adequate team of experts – one MS Project Leader, responsible for overall coordination of project activities and a pool of Short Term Experts (STEs) with suitable knowledge to carry out the activities described.

In its proposal, the MS will propose the set of activities it considers most appropriate to achieve the results listed above. Therefore, it is necessary that the MS proposal clearly indicates all inputs/means with concrete indications on how the work plan should be established, on the suggested schedule of activities, on the profile of short-term experts and on indicators and targets that should be used to ensure the timely achievement of the mandatory results/outputs.

The interested MS Partner Institution shall include in its proposal the CV's of the designated Project Leader and the proposed Short-term Experts as well as their specific tasks to which they will be assigned to. MS Partner Institution is encourage to assign Component Leaders for each described component accordingly

3.7.1 Profile and tasks of the PL:

The MS Project Leader will manage the project team of selected member state(s) and coordinate the implementation of activities.

Qualifications and skills:

Requirements:

- University degree in the field relevant for this project, or equivalent experience of minimum 10 years in the relevant field;
- Proven contractual relations to a public administration or mandated body
- At least 3 years of professional experience in the area relevant to the project;
- Project management experience;
- Fluency in written and oral English language;
- Computer literacy;

Assets:

- Experience with twinning rules and procedures;
- Experience in managing or assisting in management in at least 1 project in the area of public internal financial control.

The PL will have overall responsibility for management of the project will be responsible for the supervision of the project activities, as well as for assisting the STE on their daily work.

3.7.2 Profile and tasks of the short-term experts:

Other specialist staff will be made available by the Twinning Partner to support the implementation of activities. The proposed pool of short-term experts is expected to cover all relevant areas targeted under this project in order to achieve the mandatory results.

Qualifications and skills:

- Proven contractual relations to a public administration or mandated body
- University degree in the field relevant for this project or equivalent experience of minimum 6 years in the relevant field;
- At least three-year experience in the field of PIFC;
- Knowledge on PIFC;
- Experience in managing trainings for FMC and IA;
- Knowledge on the EU legislation in relation to PIFC issues and related data bases;
- Fluency in English.

4. Budget

The project will be implemented through a Twinning Contract estimated at maximum 250,000 EUR.

Twinning Contract	Total (EUR)	IPA contribution	
	250,000	EUR	%
	250,000	100	

In addition to the IPA budget as a rule, the BC institution should cover the non-eligible costs as per Twinning manual (Annex 7, art4; Article 14.9 of General Conditions).

5. Implementation Arrangements

5.1 The Delegation of the European Union will be responsible for tendering, contracting, accounting, monitoring and evaluating.

EUD Contact person:

Paulina Stanoeva,
 Program manager, Public Finance Sector
 Delegation of the European Union,
 St.Kiril i Metodij 52b, 1000 Skopje
 Tel: +389(0)23248500
 E-mail: Paulina.Stanoeva@eeas.europa.eu

5.2 Institutional framework

Main Beneficiary is the Ministry of Finance.

The PIFC Department performs its police and other internal issues determined by the law that are related to: preparation of laws and by-laws in the field of the financial management and control and the internal audit; preparation of methodology and working standards for the financial management and control and the internal audit; coordination of the trainings for the heads and employees involved in the financial management and control and the internal audit; coordination during the establishment and the development of the internal financial control system; establishment and maintenance of databases for the internal audit units and the adopted charters; establishment and maintenance of registry of certified internal auditors who took the exam for internal auditor in the public sector and who have internationally recognised audit certificate, cooperation with institutions responsible for public internal control affairs in the country and abroad and exchange of information for the development of the public internal financial control; supervision of the quality of the financial management and control system; supervision of the quality of the operations of the Internal Audit Units and Organisation of ad hoc audits to be performed by internal auditors from certain public sector entities, when the subject of such audit goes beyond the scope i.e. the competence of the certain entity or the subject of the audit has such a nature that the multidisciplinary approach of the internal audit is more beneficial. The findings and recommendations of this type of audit shall be discussed with the audited entities and the final report submitted to the involved entities.

CHU is also responsible for preparing an Annual Report on the Functioning of the Public Internal Financial Control System, performs risk assessment; develop strategy plan, defines strategic objectives, designs and follows up performance indicators.

In order to ensure smooth implementation of the project, a Steering Committee will be established comprising representatives from Ministry of Finance, Ministry of Local Self Government, General Secretariat of the Government of the BC, Secretariat for European Affairs, Association of the Units of Local Self - Government, as well as representative from the EU Delegation.

Changes in the aforementioned institutional framework resulting from the project are not foreseen.

5.3 Counterparts in the Beneficiary administration:

5.3.1 Contact person:

Mr. Trajko Spasovski,
Head of PIFC Department,
Ministry of Finance
Address: Dame Gruev 12, 1000 Skopje

5.3.2 PL counterpart

BC Project Leader:

Mr. Trajko Spasovski,
Head of PIFC Department,
Ministry of Finance
Address: Dame Gruev 12, 1000 Skopje

6. Duration of the project

The implementation period of the project is **8 months**. The execution period of the contract shall enter into force upon the date of notification by the Contracting Authority of the contract signed by all parties, whereas it shall end **3 months** after the implementation period of the Action.

7. Sustainability

The Project will be fully implemented in line with strategic objectives, law and guidelines defined in order to contribute for improvement of sound financial management and internal control system. Activities would lead to further analysis of the Concept of Managerial accountability at all levels of given responsibilities according to standards and best practices in the EU Member States. It will also enhance the capacities through the obtaining experience from twining partner in this area.

Staff benefitting from trainings/study visits shall transfer knowledge through subsequent trainings to their colleagues. Smooth and effective functioning of the archived results will be guaranteed by the relevant human and financial resources contribution. The beneficiary should describe how in its budget planning it has planned necessary resources ensuring the sustainability.

8. Crosscutting issues (*equal opportunity, environment, climate etc...*)

Equal opportunity

Based on the fundamental principles of promoting equality and combating discrimination, participation in the project will be guaranteed on the basis of equal access regardless of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation. Ministry of Finance is committed to promote equality of opportunity for women and men in terms of employment, service delivery and involvement. This project should ensure adequate representation of women in the activities of the project.

Environment

The environmental impact of this project will be limited. It will not have a negative impact on the environment nor jeopardise environment, health and security in the future. The project will be delivered in the most environmentally friendly way possible, including the recycling of paper and the reduction of paper-based activities to the absolute minimum, including through distribution of project materials through uploading them on intranet/internet. The project has no negative effect on the environment.

Minorities

Ministry of Finance encourages promotion of diversity within the public administration on central and local level in FMC and IA units.

9. Conditionality and sequencing

Strong cooperation and commitment of the beneficiary institution is expected in order to achieve project objectives.

Beneficiaries' institutions are ready to commit the necessary time and resources to maximize the benefits of the Twinning project. Significant staff time will be required from the Beneficiary Country in all aspects of the project.

At both senior and operational level there must be strong commitment and support provided by the beneficiary institution for smooth implementation of the project.

10. Indicators for performance measurement

Keys milestones will be:

1. Approval of the Twinning project fiche;
2. Successful completion of a Twinning selection process;
3. Signature of the Twinning contract, including the Twinning Work Plan;
4. Commencement of the twinning partnership (inter alia, the arrival in the country of the Resident Twinning Advisers);
5. End of the implementation period;
6. Submission of the final report.

11. Facilities available

The beneficiary will provide the MS twinning partner with adequate office space for the experts, meeting rooms and equipment necessary for relevant everyday activities and training foreseen in twinning fiche

ANNEXES TO ACTION DOCUMENT

1. Logical framework matrix in standard format
2. List of relevant Laws and Regulations

ANNEX I: Logical framework matrix in standard format

		Contracting period expires 3 years after the signing of the Financing Agreement	Execution period expires 5 years after the signing of the Financing Agreement
		Total budget: EUR 250.000	IPA budget: EUR 250.000
Overall objective	Objectively verifiable indicators	Sources of Verification	
Improvement of internal control system in the country in order to ensure efficient managerial accountability, transparency and sound financial management of public funds in compliance with international standards and EU best practice	<p>Improved legal framework and methodological tools in FMC and IA</p> <p>Developed administrative capacities of budget users on FMC and IA on central and local level</p> <p>Strengthened co-ordination, supervision and reporting capacities of the CHU</p>	<p>EU Progress report for 2016:</p> <p>The country is moderately prepared in this area. Some progress was made in the past year, especially in strengthening public internal financial control (PIFC) and external audit.</p> <p>However, significant efforts are needed with ensuring coherent implementation of the PIFC legislation across public administration and delegation of responsibilities. The independence of the State Audit Office in the Constitution has yet to be achieved. In the coming year, the country should in particular:</p> <ul style="list-style-type: none"> ▪ ensure that there is a more systematic follow up to government's recommendations following the annual PIFC review; ▪ ensure efficient implementation of risk assessment and other tools and techniques in public sector organisations' management processes; ▪ Strengthen the coordination role of the Anti-fraud Coordination Service and improve management of irregularities through the Irregularity Management System. <p>Annual PIFC Report for 2016</p>	

Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
Further development of PIFC system through improvement of legislation, elaboration of methodological tools in financial management and control (FMC) and internal audit (IA), building up capacities of budget users on central and local level to manage efficiently public funds and enhancing the co-ordination and supervision role of the Central Harmonisation Unit (CHU), Ministry of Finance.	Ensured better managerial accountability in PFM reforms through improved legislations and strengthened administrative capacities	EU Report on Chapter 32 Project implementation and evaluation reports Implementation of PIFC Policy paper 2018-2020 and Action Plan for Chapter 32	Supplies tender launched
Results	Objectively verifiable indicators		Assumptions
Improved legal framework and methodological tools in FMC and IA	Reviewed and harmonised draft Public internal control (PIFC) law and Prepared report with recommendations for improvement Prepared final version of PIFC law Reviewed and improved existing methodological tools on internal control Developed new methodological tools (guidelines, instructions, and manuals) based on the new PIFC Law and PIFC Policy Paper (including a manual on managerial accountability).	PIFC Annual Report	
Developed administrative capacities of budget users on FMC and IA on central and local level	Performed Training needs assessment (TNA) of CHU and key budget users on central and local level Conducted Training program based on the TNA to train staff in financial management and control and internal audit through train-	PIFC Annual Report	

	<p>the-trainers and 3-5 workshops</p> <p>Performed 3 pilot audits that involved internal auditors of budget users on central and local level (performance audit, compliance audit and IT audit)</p>		
<p>Strengthened co-ordination, supervision and reporting capacities of the CHU</p>	<p>Developed quality assessment manual based on Public Expenditure Management Peer Assisted Learning (PEM PAL) model (including guidelines on the supervision of the CHU over FMC and IA systems in budget users)</p> <p>Analysed and proposed improvement to the model of annual reporting of PIFC system (FMC and Internal audit)</p> <p>Organised conference for the promotion of PIFC legislation and policy</p> <p>Organised study trip to Member State (MS) focussing on implementation of FMC and IA</p>	<p>PIFC Annual Report</p>	

Activities	Means	Specification of costs	Assumptions
<p><u>Activities related to Component 1:</u></p> <p>1.1 To review the existing draft PIFC law and harmonise with other related laws, by-laws and to prepare a report with recommendations for improvement</p> <p>1.2 To prepare final version of PIFC law</p> <p>1.3 To review and improve existing methodological tools on internal control</p> <p>1.4 To develop new methodological tools (guidelines, instructions, and manuals) based on the new PIFC Law and PIFC Policy Paper (including a manual on managerial accountability)</p>	<p>MS twinning partner input:</p> <ul style="list-style-type: none"> - pool of short-term experts. <p>BC partner input:</p> <ul style="list-style-type: none"> - 1 BC Project Leader, - BC contact person, - Key institutions staff. 	<p>EURO 250.000</p>	<ul style="list-style-type: none"> - Appropriate expertise is available; - Beneficiary institutions can make (qualified) staff available to participate actively and contribute in all Project activities.

<p><u>Activities related to Component 2:</u></p> <p>2.1 To carry out TNA of CHU and key budget users on central and local level</p> <p>2.2 Based on the TNA to elaborate a Training program to train staff in financial management and control and internal audit through train-the-trainers and 3-5 workshops</p> <p>2.3 To carry out 3 pilot audits involving internal auditors of budget users on central and local level (performance audit, compliance audit and IT audit)</p> <p><u>Activities related to Component 3:</u></p> <p>3.1 To develop quality assessment manual based on PEM PAL model (including guidelines on the supervision of the CHU over FMC and IA systems in budget users).</p> <p>3.2 To analyse and propose improvement to the model of annual reporting of PIFC system (FMC and Internal audit)</p> <p>3.3 To organise conference for the promotion of new PIFC legislation and policy</p> <p>3.4 To organise a study trip to MS for approximately 10 beneficiary staff, focussing on implementation of FMC and IA</p>			
---	--	--	--

ANNEX II

Reference to laws, regulations and strategic documents:

Relevant National documents:

Strategic documents:

2016 Progress Report

Report 2016

National Programme for the Adoption of the EU Acquis for the period 2017-2019 (NPAA)

Legislation

- PIFC law (*"Official Gazette of the Republic of Macedonia"* 90/2009, 188/2013 and 192/2015)
- Law on Accounting for Budget and Budget Users (*"Official Gazette of the Republic of Macedonia"* No. 61/2002, 98/2002, 81/2005, 24/2011 and 145/2015)
- Organic Budget law (*"Official Gazette of the Republic of Macedonia"* No.64/2005; 4/2008; 103/2008; 156/2009, 95/2010; 180/2011; 171/2012 and 192/2015)
- Law on Government, (*"Official Gazette of the Republic of Macedonia"* No. 59/2000, 12/2003, 55/2005, 37/2006, 115/2007, 19/2008, 82/2008, 10/2010, 51/2011, 196/2015 and 142/2016)
- Law on Prevention of Corruption, (*"Official Gazette of the Republic of Macedonia"* No. 28/2002, 46/2004, 126/2006, 10/2008, 161/2008, 145/2010, 97/2015 and 148/2015)
- Law for Preventing Conflict of Interests (*"Official Gazette of the Republic of Macedonia"* No. 70/2007, 114/2009, 6/2012 and 153/2015)
- Law on Public Procurement (*"Official Gazette of the Republic of Macedonia"* No.136/2007, 130/2008, 97/2010, 53/2011, 185/2011, 15/2013, 148/2013, 160/2013, 28/2014, 43/2014, 130/2014, 180/2014, 78/2015, 192/2015, 27/2016 и 120/2016)
- Law on State Audit (*"Official Gazette of the Republic of Macedonia"* No. 66/2010, 145/2010, 12/2014, 43/2014, 154/2015, 192/2015 and 27/2016)
- Law on administrative servants (*"Official Gazette of the Republic of Macedonia"* "No. 27/2014, 199/2014, 48/2015, 154/2015, 5/2016 and 142/2016)
- Law on Financing of Local Self-Government Units (*"Official Gazette of the Republic of Macedonia"* No. 61/04, 96/04, 67/07, 156/09 and 47/11)
- Rulebook on the manner of granting authorizations (*"Official Gazette of the Republic of Macedonia"*, No. 147/10 and 34/11);
- Rulebook on the manner of implementation of the general financial processes (*"Official Gazette of the Republic of Macedonia"*, No. 147/10 and 34/11);
- Rulebook on the manner of performing the activities under the competence of the Financial Affairs Unit (*"Official Gazette of the Republic of Macedonia"*, No. 147/10 and 34/11);
- Internal Control Standards in the Public Sector (*"Official Gazette of the Republic of Macedonia"* No. 147/10);
- Rulebook on the form and content of the reports and the statement on the quality and condition of internal controls (*"Official Gazette of the Republic of Macedonia"*, No. 147/10 and 113/14);
- Rulebook on accounting for budgets and budget users (*"Official Gazette of the Republic of Macedonia"*, No. 28/03, 62/06, 8/09);
- Rulebook on the form and content of the periodic financial reports of the municipalities;
- Decree on the procedure for prevention of irregularities, the manner of mutual cooperation, the form and the content, the deadlines and the manner of reporting irregularities (*"Official Gazette of the Republic of Macedonia"* No. 63/11) and

- A Financial Management and Control Manual published on the website of the Ministry of Finance
- Rulebook on the manner of performing the internal audit and the manner of reporting on the audit; (*"Official Gazette of the Republic of Macedonia"*, No. 136/10);
- International Standards for the Professional Practice of Internal Auditing; (*"Official Gazette of the Republic of Macedonia"*, No. 113/14);
- Rulebook on the code of ethics of internal auditors; (*"Official Gazette of the Republic of Macedonia"*, No. 136/10);
- Rulebook on Internal Audit Charter (*"Official Gazette of the Republic of Macedonia"*, No. 136/10);
- Manual on Internal Audit published on the website of the Ministry of Finance
- Rulebook on procedures for the work of the Central Financing and Contracting Unit
- Rulebooks on organisation and systematisation on job positions in the Ministry of Finance.