1. **Basic information**

1.1 CRIS Number: 2003/004-582.02.02
   Twinning EE03-IB-FI-03

1.2 Title: Strengthening Financial Management and Control System – Phase II

1.3 Sector: Public Sector Financial Management

1.4 Location: Estonia

2. **Objectives**

2.1 **Overall Objective:**
Full functioning of the financial control system of Estonia according to EU and national requirements and standards

2.2 **Project purpose:**
To further strengthen the administrative capacity and raising of auditing skills in the public sector to ensure an effective control and protection of EU and State Budget funds in Estonia.

2.3 **Accession Partnership and NPAA priority**
The Accession Partnership (2002) foresees the need, inter alia, to “align financial management and control procedures with the specific requirements of the structural funds and the Cohesion Fund regulations.” And to “ensure the implementation of the new legislation on PIFC; continue to develop internal audit/control units in all spending centres; strengthen managerial accountability and public financial control functions through the provision of adequate staff, training and equipment”.

The European Commission Regular Report of 2001 for Estonia (ch.28.) highlighted six points needing attention:
- the development of financial management and control manuals;
- the development of audit trails for the pre-accession funds;
- the system of ex-ante control to be harmonised and developed methodologically;
- responsibilities, roles and functions on internal financial control to be explicitly set out in the existing legislation;
- co-operation between the State Audit Office, local government internal audit units and other bodies to be formalised;
• reinforcement of Estonia’s administrative capacity to protect the Communities’ financial interests against fraud and irregularities.

The European Commission Regular Report of 2002 for Estonia (ch.28) in addition to the above mentioned underlines the following:
• in order to complete preparations for membership, Estonia’s efforts now need to focus on, in particular, completion of implementation of the Public Internal Financial Control system;
• further implementation of internationally recognised auditing standards and sound management of structural and Cohesion Fund upon accession;
• the reinforcement of its legal framework and administrative capacity to prevent and combat fraud affecting the Communities’ financial interests;
• Estonia needs to reinforce and accelerate efforts leading to the extended decentralised implementation system before mid 2003 in order to allow EDIS accreditation to be achieved in second semester of 2003;
• municipalities will need to enhance their internal control and audit system as final beneficiaries under the structural funds and the Cohesion Fund;
• the concept of managerial accountability has to be future defined;
• internal audit units have been established and staffed in all major spending centres of the central Government which are responsible for the implementation of the Funds. However, these units still need to be strengthened and the training of internal auditors should be a priority in this respect. (see ch.21)

3. Description

3.1 Background and justification:

Developments in the field of financial control in Estonia must keep pace with the wider preparations being undertaken for structural funds and the Cohesion Fund’ implementation.

The legal context for the new project includes:

• Council Regulation 1260/1999 and Commission Regulation 438/2001 which provide between them the detailed rules for the management and control systems for assistance granted under the structural funds and the Cohesion Fund;
• Council Regulation (EC, Euratom) No. 2988/95 of 18 December 1995 on the protection of the European Communities financial interests;
• Council Regulation (EC, Euratom) No. 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities’ financial interests against fraud and other irregularities.
A brief description of developments in the Estonian Government Internal Control system, which is being built up in accordance with internationally accepted audit standards (IIA and INTOSAI), is set out in Annex 4 – Financial control system in Estonia. Progress has been assisted by the delivery of a comprehensive, well-planned and successful training programme (PHARE 2000) which will be completed in March 2003.

The new Phare 2003 project has two main aims where the first is to continue the raising of skills in the Public Internal Financial Control (PIFC) system in Estonia as initially developed during the Phare 2000 project and the second to focus further on the EU structural funds and the Cohesion Fund auditing training and theoretical training on internal control matters for newly recruited auditors.

The first aim of the project is to further develop the training framework established during the Phare 2000 project implementation. The main indications for progress from the Phare 2000 project are:

- while most of what was set out in that project is being achieved, there is a need to provide a way forward for training in the period between 2003 - 2005;
- progress needs to be sustained for the foreseeable future to ensure that there is a sound foundation for the important work of protecting EU and State finances;
- there will be an increased demand for new staff as the EU requirements for financial control of the structural funds and the Cohesion Fund make their full impact;
- it will be important therefore to maintain a programme of traineeships whereby local internal auditors (especially newly recruited ones) can work under the guidance of experienced auditors in MS for sustained periods;
- it will be necessary to maintain a programme of mentorships because there is no substitute for learning skills from experienced auditors;
- it will be essential to develop an effective and affordable professional training programme that leads to certification as a government internal auditor;
- the qualification should be formally linked to an internationally accredited auditing organisation;
- in advance of developing this new qualification it would be necessary to continue the CIA training course sponsored by the Institute of Internal Auditors.

Following completion of the PIFC system development strategy for 2003-2009 and detailed action plan for 2003-2005, the detailed requirements and further needs can be identified.

There is a fuller version of this Gap Assessment at Annex 6.
**The second aim** of the project is to provide *specific training* on overall theoretical training for newly hired internal auditors (70 auditors) and on implementation of financial control for the structural funds and the Cohesion Fund, particularly at the local government level as well as at central government level.

This makes it important to ensure that the bodies responsible for auditing the structural funds are in a position, from the day of accession, to ensure that systems established throughout the cascade of bodies responsible for implementation are sound, efficient and capable of protecting funding from fraud, waste and mismanagement.

In addition the effective financial management system must guarantee the satisfactory implementation of the Estonian State Budget Strategy for 2003-2006. The project will address the consideration of spending from State Budget as well as the consideration related to the EU structural funds and the Cohesion Fund.

As accession to the EU approaches, it is becoming increasingly clear that the need for more, qualified internal auditors is growing. Some of the State Agencies, for example, have only one trained auditor at the current time and, as the auditing system develops and as the workload associated with EU accession increases, it is obvious that additional trained staff will be necessary. The Phare 2003 project will help to address this problem.

Auditors trained as trainers under Phare 2000 have begun to train new auditors in relevant topics like audit trail and other audit matters, which are not covered by the IIA training. Twelve trainers, trained under the Phare 2000 project have already provided more than 200 hours of training’s for the newly hired auditors and other public servants. It is important to develop the competencies of trainers further so that Estonia can eventually become self-reliant for audit training activities.

Activities in this area must also be closely coordinated with Structural Funds preparations assisted under the SPP+ and SPP++ project.

### 3.1.1 The Scope of the project

The scope of the current project covers all levels of the Government financial control cascade, that is, *Ministries, County Government, State agencies*. For the first time, it also makes training courses available for the *local government* sector where the internal audit function is still in the early stage of implementation.

The arrival of the structural funds and the Cohesion Fund will mean a very active involvement of the local government sector and therefore it is imperative that adequate and relevant training is made available in good time. While central government institutions have been the target of training under the PHARE 2000 project, local governments will now be targeted also for internal control and audit training. For the local governments it will be a unique opportunity to avail of high level training provided in co-operation with very experienced trainers.

In regard to the involvement of the local government sector in management of EU funds, they must be ready to adopt all the EU requirements and to comply with all control and
auditing requirements. It is the very strong interest of the Ministry of Finance to ensure that the local government audit competency and professionalism is as high as possible. The training will assist in this respect. Therefore the local governments will be required to enter into by-lateral contracts with the Ministry of Finance.

The Ministry of Finance will sign a cascade agreement with local governments in receipt of EU funds to ensure the establishment of the internal audit functions (or to outsource it). The cascade agreement must also guarantee to the Ministry of Finance and the EC authorities the legal base to audit local governments for use of the EU structural funds and the Cohesion Fund. The agreement also makes provisions for auditing the co-financing of each project. This gives to the auditor possibility to get overall picture of management and financing set-up at the time. The cascade agreement specification in details will be prepared as part of the legal framework for structural funds, which is in stage of development.

3.1.2 Target Groups of the project

There are currently 170 internal auditors in Government internal audit network. The training under Phare 2000 financial control and SPP+ projects cover 90 officials of the total 170. These 90 trained internal auditors are divided between Government internal audit network as follows: 15 are located in the Financial Control Department of the Ministry of Finance, 36 auditors work in the Line Ministries, 2 in State Audit Office, 19 auditors in Government agencies, 18 auditors at county level and none in Local Governments. 20 of this group of 90 are being trained as trainers.

There are now a further 80 recently-hired internal auditors at Government institutions level who require training because they are not covered by Phare 2000 or SPP+ project. It is provisionally estimated that by 2004 there will be approximately another 30 persons at Local Government level (as of today there are 19 of these in place). The Local Governments become the beneficiaries from the EU structural funds after Estonian accession to the EU. Also, Financial Control Department of the Ministry of Finance is planning to recruit additionally 7 auditors during 2003 to audit the EU structural funds and the Cohesion Fund. The recruitment plans of other ministries and bodies that will implement structural funds are not yet clear but it is obvious that the number requiring training will grow.

Above mentioned internal auditors belong to the target group of the project Phare 2003.

The content of the project

This new training project would be divided into three parts:

1) The first part would be concentrated on the training of trainers (approximately 20 people). Those are highest achievers in the existing Institute of Internal Auditors (IIA) course with combination of the practical training in MS and would effectively turn them
into expert trainers of internal audit techniques within the Estonian administration. There are no possibilities to receive the same qualified training in Estonia yet. Some training of trainers has been provided in the course of Phare 2000 project. Those who received training of trainers’ courses (new trainers) need further development of their skills, so that eventually they can replace foreign experts and private sector companies as trainers for the public sector auditors.

Those 20 auditors (trainers) are the same that followed the Phare 2000 course and need to be brought to the next level of their qualification to become at the end of Phare 2003 project the qualified trainers who could replace the EU experts (trainers).

2) The **second part** would be the development of a public sector oriented, specialised training course, which would be designed as a complement for the existing IIA course. This course would:

- provide participants with basic and advanced explanation and training in the fundamental principles, practices and techniques of modern internal auditing;
- enable those auditors to apply the knowledge and understanding gained and to use the information and skills to audit a broad range of activities and areas;
- develop participants’ confidence to audit and advise on the implementation, operation and governance and control issues within their organisations’ financial management systems;
- consider the latest developments in internal audit and its environment, professional standards, corporate and financial governance, approaches to risk management and assessment, the role and approaches of the EU auditors, and other relevant public service and government issues;
- provide for the auditors the latest legislation framework development on areas of detection, surveillance and future prevention control/auditing methodology of the money-laundering, corruption, bribery and public procurement matters;
- build on the existing knowledge and competencies of the participants in the context of their work experience and exposure and/or attendance at introductory training courses and to explore the opportunities which exist for further developmental and professional qualifications;
- facilitate the development of appropriate and consistent approaches, standards and practices within the internal audit network.

The course would be run for all new auditors and existing ones who have not been able to complete the current IIA training (approximately 90 people). Successful completion of the course would entail accreditation as a government-approved auditor for public service activities. In addition, the delivery of the current IIA training cannot be seen as a once-off exercise with a final output. Professional theoretical training for existing and new auditors will have to be an ongoing feature of audit development, both for training new entrants and for the continuing professional development of existing auditors.

The development of a permanent course in a university for public internal auditors will be a specific activity and will ensure the sustainability of the project.
3) The **third part** of the training would be directly related to the auditing of the structural funds and the Cohesion Fund’ expenditure. It would involve the provision of practical training for internal auditors within Member States’ administration on ex-ante, on-the-spot control/audit matters, particularly focussed on the ERDF, ESF, FIFG, EAGGF and Cohesion Fund.

The Financial Control Department (FCD) in the Ministry of Finance will have responsibility for the audit of SF expenditure to comply with the provisions of Articles 10, 11, 12, 15 and 16 of Commission Regulation (EC) 438/2001. EC Regulation 438/2001 stipulates the requirements to carry out the compliance audit and on-the-spot checks by internal auditors of the intermediate bodies and final beneficiaries. The specialised nature of the tasks involved and the high degree of competence required by auditors means that nothing should be left to chance in the preparatory training period prior to accession. Estonian auditors will not become acquainted with the special requirements of the ESF etc. by auditing ISPA, SAPARD or national schemes. The most relevant training can only be obtained by on-the-job work experience in specialised audit and control departments in the Member States. The advantages of such training have become obvious during implementation of Phare 2000 project and the benefits accruing to trainees are obvious.

This aspect of the project would involve, therefore, Estonian auditors participating in on-the-spot checks within MS administrations and gaining deeper experience of all the structural funds and the Cohesion Fund management and control systems. Training would cover areas such as HRD programmes, LEADER control checks, transport control checks, environmental services control checks, 5% - 15% verification checks, etc. At the organisation management structure, practical experience would be obtained on:

- full implementation of the requirements of PIFC manual;
- ex-ante control procedures through the all levels of public financial control system;
- audit charters are outlined and implemented;
- accounting and reporting requirements – public accountability system;
- financial statements, transactions, reports, balances, budgets;
- project management and co-financing;
- advanced payments;
- fixed assets;
- agreements;
- public procurement;
- tendering and contracting.

It is considered that this combination of training would considerably and strategically enhance the depth of knowledge of internal auditors within the whole Government hierarchy.

The training involved is specific to the financial control sector, even though it covers control and management of the structural funds and the Cohesion Fund. However, the scope is much wider because it covers PIFC and State budget activities. The project also encompasses training (as appropriate) for the local government sector for the first time in
financial control/audit of the structural funds and the Cohesion Fund. All training courses will be carefully planned to ensure that there is no overlap with those provided under SPP+ and SPP++.

**SPP+ (Completing preparations for the management of EU structural funds)**

One of the four areas that SPP+ provides assistance in is: Preparation of legal, budgetary and administrative framework for the implementation of the acquis and harmonisation of tasks related to payment, public internal financial control and audit of SFs assistance;

Covenant section 3.4 (Implementing Structural Fund Assistance- Financial Control) contains the following activities:
1) analysing the overall situation of internal control in Estonia;
2) manual for on spot control of Structural Funds;
3) training for on spot control;
4) organising an on-site training in Finland for 5 persons from the Financial Control Department of the Ministry of Finance (on-spot financial control training).

Expected results as listed:
1) on spot control manual prepared;
2) training given to the Financial Control Department and the relevant internal auditors of Paying Authority of Structural Funds (Ministry of Finance);
3) study tour arranged.

**SPP++ (Completing preparations for the management of EU structural funds – Phase II)**

The SPP++ project also includes activities linked with financial control and audit and is targeted at building up the whole implementation and management system for Structural Funds (continuing to do so mainly at the Intermediary Body/Final Beneficiary level). Issues concerning financial control are presented in the context of linking different subsystems.

Results of the SPP++ will be among others:
- Training according to the training plan (provided under SPP+) provided;
- MA/PA and IB staff trained to manage the funds,
- Training and awareness rising of final beneficiaries
- Cascade agreement formats for SPD measures prepared and available;
- Financial management and money flow procedures elaborated for each position and understood by all parties. Coherence of procedures achieved

According to the Fiche of SPP++ the project “offers assistance in linking internal financial system, internal auditing, accounting system of Implementing Agencies to SPD
management systems and assuring that the systems meet the requirements that are set by EC and Estonian authorities”.

SPP++ has a large training component, the composition of which is determined by the results of the training needs analysis prepared under SPP+. SPP++ includes training components for financial management and therefore must be closely coordinated with the current project, which will specifically focus on training internal auditors involved in the financial control of Structural and Cohesion Funds.

The SPP+ and SPP++ activities and the SF management matrix table is described in Annex 7

3.1.3 Specific Project Activities

It is considered that the project can be successfully delivered using a similar approach to that adopted under Phare 2000. Therefore it is proposed to design the covenant under the following headings:

3.1.3.1 Professional training

Design and organise a specialised professional training course for public sector internal auditors. This is to be done in conjunction with the State universities. Participants whose fees will be paid under the project costs will be required to sign an undertaking to remain in the public sector for a specified period of time after training is completed.

3.1.3.2 Expert assistance

This will be required for training of trainers, specialist seminars and for evaluating the overall internal control system, while recommending improvements. The precise number of experts and their experience will be decided in conjunction with the twinning partner. Training of trainers (approximately 20 persons) will require special attention. It is necessary to equip this target group with the skills and expertise, so that they can sustain the internal audit training efforts in the long term in Estonia without the need of foreign training experts. The Phare 2000 project began the process of training the trainers by inducting them in the basic audit skills and a course in training techniques. It is necessary to continue the trainers’ personal and professional development by improving and developing their skills and techniques. They must be able to offer expert knowledge and technical competence and also to demonstrate their understanding of best practice. The planned training will help the identified trainers to achieve the highest levels of professional competence.

3.1.3.3 Traineeships

Because of the new tasks involved in auditing of structural funds and the Cohesion Fund, particularly the specific requirements relating to the 5% sample checks, it is essential that Estonian auditors get first hand experience of how these tasks are carried out on Member
States. To continue preparations of internal auditors for the control and audits of SF and CF following assistance provided under Phare 2000 and the SPP+ and SPP++ project, there may be need for traineeships in MS for internal auditors. So the candidates for the traineeships will be selected on bases of their day to day responsibilities and considering the earlier received trainings. Preferably experience would be obtained in a number of Member States so the best practice could be developed for Estonia. Countries for practical training will be chosen on the basis mainly of financial control/audit systems in those countries. It is hoped to gain experience within the administration where systems may be similar to Estonia but also to study system where progressive steps have been taken in specific control-related areas. During the tendering process the best proposal will be selected. Participants in training will be required to sign a commitment to remain in the public sector for a period of time after the training has ended.

3.1.3.4 Audit Training

Target of the audit training (does not include any practical training in MS) is for the newly pointed auditors at central and Local Governments levels. Training will consists of professional training, seminars and workshops on various aspects of auditing and financial control, based on relevant universities training programs. As all auditors must be able to operate in conformity with professionally accepted standards, the main focus of the training will be the Certified Internal Audit (CIA) course, approved by the Institute of Internal Auditors, or a course of an equivalent level specially designed for Estonian public sector auditors.

In addition training will have to be provided in other specific topics, for example, risk assessment, legislation, audit management, communication skills, audit trail etc. Courses will also be necessary to ensure the continuing professional development of existing auditors.

3.1.3.5 Development of accredited audit training in State University

The training course will be addressed to the persons who aimed to become internal auditors in government sector, local government’s and State Audit Office after the graduation from the State Universities.

The training in the Universities, which will be planned, designed and implemented in the period of the new (Phare 2003) project, will be dedicated to IIA training (as this is the basis for the professional qualification of auditors) as adapted for use in the public sector. The precise curriculum, which will include PIFC requirements, will be designed during the project and has to be agreed with the Ministry of Education (as latest April 2004) before it can be integrated into the curriculum.

Arrangements are being drawn up to have trainees enter into contracts, which will commit them to at least two year’s public service after training. This will also apply to those undergoing traineeships in member States or become training of trainers.
It is also the intention to use trained trainers to deliver training to their colleagues. This is already underway and will continue based on training received in the Phare 2000 project.

The translated commitment form for trainees is presented in Annex 8.

### 3.1.4. Connection with Phare 2000 project

The Phare 2000 twinning project concentrated on building up the audit capability in the central government sector. This work has been successful but the scope of the training effort now needs to be widened and embedded in a sustainable system. This new project, Phare 2003 twinning project, will build upon the work done under Phare 2000 as a continuation and extend the scope of training to more trainee auditors and at a more specialised level for trainers. The scope of the project is complementary to assistance covered or financed under the SPP+ or SPP++. This new project is a necessary continuation of the Phare 2000 project. Full development of a professional audit service is not a once-off task that can be achieved through one training project. It requires a training effort of sustained duration over many years in line with the long-terms PIFC system development strategy 2003-2009. Auditing is a complex task and raising the level to EU standards is a massive undertaking. In particular the training needed to ensure a supply of auditors able to undertake the necessary checks must be intensive and long-lasting. Such training, by its nature, is expensive and for this reason Phare assistance is sought. In the long-term the benefits of having a professional audit and control network will far outweigh the costs.

For the institutions at the central level i.e. ministries, county governments and state agencies, it is necessary to continue training the auditors to a higher level in future years. A considerable amount of theoretical training has been undertaken within the Phare 2000 project but this training has served as the initial basis of raising the auditing to the required level. It is imperative to continue developing the skills of existing auditors who have received considerable theoretical training. It is also necessary to increase practical skills of all existing auditors in the network and to make available basic training for the new auditors who will join as the requirements connected with accession increase. The newly hired auditors will join the government internal audit network, as the EU funds are becoming available and will need the skills necessary to provide adequate control of EU funds.

The planned activities are described indicatively in Annex 5 - Additional training requirements.

#### 3.2. Linked activities:

<table>
<thead>
<tr>
<th></th>
<th>Strengthening Good Governance and Accountability in the Public Sector of Estonia by building up a Sound Financial Management and Control System</th>
<th>Phare 2000</th>
<th>On-going</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Activity</td>
<td>Start Year</td>
<td>Status</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------------------------------------</td>
<td>------------</td>
<td>-----------</td>
</tr>
<tr>
<td>2</td>
<td>Completing preparations for the management of EU structural funds and the Cohesion Fund (SPP+)</td>
<td>Phare 2001</td>
<td>On-going</td>
</tr>
<tr>
<td>3</td>
<td>Multi-country anti-fraud programme for the protection of the financial interests of the Community (PH/2002/1412)</td>
<td>Phare2002 MCP</td>
<td>Planned</td>
</tr>
<tr>
<td>4</td>
<td>SPP+ completing preparations for the management of EU structural funds - phase I</td>
<td>Phare 2001</td>
<td>On-going</td>
</tr>
<tr>
<td>5</td>
<td>SPP++ completing preparation for the management of EU structural funds - phase II</td>
<td>Phare 2002</td>
<td>Planned</td>
</tr>
</tbody>
</table>

For details see under 3.1.2 (SPP+ and SPP++) and 3.1.5 (Phare 2000)

- Co-ordination will be ensured with the EDIS process currently ongoing for PHARE and ISPA.

### 3.3 Results expected:

- Adequate number of internal auditors are sufficiently trained to be ready to audit EU and State budget finances in line with EU and national requirements (approximately 70 internal auditors and 20 trainers);
- PIFC manual requirements are regularly audited in all management cascade levels in co-operation with State Audit Office;
- Sustainable training courses have been developed with a capacity to allow a minimum of 10 public internal auditors to graduate from a State university each year as of 2005.

20 auditors from the FCD and the Government internal audit network have been identified and prepared to act as lecturers in a State university and as advisers during the practical training.

Future training of the public internal auditors will be handed over to a State University and the FCD, which will be in a position to offer a sustainable training base for new auditors.

### 3.4 Activities:

**Twinning in financial control (duration of 24 months)**

The following resources are considered necessary to carry out the activities listed in this fiche particularly those detailed at Annex 5.

#### 3.4.1 PAA (12 man-months, cost 150 000 EUR)

PAA will fulfil the tasks laid in the Reference Manual on Twinning Projects, and other tasks as maybe agreed from time to time with the project leaders. The main duties will include:
Designing a professional internal audit training course in co-operation with Estonian authorities for State universities. The training course is in compliance with national legislation on the PIFC and internal auditors’ certification requirements set by Institute of Internal Auditors (IIA). Therefore the graduated students will have the diploma accepted by the Ministry of Education and Institute of Internal Auditors. The prompt curriculum and the content of activities must be outlined by PAA in co-operation with relevant authorities concerned; The curriculum will be dedicated to PIFC training and directed toward public internal auditors.

- Continuous review of the relevance and updates of the Strategy and action plan for the development of the PIFC
- Developing the certification requirements for the internal auditors;
- day-to-day advising on project implementation;
- guiding the relevant auditing bodies of the institutions concerned in prior managing the EU structural funds and the Cohesion Fund internal auditors through the entire internal control/audit network on management cascade levels in the outlining and harmonisation of their ex-ante and on-the-spot control/audit manuals;
- ensuring the comparison of the manuals with relevant EU and Estonian regulations and requirements, segregation of the duties and responsibilities between the management cascade levels;
- Supervising the training activities; organizing the planned seminars, mentoring sessions and traineeships;
- working closely with the experts providing the various forms of assistance on PIFC issues;
- regular meetings with Estonian counterparts to monitor activities and to revise plans as necessary.

Profile:
- relevant university Degree (preferably at Master level);
- relevant working experience of at least 10 years;
- extensive knowledge of EU regulations and international practice in the area of Financial Control;
- experience in auditing of structural funds and the Cohesion Fund in a Member State;
- familiarity with financial control systems in Member States (similarity with Estonian financial control/audit systems will be advantage);
- excellent knowledge of English;
- good computer proficiency.

3.4.2 PAA assistant (12 man-months, cost 12 000 EUR)

Tasks:
- assisting of PAA;
- arranging of training events;
- organising of translation;

Profile:
- good knowledge of English;
good knowledge of Estonian;
• good communication skills and highly organised;
• good computer proficiency;
• experience in Phare / Twinning project (management) would be an advantage;

3.4.3 MS Project Leader (3 days per month over 24 months, 16 000 EUR)

The project leader will fulfil the tasks laid in the Reference Manual on Twinning Projects, and other tasks as maybe agreed from time to time with the project leaders.

Moreover, the project leader must ensure that reporting and project management from the MS side are fully ensured until the end of the project after the departure of the PAA.

Profile:

• university Degree (preferably in Master level);
• 15 years working experience;
• working experience in EU structures or other Accessions countries;
• fluent English;
• excellent inter-cultural communication skill.

3.4.4 STE system evaluator (4 man-months, cost 64 000 EUR)

Tasks:
• evaluating the progress made in the development of internal audit and financial control system within the Estonian Government Sector and local communities
• Detailed review of the Strategy and Action Plan for the development of the PIFC
• making recommendations for future developments and improvements of EU requirements for PIFC strategy from 2003 until 2009;

Profile:
• university Degree (preferably in Master level);
• working experience at least 10 years;
• extensive knowledge of EU regulations in the area of financial control;
• experience in managing and auditing;
• familiarity with financial control systems in member States (similar with Estonian financial control/audit systems will be advantage);
• excellent knowledge of English;
• good computer proficiency.
3.4.5 Sustainable training activities (indicative, details to be developed with the MS during the Covenant preparations) (300 000 EUR)

- Traineeships in Member States

Co-financing under the Estonian budget will cover flight costs.

Target of the project is to provide training on the specific topics in auditing of the structural funds and the Cohesion Fund supplementary to the training provided by the SPP+ and SPP++ project. Experience would be preferably obtained in a number of Member States so the best practice could be developed for Estonia. Countries for practical training should be chosen on the basis mainly of financial control/audit systems in those countries. It is hoped to gain experience within the administration where systems may be similar to Estonia but also to study system where progressive steps have been taken in specific control-related areas.

The experience with the Irish Twinning under the Phare 2001 facilities has shown that a traineeship for auditors has much greater impact than ordinary study tours or seminars for a group of people.

- Interpretation, translation and materials costs for training activities and the development of training courses

The Twinning partner chosen will not necessarily be one where English is the mother tongue. It may therefore be necessary to make provision for interpretation for the trainees who will be placed for work experience in the MS in the event that the working language is not English.

In addition, not all auditors have a sufficient command of English to participate in seminars delivered through English.

Therefore some seminars need to be delivered in Estonian. Interpretation costs are approximately 600 Euro per day with associated document costs for the seminar delivery adding several hundred more Euro.

The preparation of training materials in Estonian (approximately 1400 pages of translation, including translation of guidelines, manuals, instructions, legal instruments etc.)

It will be required to prepare training materials.

- Training of trainers

Training of trainees on-the spot matters is also planned to carry out under the budget line “Traineeships in MS”. The new project would combine theoretical and practical training and would also prioritize the training of trainers (20 highly qualified auditors) within the Estonian public administration. The target group has already received the professional audit training. It is necessary to equip this target group with the skills and expertise, so that
they can sustain the internal audit training efforts in the long term in Estonia without the need of foreign training experts. The Phare 2000 project began the process of training the trainers by inducting them in the basic audit skills and a course in training techniques. It is necessary to continue the trainers’ personal and professional development by improving and developing their skills and techniques. They must be able to offer expert knowledge and technical competence and also to demonstrate their understanding of best practice. The planned training will help the identified trainers to achieve the highest levels of professional competence and therefore must be trained separately from the newly pointed auditors who are getting their first training course on internal auditing.

- **Training of auditors**

It is planned that two groups of trained auditors include approximately 70 auditors who will be trained under the project.

Target of the training’s to train the *newly appointed auditors* who have not received training under the Phare 2000 project at central and local governments’ levels. Approximately 90 (inc. 20 trainers and 70 auditors) from whole public sector will be trained.

- **Training by foreign experts** (with at least 5 years of experience) should consist of professional training’s, seminars and workshops on various aspects of auditing and financial control, complementing relevant universities training programs. As all auditors must be able to operate in conformity with professionally accepted standards, the main focus of the training will be to develop, approved by the Institute of Internal Auditors, or a course of an equivalent level to the Certified Internal Audit (CIA) course specially designed for Estonian public sector auditors.

Training must also be provided in other specific topics, for example, risk assessment, legislation, audit management, communication skills, audit trail etc. Courses must ensure the continuing professional development of existing auditors and be in line with the Strategy and action plan for the development of the PIFC.

Training will be divided into an appropriate number of modules at the CIA equivalent level and including other specific topics designed for Estonian public sector auditors.

**3.5 Lessons learned**

A number of important lessons have been learned during the Phare 2000 project implementation, including:
• The training acquired must be sustained in the medium and long-term. Phare 2000 will provide a core group of 90 auditors, with 20 of these having been trained as trainers. However, as already demonstrated the needs of the government sector goes way beyond this number. Therefore, to ensure a continuing supply of professionally trained public sector auditors it is essential to have ongoing mechanisms for academic education (professional IIA training), for practical experience and for continuous developmental training. The once-off provision of this type of assistance through Phare 2000 cannot have lasting benefits unless follow-up training mechanisms are put in place. Further technical assistance is needed to do this.

• the mix of practical and academic/theoretical training is the best approach for training new and existing audit staff;
• specialised training in financial control/audit of the structural funds and the Cohesion Fund cannot await actual accession to the EU;
• continued investment in training is necessary to counteract staff mobility e.g. to private sector, European Commission etc.;
• specialised training must be under the control of a central co-ordinating ministry to ensure that it is adequately undertaken and responsibilities are properly defined;
• there is a need to ensure that future Estonian trainers can provide adequate coaching for new public sector auditors;
• the scope of the training needed is too wide to be covered within a twelve-month period and therefore the timeframe for such projects needs to extend over two years. Even in a two-year project it is only possible to train a limited number of persons to a very high level.

4. Institutional Framework

The financial control twinning component will be carried out by the Ministry of Finance Financial Control Department, but the beneficiaries will involve the whole internal audit structure of the central and Local Governments as well as the State Audit Office.

Annex 4 provides information on the financial control system in Estonia.

5 Detailed Budget

<table>
<thead>
<tr>
<th></th>
<th>Phare</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Support</td>
</tr>
<tr>
<td>Contract: Twinning in financial control</td>
<td>571 000</td>
</tr>
<tr>
<td>Twinning covenant preparation</td>
<td>12 000</td>
</tr>
<tr>
<td>PAA for 12 months</td>
<td>150 000</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
</tr>
<tr>
<td></td>
<td>621 000</td>
</tr>
</tbody>
</table>

* National Cofinancing
<table>
<thead>
<tr>
<th>Training includes:</th>
<th>64 000</th>
<th>2 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training includes:</td>
<td>300 000</td>
<td>32 000</td>
</tr>
<tr>
<td>• Traineeships</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Interpretation, translation and training materials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Training of trainers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Training of auditor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Training by foreign experts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final audit</td>
<td>5000</td>
<td></td>
</tr>
<tr>
<td>Reserve max 2,5 %</td>
<td>12 000</td>
<td></td>
</tr>
</tbody>
</table>

The amounts for co-financing indicated in the table correspond to cash co-financing. In addition, in-kind contributions from the Estonian administration for effective implementation of the twinning/twinning light/TA may be further detailed in the twinning covenant/Terms of references.

The co-financing expenses will be monitored by the beneficiary and the NAO. For the earmarked co-finance, a clear and verifiable set of costs will be provided. The beneficiary will define which budget lines are the source for cofinance. Flow and stock data on co-finance will be submitted quarterly for steering committees, twice a year to the Sector Monitoring Working Group.

The beneficiary, together with the NAO commits to sound financial management and financial control.

Co-financing for the project will include the necessary costs associated with office facilities for the twinning experts and training seminars and courses (inc. technical equipment), where only the cash co-financing is included, as Ministry of Finance pay rent for office facilities and room of seminars to the Riigikinnisvara Ltd. PAA and PAA assistance communication costs, the flight and insurance costs for the traineeships are also included to the co-financing. Project co-financing will be covered from Estonian Ministry of Finance budget resources under the article 21 “Administrative Costs”

<table>
<thead>
<tr>
<th>National co-financing</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>State budget</td>
<td>10 000</td>
<td>25 000</td>
<td>15 000</td>
<td>50 000</td>
</tr>
<tr>
<td>Incl. International transportation</td>
<td>2 000</td>
<td>5 000</td>
<td>8 000</td>
<td>15 000</td>
</tr>
</tbody>
</table>
6. Implementation Arrangements

The financial control-twinning component will be carried out under the authority of the Ministry of Finance Financial Control Department, which is responsible for co-ordination of the internal audit and internal control systems within the Estonian public sector.

The Ministry of Finance intends to build on the work accomplished in the previous two Twinning Covenants so as to make the achievements of those projects fully sustainable over the long-term. FCD will continue to monitor the development of the internal financial control/audit systems, where each government spending centre in the line ministries has its own internal audit unit, responsible for the sound financial management and transparency of all financial transactions (including those with EU funds) within the ministries.

Special attention will be paid to the extension of good practice to the weakest areas in the system where most attention will have to be paid. This is at the local government level where many final beneficiaries of Structural Funds will be located. FCD has to ensure that financial control at these levels is adequately understood and that arrangements are in place for audit and control. It will be necessary to supervise a considerable amount of training.

At the same time, it is the aim of the Ministry of Finance to work out permanent training arrangements for professional audit courses with the university sector so that there will be a national centre of expertise charged with producing qualified public sector internal auditors.

The beneficiaries of the proposed trainings therefore will be officials within the whole internal control and internal audit structure of central and Local Governments, as well as the State Audit Office. Co-operation with local governments will be assured by the creation of cascade agreements which will give control powers to the ministry of Finance over these bodies in receipt of EU funding.

The PAA will be located in the Ministry of Finance (FCD) but will liaise with all other bodies in the chain of internal audit and internal control systems as necessary.

The CFCU is the Implementing Agency responsible for tendering, contracting and payments. Responsibility for technical preparation and control will remain with the beneficiary:

CFCU: Mr. Hennart Arismaa, tel. +372 6113012, fax +372 6966810
Steering Committee:
Comprising representatives of the EC Delegation, the Twinning partners, the Ministry of Finance (incl. the representative from FCD), the Ministry of Internal Affairs, State Audit Office and from the other beneficiaries including as appropriate representatives of local governments. The PAA of the SPP++ project will be invited as observer.

6.1 Twinning

The twinning will be implemented under the Financial Control Department of the Ministry of Finance. Contact person Mr. Mati Paljasma

One twinning covenant is foreseen for 621 000 EUR (571 000 EUR from Phare)

6.2 Contracts

Contract : Twinning in financial control 621 000 (571 000 EUR from Phare)

7 Implementation Schedule

7.1 Start of tendering/call for proposals
February 2003

7.2 Start of project activity
October 2003

7.3 Project Completion
October 2005

8 Equal Opportunity

During the implementation of the project there will be no discrimination on the grounds of race, sex, sexual orientation, mother tongue, religion, political or other opinion, national or social origin, birth or other status. Equal opportunities for women, men and minorities will be ensured by the Steering Committee during the implementation of the project. The Estonian laws and regulations concerning the equal opportunities for women, men and minorities will strictly be followed. Equal opportunity for men and women to participate in the project will be measured by recording the experts and consultants employed.

9 Environment

The project in itself will not have an impact on the environment.

10 Rates of return

The project focuses on administrative capacity building and as such will not have a rate of return comparable to investment projects.

11 Investment criteria

11.1 Catalytic effect:
N/A

11.2 Co-financing:
See Chapter 5 “Detailed Budget”

11.3 Additionality:
Phare grants shall not displace other financiers

11.4 Project readiness and Size:
All the activities of the project are ready to be contracted either immediately or within 6 months of signing the Financing Memorandum.
11.5 **Sustainability:**

The Government of Estonia will sustain the financial management and control system. Future training of the public internal auditors will be handed over to the State universities. Negotiations between Tallinn Technical University and FCD are ongoing and must be finalised by the end of 2004. According to the plans the Tallinn Technical University will start training the internal auditors under the study program since September 2005. The training program will then be financed through the State budget as normal training program of any State university. The FCD will become the training base for new auditors. The development of study program and certification requirements will become a target activity of the new covenant. Participants in training will be required to sign a commitment to remain in the public sector for a period of time after the training has ended. A draft of the contract shall be provided before the project start.

11.6 **Compliance with state aids provisions**

N/A

11.7 **Contribution to National Development Plan**

The project will contribute to the successful implementation of the SPD 2003-2006 and State Budget Strategy for 2003-2006.

12 **Conditionality and sequencing:**

A comprehensive strategy for 2003-2009 and detailed action plan for 2003-2005 for the development of the PIFC system in Estonia will be presented in English before the selection of Twinning partners. The action plan will include predicted staff level developments at all levels of the PIFC, skills gaps and training needs as well as financing needs and sources. The Strategy and Action Plan needs to be reviewed and well coordinated with the preparations of the Single Programming Document for Structural Funds.

Strategy and action plan will be presented and agreed with the EC Delegation and will be discussed at the project Steering Committee.

The indicative training needs indicated in the fiche will be reviewed on the basis of the finalised strategy and action plan.

**Sequencing**

- new project should commence as soon as possible after current project ends (March 2003) so that there is continuity in the training program;
ANNEXES TO PROJECT FICHE

1. Logical framework matrix
2. Detailed implementation chart
3a Cumulative Contracting Schedule
3b Cumulative Disbursement Schedule
4 Financial control system in Estonia
5 Additional training requirements
6. Gap Assessment
7. Linked activities under SPP+ and SPP++
8. Draft commitment form for trainees from public sector
Logical framework matrix

<table>
<thead>
<tr>
<th>LOGFRAME PLANNING MATRIX FOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project – <strong>Strengthening Good Governance and Accountability in the Public Sector of Estonia by building up a Sound Financial Management and Control System – Phase II</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Programme name and number</th>
<th>Contracting period expires</th>
<th>Disbursement period expires</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>30 April 2005</td>
<td>30 April 2006</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full functioning of the financial control system of Estonia according to EU and national requirements and standards.</td>
<td>❑ Starting from 2005 State university will start training 10 internal auditors each year. First students will be graduated 2009; ❑ All final beneficiaries have signed the cascade agreement</td>
<td>❑ Annual Reports; monitoring reports, ❑ Agreement signed with State university; ❑ Cascade agreement</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>To further strengthen the administrative capacity and rising of auditing skills in the public sector to ensure an effective control and protection of EU and State Budget funds in Estonia.</td>
<td>❑ 20 highly qualified trainers; ❑ 70 auditors: have been trained under the Phare 2003 project.</td>
<td>❑ Annual Reports, quarterly reports, monitoring data; ❑ Employment contract will be signed with each trainee; ❑ Certification requirements are approved.</td>
<td>❑ PAA and STE experts contribute effectively to the project; ❑ Qualified internal auditors are motivated to make project successful.</td>
</tr>
</tbody>
</table>
### Results

- All EU and State budget finances are professionally audited;
- Adequate number of internal auditors are sufficiently trained to be ready to audit EU and State budget finances in line with EU and national requirements;
- Future training of the public internal auditors will be handed over to a State university and the FCD which will be in position to offer a sustainable training base for new auditors;
- Auditors from FCD and the Government internal audit network have been identified and prepared to act as lecturers in a State university and as advisers during the practical training;
- FCD become the training base for the internal auditors from public sector and students from State universities.

### Objectively Verifiable Indicators

- EU Commission assessment Report SAO, FCD, Government sector auditors reports;
- State university course in Internal Audit established;
- 90 (20 trainers and 70 internal auditors) internal auditors trained for public sector audit work (the second wave);
- 10 auditors from the FCD and 10 auditors from internal audit network will act as lecturers in State universities;
- 11 trainees will have the training in FCD each year.

### Sources of Verification

- Cascade agreements are signed;
- In IIA records;
- State universities records;
- MoF records;
- Contracts with university and trainees are signed;
- Service – study statement.

### Assumptions

- Law on SF is force;
- Auditors have successfully completed training;
- Strategic and annual audit plans for public internal audit network are approved;
- An appropriate training course is designed and put in place in State universities;
- National strategy for internal audit

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Source of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
A professional internal audit training course will be designed and implemented in State universities;

Certification of public internal auditors;

Auditors of FCD and Government hierarchy will act as lecturers in State university;

Training on control/auditing matters following the covenant;

Traineeships in Member States;

Assessing of internal control/audit performance in the all levels of the Government sector;

Updating procedures and training programs in line with PIFC developments (including EU).

Agreement signed with the State university before 2005;

140 internal auditors of the government network are trained by the end 2005;

A certification system for the public sector is developed

20 trainers and 70 internal auditors have been trained under the Phare 2003 project;

Auditors are trained in MS and by experts;

Once a year FCD evaluates the performance of the internal control/audit through the whole Government sector;

Once a year FCD updating training programs and the national strategy for internal audit.

Project is fully implemented. Reports are recorded;

Certification record;

Training reports recorded;

Evaluation reports recorded;

Updated training programs are recorded and improved;

Employment contract is signed with each trainee.

PAA and STE can provide the necessary expertise;

Good co-operation between experts and Estonian administration;

Motivation of the trainees;

The employment contracts with trainees are signed;

Suitable financial arrangements can be negotiated;

Tri-lateral agreement between the Ministry of Finance, the Ministry of Education and the State university is signed.

Preconditions
Phare 2000 project
Phase I is completed. All expected goals are achieved.
Trained auditors: 90
(includes)
Trained trainers: 20
Trained auditors: 70
Traineeships provided: 20
Deatailed Implementation Chart

Project No:  

Project Title: Strengthening Good Governance and Accountability in the Public Sector of Estonia by building up a Sound Financial Management and Control System – Phase II

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th></th>
<th>2004</th>
<th></th>
<th>2005</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract Twinning in</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Control</td>
<td>TTTC</td>
<td>CC C C C</td>
<td>I I</td>
<td>I I I I I</td>
<td>I I I</td>
<td>I I I I I</td>
</tr>
<tr>
<td>PAA</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td>I I I I I</td>
</tr>
<tr>
<td>PAA assistant</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td>I I I I I</td>
</tr>
<tr>
<td>STE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sustainable training</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Cumulative Contracting Schedule

Project No:

Project Title: Strengthening Good Governance and Accountability in the Public Sector of Estonia by building up a Sound Financial Management and Control System – Phase II

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>30.06</td>
<td>30.09</td>
<td>31.12</td>
</tr>
<tr>
<td>Contract Twinning in Financial Control</td>
<td>571 000</td>
<td>571 000</td>
<td>571 000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>571 000</td>
<td>571 000</td>
<td>571 000</td>
</tr>
</tbody>
</table>
## Cumulative Disbursement Schedule

**Project No:**

**Project Title:** Strengthening Good Governance and Accountability in the Public Sector of Estonia by building up a Sound Financial Management and Control System – Phase II

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31.03</td>
<td>30.06</td>
<td>31.03</td>
</tr>
<tr>
<td>Contract</td>
<td>90 000</td>
<td>120 000</td>
<td>150 000</td>
</tr>
<tr>
<td>Twinning in</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Control</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>90 000</td>
<td>120 000</td>
<td>150 000</td>
</tr>
</tbody>
</table>
Financial control system in Estonia

The Estonian Government Internal Control system is being built up in accordance with internationally accepted standards and Estonian own Good Internal Audit Practice Manual. The Estonian government internal control system consists of a hierarchy of the government institutions where each of them has its own independent internal audit body responsible for auditing of its own institution. If this institution (mainly the Ministry or the County Government) has organisations under it or administered by it, the main office is also responsible for the co-ordination and guidance of the internal control/audit service in those organisations.

According to the primary legislation—the Estonia Government of the Republic Act (GRA) art. 92, (amended 07.06.2000) each government institution has to set up its own internal audit body. The head of the government institution - the Minister or the County Governor - is personally responsible (see GRA art 49 and 84) for pursuance of the provisions of the GRA.

The secondary legislation—the Estonian Government Regulation No 329 approved (03.10.2000) stipulates the principles for carrying out internal audit in government agencies and state agencies administered by them.

From this data the government hierarchy is covered by the primary and secondary legislation and there is no future amendments foreseen into the legislation to ensure the working ability of the internal control and audit system.

The Estonian Government internal control system has been in existence for several years but the most significant changes has occurred since early 2000.

Activities already performed

The training of internal auditors commenced in 1999 under the SPP project while 49 internal auditors have got general knowledge on internal control and audit matters. More extensive training was then put in place under the Phare 2000 project, which is ongoing until end-March 2003. This training is a mixture of theoretical and practical training and will ensure that 90 internal auditors in the line Ministries, County Governments and State agencies can operate to internationally accepted standards.

The current training is targeted at some 90 officials from all 170 in Government internal audit hierarchy. 15 auditors of those 90 are located in the Financial Control Department of the Ministry of Finance, which is responsible for co-ordinating internal control and internal audit throughout the government sector of Estonia. The remaining persons are spread throughout the rest of the Government internal audit system.

One aim of the Phare 2003 project is to ensure a harmonised approach to financial control and audit procedures, practices and documentation. 80 recently hired internal auditors in the Government internal audit network need also professional training. The local
governments become the beneficiaries from the EU structural funds after Estonian accession to the EU. Currently the local governments have 19 internal auditors through the entire network. It is estimated that by the end 2004 there will be about 30 internal auditors in the local governments.

The Financial Control Department of the Ministry of Finance is planning to recruit additionally 7 auditors during 2003 to audit the EU structural funds and the Cohesion Fund.

The following schema represents the number of internal auditors in Government audit system (01.October 2002)
ANNEX 5

Indicative Additional training requirements

The training activities that the auditors have started under PHARE 2000 twinning project are aimed at bringing their audit techniques and procedures up to internationally accepted auditing standards and to train them to be of professional auditors with good theoretical and practical knowledge.

The current training strategy which in large scale consists of two phases was outlined by the Estonian Ministry of Finance in co-operation of EU experts and professional auditors from private sector. Full IIA standards were followed to make it possible for the auditors to take future Certified Internal Auditor (CIA) examinations.

The aim of the whole training strategy is to set up the very modern internal control and audit system, which after the finishing of comprehensive training programmes provided by the Estonian Ministry of Finance can maintain the self and progressive development. Estonian Ministry of Finance foresees that after the end of the two phases of the training strategy all training activities on preparation of internal auditors for government (or private) sector will be taken over by the State Universities. The Ministry of Finance will future act as consultant in outlining the State Universities training programs and lecturer for internal audit branch. The Ministry of Finance, particularly the Financial Control Department, will be the future training base where the students can get the best practices guided by experienced auditors.

The training strategy, which has been defined and co-financed by PHARE assistance, must be capable of being sustained in the longer term. What was started under the Phare 2000 project can be regarded as the first phase of a two-phase operation. At the end of the second phase, subject to the availability of the necessary funding, it is considered that a fully operational Estonian–based sustainable training strategy can be achieved.

The first phase was started under the PHARE 2000 project and was implemented through the twinning covenant, which was signed between Estonia and Ireland. The approach taken was ground-breaking within the PHARE program in that it comprised the integration of professional audit training with practical on-the-job training in Irish government institutions. The underlying philosophy was to train all the internal auditors of the government hierarchy according to the internationally accepted standards so that, by the end of the course, they could undertake the CIA examinations sponsored by the Institute of Internal Auditors. In addition to the theoretical course, 20 people were selected to get 20 days work experience in internal audit units in the Irish government institutions. The training course itself consists of four academic modules lasting some 48 days in the classroom and delivered by professional internal auditors from the EU. The first phase will come to the end in March 2003. At the end of this phase, which is already highly evaluated, there has been a considerable transfer of knowledge to the participants. They will use this knowledge in their everyday-working environment.

With the current project almost half way through, it is possible to draw some conclusions about the issue of sustainability of the project against the backdrop of the wider capacity building issue, taking into account the likely demands on control staff at all levels of the State sector after the full introduction of the structural funds and the Cohesion Fund management system.
• There is a need to ensure that the training to a professional level is not purely a one-off exercise.
• It would be possible to modify the IIA-based training to make it more suitable to public sector requirements.
• In doing so, it would be possible to reduce medium and long-term costs.
• It would be possible to reduce the training period for basic training thus making the training more acceptable to public sector managers who have to release staff from ongoing work activities.
• It would be possible to “nationalise” the training, thus reducing dependence on external experts, thereby building up the administration’s own capacity.
• The work experience placements have provided invaluable training benefits and should be extended to more local staff.
• Quality assurance needs to be provided for the whole Government Hierarchy.
• Special attention needs to be devoted to training adequate numbers of FCD staff to carry out the 5% checks required by Commission Regulation No. 438/2001.
• There is a pressing need to familiarise auditors with the control requirements of the European Social Fund.

It can be concluded that much has been achieved but that there remains a lot to be done also. Theoretical knowledge and practical skills have been developed and these have been applied to the auditing of ISPA, SAPARD and national budget schemes. After accession the range and complexity of EU schemes will increase considerably and it is considered essential to prepare audit staff well in advance for the tasks that they will have to undertake. In addition, and equally important, the investment in training under Phare 2000 project must be sustained and enhanced.

To achieve these results in the medium-term requires the implementation of a second phase, which is the direct continuation of the first phase. However the scope of the project will be extended to new auditors and also auditors of the local government level. The Phare 2003 project would again combine theoretical and practical training and would also prioritise the training of trainers 20 highly qualified auditors within the Estonian public administration. The second phase would be a continuation of the process of the first phase but to a more professional level and covering a wider scope of relevant control-related activities.

This training would be divided into three parts:

1) The **first part** would be concentrated on the highest achievers in the existing IIA course and would effectively turn them into expert trainers of internal audit techniques within the Estonian administration.

2) The **second part** would be the development of a new, shorter, public sector oriented, specialised training course, approved by an international public finance body, which would be designed as a complement for the existing IIA course.

This course would:

- provide participants with basic and advanced explanation and training in the fundamental principles, practices and techniques of modern internal auditing;
enable those auditors to apply the knowledge and understanding gained and to use the information and skills to audit a broad range of activities and areas;

develop participants’ confidence to audit and advise on the implementation, operation and governance and control issues within their organisations’ financial management systems;

consider the latest developments in internal audit and its environment, professional standards, corporate and financial governance, approaches to risk management and assessment, the role and approaches of the EU auditors, and other relevant public service and government issues;

provide for the auditors the latest legislation framework development on areas of detection, surveillance and future prevention control/auditing methodology of the money-laundering, corruption, bribery and public procurement matters;

build on the existing knowledge and competencies of the participants in the context of their work experience and exposure and/or attendance at introductory training courses and to explore the opportunities which exist for further developmental and professional qualifications;

facilitate the development of appropriate and consistent approaches, standards and practices within the internal audit network.

The course would be run for all new auditors and existing ones who have not been able to complete the current IIA training. Successful completion of the course would entail accreditation as a government-approved auditor for public service activities.

3) The third part of the training would be directly related to the auditing of the structural funds and the Cohesion Fund’ expenditure. It would involve the provision of practical training for internal auditors within Member States’ administration on ex-ante, on-the-spot control/audit matters, particularly focused on the ERDF, ESF, FIFG, EAGGF and the Cohesion Fund.

The Financial Control Department (FCD) in the Ministry of Finance will have responsibility for the audit of SF expenditure to comply with the provisions of Articles 10, 11, 12, 15 and 16 of Commission Regulation (EC) 438/2001. With regard to Article 10-2, this will involve responsibility for the conduct of the minimum 5% sample checks of expenditure and audit control systems through the all cascade levels. These audits will be undertaken from Managing Authority, Paying Authority and Intermediate Body level down through the cascade to final beneficiary level. The Financial Control Department will also examine financial management, control and system procedures throughout the cascade to ensure that these are adequate.

The specialised nature of the tasks involved and the high degree of competence required by auditor’s means that nothing should be left to chance in the preparatory training period prior to accession. Estonian auditors will not become acquainted with the special requirements of the ESF etc. by auditing ISPA, SAPARD or national schemes. The most relevant training can only be obtained by on-the-job work experience in specialised audit and control departments in the Member States. The
advantages of such training have become obvious during implementation of Phare 2000 project and the benefits accruing to trainees are obvious.

This aspect of the project would involve, therefore, Estonian auditors participating in on-the-spot checks within MS administrations and gaining deeper experience of all the structural funds and the Cohesion Fund management and control systems. Training would cover areas such as HRD programmes, LEADER control checks, transport control checks, environmental services control checks, 5% - 15% verification checks, protection of EU financial interests etc. At the organisation management structure, practical experience would be obtained on:

- full implementation of the requirements of PIFC manual;
- ex-ante control procedures through the all levels of public financial control system;
- audit charters are outlined and implemented;
- accounting and reporting requirements – public accountability system;
- financial statements, transactions, reports, balances, budgets;
- project management and co-financing;
- advanced payments;
- fixed assets;
- agreements;
- public procurement;
- tendering and contracting.

It is considered that this combination of training would considerably and strategically enhance the depth of knowledge of internal auditors within the whole Government hierarchy.

Internal auditors of the Government hierarchy have already reached the academic qualification level where they can more benefit from the direct contacts and practical audits on-the-spot instead learning just the theoretical studies in classrooms. As the practical study in Ireland has pointed out the case studies in the partner counties have the biggest positive impact to the professional growth of each auditor. The Estonian financial control system have learned lessons that this is the key element in raising the full administrative capacity of the internal auditors in all levels of the internal control/audit hierarchy. From the other hand this approach will reduce the project cost, as main expenditures will be covered from co-financing. Selection of the candidates for practical training will be conducted very carefully considering all previous theoretical and practical results of studies and achievements of everyday work.

Practical training would only be available to those internal auditors who have successfully passed the theoretical training.

The State Audit Office is also included to the training programs as to the theoretical as well to the practical part of the studies. The Estonian Ministry of Finance has the close co-operation with State Audit Office starting from audit planning, adjustment of the audit activities and resulting in reporting and daily based information exchange.
Gap Assessment.

1.1 A mid-term assessment of the ongoing Phare 2000 twinning project shows that most of what was set out in that project is being achieved and that the overall objectives will be met by the end of the twinning period.

1.2 However, lessons are being learned for the future and these can inform us as to the immediate technical assistance needs of the Estonian government financial control system after 2002.

1.3 The following suggestions could provide a way forward for training in the period between 2003 and Estonia’s accession to the EU. They primarily concentrate on the further developments needs of the internal audit administration.

1.4 Much has been achieved under the current Covenant but it needs to be recognised that this work, however successful, needs to be sustained for the foreseeable future to ensure that there is a sound foundation for the important work of protecting EU and State finances.

1.5 Some of the features of the current twinning were innovative and have proved highly successful, for example, the professional training, the traineeships in Ireland and the mentoring sessions. As far as possible this twinning formula should be continued for the future technical assistance programmes.

1.6 Before and after the date of accession there will be considerable movement in personnel numbers as Estonian officials take up job opportunities in the European institutions.

1.7 In addition, there will be an increased demand for new staff as the EU requirements for financial control of the structural funds and the Cohesion Fund make its full impact. There will also be a need for increased training at the final beneficiary level (in many cases local authorities). Future training will have to take account of these factors.

1.8 The employment contract must be signed by each of trainees.

1.9 It will be important therefore to maintain a programme of traineeships whereby local internal auditors (especially newly recruited ones) can work under the guidance of experienced auditors in MS for sustained periods.

1.10 It will be necessary to maintain a programme of mentorships so that good practice can be learned from experts from MS.

1.11 It will be essential to develop an effective and affordable professional training programme that leads to certification as a government internal auditor. Holders of the certificate should be able to demonstrate that they are qualified through
theoretical and practical experience to conduct internal audit work in Government organisations to the required standard.

1.12 The qualification should be formally linked to an internationally accredited auditing organisation and the course content should be approved by that organisation.

1.13 In advance of developing this new qualification it would be necessary to continue the IIA training course sponsored by the Institute of Internal Auditors.

1.14 The FCD should have the responsibility, as co-ordinator, for monitoring the delivery of the necessary training to ensure that it reflects the knowledge requirements specific to the effective performance of internal audit in the government sector.
Linked activities under SPP+ and SPP++

**SPP+ (Completing preparations for the management of EU structural funds - Phase I)**

One of the four areas that SPP+ provides assistance in is: Preparation of legal, budgetary and administrative framework for the implementation of the acquis and harmonisation of tasks related to payment, public internal financial control and audit of SFs assistance;

Covenant section 3.4 (Implementing Structural Fund Assistance- Financial Control) contains the following activities:
5) analysing the overall situation of internal control in Estonia;
6) manual for on spot control of Structural Funds;
7) training for on spot control;
8) organising an on-site training in Finland for 5 persons from the Financial Control Department of the Ministry of Finance (on-spot financial control training).

Expected results as listed:
1) on spot control manual prepared;
2) training given to the Financial Control Department and the relevant internal auditors of Paying Authority of Structural Funds (Ministry of Finance);
3) study tour arranged.

**SPP++ (Completing preparations for the management of EU structural funds – Phase II)**

Separate activities planned under SPP++ linked with financial control and audit are minor and as the SPP++ is targeted at building up the whole implementation and management system for Structural Funds (continuing to do so mainly at the Implementing Agency level), issues concerning financial control are presented only in the context of linking different subsystems.

According to the Fiche of SPP++ the project “offers assistance in linking internal financial system, internal auditing, accounting system of Implementing Agencies to SPD management systems and assuring that the systems meet the requirements that are set by EC and Estonian authorities” (which is a very small component in the overall structure of activities).

SPP++ has a large training component, the composition of which is determined by the results of the training needs analysis prepared under SPP+. SPP++ includes only the training components for financial management therefore the specific training needs for financial control must be carried out using only the Phare 2003 project.
Matrix table of SF management (general distinction between SPP+ and SPP++)

<table>
<thead>
<tr>
<th>structures</th>
<th>Programme implementation</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Legal framework</td>
<td>• nominating MA/PA/IB</td>
<td>• completed</td>
</tr>
<tr>
<td></td>
<td>• describing the functions</td>
<td>• completed</td>
</tr>
<tr>
<td></td>
<td>• delegation of functions</td>
<td>• completed/SPP+</td>
</tr>
<tr>
<td></td>
<td>• creating necessary structures</td>
<td>• state budget</td>
</tr>
<tr>
<td></td>
<td>• SF admin legal act/primary legislation</td>
<td>• SPP+</td>
</tr>
<tr>
<td></td>
<td>• secondary legislation</td>
<td>• state budget</td>
</tr>
<tr>
<td></td>
<td>• cascade agreements</td>
<td>• SPP++</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• nomination of units and functions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• describing the system</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• SPP+</td>
</tr>
<tr>
<td>Human resource</td>
<td></td>
<td>• SPP++</td>
</tr>
<tr>
<td>• resource needs assessment</td>
<td>• SPP+</td>
<td></td>
</tr>
<tr>
<td>• training needs assessment</td>
<td>• SPP+</td>
<td></td>
</tr>
<tr>
<td>• training plan</td>
<td>• state budget</td>
<td></td>
</tr>
<tr>
<td>• recruiting additional staff</td>
<td>• SPP++</td>
<td></td>
</tr>
<tr>
<td>• training at all levels of the system:</td>
<td>• SPP+/SPP++</td>
<td></td>
</tr>
<tr>
<td>- MA/PA</td>
<td>• SPP++</td>
<td></td>
</tr>
<tr>
<td>- IB</td>
<td>• SPP++</td>
<td></td>
</tr>
<tr>
<td>- FB (local municipalities, NGO, etc.)</td>
<td>• state budget</td>
<td></td>
</tr>
<tr>
<td>• HRD for 2004-2007</td>
<td></td>
<td>• resource needs assessment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• training needs assessment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• training plan</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• training</td>
</tr>
<tr>
<td>Information systems</td>
<td></td>
<td>• SPP++</td>
</tr>
<tr>
<td>• Training of IS developers</td>
<td>• SPP+</td>
<td></td>
</tr>
<tr>
<td>• Analysis of the IS</td>
<td>• SPP+</td>
<td></td>
</tr>
<tr>
<td>• Detailed design</td>
<td>• SPP++</td>
<td></td>
</tr>
<tr>
<td>• IS development</td>
<td>• SPP++</td>
<td></td>
</tr>
<tr>
<td>• Testing/piloting</td>
<td>• SPP++</td>
<td></td>
</tr>
<tr>
<td>• training of end users (MA/PA/IA/IB)</td>
<td>• SPP++</td>
<td></td>
</tr>
<tr>
<td>• IT investment</td>
<td>• SPP++</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>The SPD monitoring information system is used</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• procedures and forms</td>
</tr>
<tr>
<td>Tools</td>
<td>• MA/PA/IB internal procedures’ descriptions</td>
<td>• SPP+</td>
</tr>
<tr>
<td>• equipment</td>
<td>• SPP++</td>
<td></td>
</tr>
<tr>
<td>• procedures</td>
<td>• SPP++</td>
<td></td>
</tr>
<tr>
<td>• project preparation facility</td>
<td>• SPP++</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Creation of support structure for beneficiaries</td>
<td>• SPP++</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• SPP++</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• SPP++</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• SPP++</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• SPP++</td>
</tr>
</tbody>
</table>

The SPD monitoring information system is used.
ANNEX 8

COMMITMENT TO TRAINEES IN PUBLIC SECTOR No. (DRAFT)

Between the Ministry (or other public institution) (hereinafter referred to as the "Ministry") represented by the chancellor (………………..), who acts under mandate of minister (decree of minister from ……….. no. …..) and (……………………………………………………………….) (hereinafter referred to as the “Servant”) on the other part.

1 OBJECTIVE OF THE COMMITMENT
1.1 This commitment regulates relationships between the Ministry and Servant, that will come up with the Servants work orientated training “………………………………..” (hereinafter referred to as the “Training”) in …………….,
1.2 The objective of the training is to share European Union member state’s experiences in implementing different quality management methods in public sector.
1.3 Both parties follow the legislation and personnel education principles (hereinafter referred to as the “Principles”) in the Ministry, confirmed by the chancellor’s decree no. …….

2 OBLIGATIONS OF PARTIES
2.1 The Ministry is obligated to:
2.1.1 pay the costs of the Training in following:
   travelling costs ……….
   per diem ……….
   insurance ……….
   participation fee ……….
   in total ……….
   (the total sum in words:………………………………………………..) (hereinafter referred to as the “Training costs”) according to the secondment proposal. The price includes VAT;
2.1.2 reduce the payback of Training costs proportionally with worked time.
2.2 The Servant is obligated to:

2.2.1 take part in the Training and follow conditions that are required for passing the Training;
2.2.2 present the Ministry the certificate that proves passing through the Training,
2.2.3 put into practice the knowledge and know-how acquired from the Training;
2.2.4 inform the Ministry about quitting the Training and the causes of that, promptly but not later than during three (3) working days and present written documents of reasonable excuses by the request of Ministry;
2.2.5 recover the costs of Training to the Ministry in all instances referred in article 4 of this commitment;
2.2.6 on the request of the Ministry present the report about the Training, fill the Training results evaluation form and give additional feedback about the Training.

3. LIBERTIES OF THE PARTIES

3.1 The Ministry has liberty to:

3.1.1 demand the Servant to present a document that proves passing through the Training;
3.1.2 demand the Servant to present the report on Training and the Training results evaluation form and ask for additional feedback of the Training;
3.1.3 give up the claim to recover the Training costs;
3.2 The Servant has liberty to:

3.2.1 quit the Training on reasonable excuses, notifying the Ministry about that in time limit stated in article 2.2.4, the reason is effective if all circumstances taken into account can’t be presumed that the Servant continues participating in the Training.

4. RECOVERY OF TRAINING COSTS TO THE MINISTRY

4.1 The Servant is obligated to recover the Training costs to the Ministry if:

4.1.1 he/she quits the Training without any reasonable excuse;
4.1.2 he/she will be dismissed during the Training or before 2 (two) year has passed from the Training on the ground of PSA § 114 subsection 1 (servants initiative), on the ground of PSA § 117 points 1, 2, 3, 4, and 6 inappropriate to the position, on the basis of PSA § 118 subsection 1 disciplinary fault, on the basis of PSA § 123 with reference to condemnatory court decision coming into force or on the ground of PSA § 128 changing the citizenship.
4.2 Employment relationship is finished because of filling an office in another administrative agency (PSA § 127) the recovery of Training costs will be settled by the agreement between administrative agencies.
4.3 The Servant is obligated to recover the costs of the Training to the Ministry in three months starting from quitting the Training without reasonable excuses or from dismiss.
4.4 On Servant’s request the Ministry has right to extend the recovery period of Training costs.
4.5 The Servant will recover the Training costs to the Ministry according to the article 2.1.1 of present commitment, correcting the sum according to the secondment report and article 7.7 in Principles.

5. ENDING PROVISIONS
5.1 In matters bounded to current agreement the representative of Ministry is executive of personal department or servant appointed by him/her.
5.2 Disputes involved to agreement are solved by negotiations between Ministry and Servant, in case agreement will not be achieved, dispute will be solved by court of law.
5.3 Modifications to current agreement are made upon settlement and are validated in written as appendixes.
5.4 The commitment enters into force as of the moment of signature thereof by the parties and is valid until both parties have carried out all commitments that follow from present commitment.
5.5 The commitment has been drawn up on two pages in two identical copies having equivalent legal effect, of which one is retained by the Ministry and the other by the Servant.

6. REQUISITES AND SIGNATURES OF PARTIES

Chancellor…………………….                               …………………   ID …………………….
Ministry………………………                                          place of habitation: …………………
……………………………….                               Passport no:……………………………….
……………………………….                                           Issued: …………………………………….
……………………………….                    …………………………………
Ministry                              Servant