1. Basic Information

1.1 CRIS Number: 2004/016-689.04.01
1.2 Title: Improving Public Internal Financial Control System (PIFC), Audit Mechanisms and Skills
   Sector: Public Finance
1.3 Location: Hungary

2. Objectives

2.1 Overall Objective(s):
The wider objective of the project is to increase the economy, effectiveness and efficiency of the Hungarian PIFC system and to strengthen its administrative capacity in particular through the establishment of a PIFC Methodological and Training Centre.

2.2 Project purpose
The purpose of the project is to create a pool of professional trainers, and to establish a PIFC Methodological and Training Centre, through which the training of financial controllers, internal auditors and managers in the Hungarian PIFC system shall be carried out.

2.3 Justification
The project is addressing a problematic area as identified in the Comprehensive Monitoring Report (CMR). The CMR concludes the following in relation to Chapter 28 (PIFC system):

“In order to complete preparations for membership, particular efforts must be made to complete legislative alignment and to further strengthen administrative capacity in public internal financial control. Particular attention should be paid to implementing the necessary structural changes and to providing adequate training to the internal auditors.”

3. Description

3.1 Background and Justification
The National Programme emphasises that: „it is expected that the candidate countries build up financial control systems capable of meeting certain special requirements even before accession as a condition of using pre-accession funds, in addition to the general criteria of a financial control system such as transparency, audit trail, efficiency, reliable prevention of irregularities, etc. Identifying the remaining tasks should not be separated from establishing the institutional framework and financial management and implementation of using these funds”.

This project is based on:
- The Strategy Paper approved by the Government as Decision No. 2179/2003 (VII. 24.)
The development of existing rules for PIFC (Primary and Secondary legislation)
Internationally accepted standards (IIA, COSO, INTOSAI)

According to the Strategy Paper and the Act XXXVIII. of 1992 on Public Finances, the Minister of Finance (MoF) is responsible for the harmonisation, coordination and development of the PIFC system. Furthermore, according to Article 2 (10) of Government Decree 140/2002 the Minister of Finance is responsible for the development of vocational training with regards to the PIFC system. These tasks are performed by the Central Harmonisation Unit (CHU) within the Ministry.

One of the requirements for the final closure of Chapter 28 was for each of the Accession countries to have a "sustainable training facility" for managers, financial controllers and internal auditors to ensure that after the departure of the last Twinning partners, the education of specialised public staff like controllers and auditors would be assured. The establishment of a facility is the responsibility of the government and should be the product of co-operation between public, academic and private partners in the country. This co-ordination task is the responsibility for the government, in particular the CHU in the MoF, however complementary assistance for starting-up the facility is necessary.

On the one hand there is a lack of skilled trainers in the area of PIFC, on the other hand appropriate educational programmes or trainings are unavailable in this field. To address these deficiencies the MoF decided to train and thus create a pool of trainers (Component 1) first, then to establish a special separate unit within the HIPA /Hungarian Institute of Public Administration/ (Component 2). Centre shall not only organise trainings, but also function as a methodological research and development centre in order to continuously review and ensure the unified interpretation, adaptation of the guidelines and concepts. The facility shall be permanent and shall work together with academic organisations and private audit institutions. Furthermore, it shall provide certification for the participants, who attended the training courses and passed the relevant exams.

The CHU is in direct contact with HIPA, and a detailed co-operation agreement between the two partners shall be concluded by May 2004. As the agreement is reached, the MoF shall regulate in the relevant legislation the obligation for internal auditors and financial controllers to pass exams, similar to the legal obligation for all civil servants to acquire a general and specific certification in public administration during their career. After the passing of the exams they will have to register themselves at MoF, which will be a condition of continuing their work, furthermore they will have the obligation to participate at trainings on a regular basis (as the case with the chartered certified accountants at present). This arrangement shall ensure that state budgetary resources shall be available for the maintenance of the Centre.

The institutional arrangements and thus the sustainability of the training centre shall be ensured through its incorporation to the national education system at the public administration level and through the fact that the trainings shall be self-sustainable.

The new project contributes to the development of FM/C (financial management and control) and internal audit systems of the line ministries, as well as of local governments and public budgetary organizations.

3.2 Linked activities

The field of PIFC has been subject to previous Phare assistance under the Phare '98 allocation. However, these projects were organized by the State Audit Office and the
Government Control Office and dealt primarily with external audit and the establishment of ministries IT system for the pre-accession funds.

There are also two running initiatives. One of them, the HU/2001/SPP/03 twinning was extended with another 6 months, until September 2004. The extended period is used for a part to finance further activities, such as:

- The development or adaptation of methodologies regarding the Structural Funds and the Cohesion Fund
- Development of the Hungarian Treasury as an intermediate body for financial management particularly in the frame of HRD Operational program
- Specific training of Internal Auditors involved in the audit of Structural Funds and Cohesion Fund (CIA diploma), as well as on-site SCF audit internships in MS countries for a number of selected internal auditors.

The current project application takes into account the results of this programme, where applicable.

On the other hand, the service contract HU0105-01 ‘Strengthening the Public Internal Financial Control system and paying functions’ clearly concentrates on the training of actors involved in financial management and control (FMC) and Internal Audit of Structural Funds and the Cohesion Fund.

It is especially important to underline that all previous and ongoing assistance had/has a different focus and the current project aims at a larger scale assistance by the establishment of a PIFC Methodological and Training Centre. A Centre, which shall be a permanent institution, providing continuous trainings – not only ad-hoc ones - and methodological review on the entire PIFC system for all public budgetary organisation (PBO) officials,

Furthermore, it should be noted that the Twinning programmes only provided best practices of EU member states through technical assistance, they did not elaborate any methodological guidelines adapted for the Hungarian situation. Few of them were partly done by the CHU.

Continuous changes in the field of audit, accounting, and financial management and control, the development of standards and new methodologies in this area stresses the needs for continuous development of methodologies and trainings.

### 3.3 Results

This project will assist the Hungarian Government in the necessary development of the PIFC system. Furthermore, it will help strengthening administrative capacities and will establish a new framework for continuous trainings and development of methodologies.

Concrete results to be achieved:

- A pool of properly well trained trainers (45)
- Established and functioning PIFC Methodological and Training Centre, which is positioned in the training/education system providing continuous training programmes in the field of PIFC
- High-skilled, well-trained professional officials at all Hungarian PBO’s (including 900 PBO’s at the central level, and more than 10.000 PBO’s of the 3200 local governments).

### 3.4 Activities
Project activities are divided into two components, which are interlinked. These two components are respectively to be funded under the Transition Facility (TF) 2004 and TF 2005.

3.4.1. Component 1: Training for Trainers under TF 2004 (service)

The training component aims exclusively at training the future trainers in the field of PIFC. It assists the PIFC Methodological and Training Centre to fulfil its tasks. Thus, Component 1 shall provide an adequate number of trainers with relevant professional background for the Centre. Through the trainings organised by the Centre, these trainers shall ensure the proper dissemination of knowledge to the national, regional and local level.

45 trainers shall be trained for the training programmes and the e-learning programme. The CHU shall make the selection of the participants (future trainers) based on professional and territorial criteria. The trainers shall be mostly part-time employees of the Centre.

Through a service tender a professional training provider company shall be selected, which will:

- develop the curriculum for the trainers.
- provide and organise the trainings

In the contract between the selected company and the CHU, it shall be stipulated that both the developed curriculum and the lecturers should be agreed with the CHU. The CHU shall monitor the development of the curriculum, the organisation of trainings, the selection of lecturers by the ‘training provider’.

3.4.2. Component 2: Setting up of a PIFC Methodological and Training Centre in Hungary under TF 2005

The establishment of a PIFC Methodological and Training Centre in Hungary is a key issue.

Founded in 1969, the Hungarian Institute of Public Administration (HIPA) is the national centre for the continuous training, education of civil servants and it is also a research centre for the development and modernization of the public administration in general.

Within the Institute there is a separate organisational unit, the Department for Training and Methodology (DTM), which performs most of the organisational, training and methodological tasks related to the further training of civil servants. The idea of the current project is to establish a special center within this Department, called PIFC Methodological and Training Centre, which will deal with three main, interrelated issues:

- it shall review, update and develop methodological issues related to the PIFC system,
- based on which it shall continuously adapt academic curriculum, 
- it shall organise training and education programmes to the relevant controllers, auditors and managers.

On the one hand, the Centre shall function as a ‘think-tank’ assisting the regular review of the methodological issues of PIFC – the professional supervisory role ensured by MoF. On the
other hand, it shall provide continuous training programmes. There are a great number of new methodological concepts introduced (audit manuals, standards, managerial accountability, risk assessment and management, etc.) in Hungary, which significantly changes working methods, the approach and behaviour of auditors, controllers and managers in the public sphere. However, it shall take time, and it is of utmost importance to establish an organisation, which aims to ensure the promotion of a consistent and solid curriculum (single audit approach, unified principles with regard to F/MC) in the area of PIFC.

There is a high need for a sustainable training facility for managers/controllers/auditors working in the public sphere. Thus, the Centre shall organise several courses and trainings in the field of IA and F/MC. The training programme shall cover the new concepts of PIFC, internal audit and FM/C, furthermore the applicable regulations, the interpretation of standards, the best practices for preparation of the relevant guidelines, procedures, standards and manuals.

The HIPA has two sites in Budapest and 20 regional units in the country, which will be the location of the trainings. The 22 ‘sites’ shall ensure the nationwide dissemination of the curriculum.

Component 2 shall cover the setting up of the new unit in respect of infrastructure conditions. (see the feasibility study), in particular:

- At the existing two Budapest sites:
  - the technical development of 6 already existing seminar and class rooms, which comprise 4 rooms for 20 people, 2 rooms for 40 people (6 beamer, 6 overhead projector, 80 PC, 6 Tv, 6 DVD player, 2 DVD camera, other furniture)
  - the development and technical furnishing of 4 office rooms (4 PC’s and other furniture)

- Technical development of the 20 regional units (20 beamer, 20 DVD player, 20 DVD camera)

- Establishment of the e-learning method (installation of large capacity servers at the Budapest sites and at the regional units; obtaining a sophisticated information system enabling the electronic adaptation of the curriculum)

Regarding the operation of the new unit, 6 new employees shall be hired. 2 of them will be responsible for co-ordinating the training programmes, 4 of them shall be involved in the methodological tasks and curriculum development.

Component 2 shall also cover some Institution Building type of activities such as the establishment of an e-learning method within the Centre (e-learning curriculum, e-seminars, interactive on-line trainings) to facilitate the nation-wide dissemination of the developed guidelines, the curriculum and the programmes.

4. Institutional Framework

In Hungary it is the task of the Ministry of Finance (MoF) to harmonise all matters related to public internal financial control. The Central Harmonisation Unit (CHU) for PIFC within the
Hungarian Ministry of Finance is responsible for the development, the regulation, co-ordination and harmonisation of the PIFC. The Commissioner to the Minister of Finance (head of the CHU) responsible for the EU-conform restructuring of the PIFC System will provide for the Senior Programme Officer and will be in charge of technical and administrative matters. The Implementing Agency will be the CFCU under the responsibility of the Programme Authorising Officer.

In order to ensure the successful completion of the project and utilise synergy, emphasis must be laid upon good co-ordination of the components.

5. Detailed Budget (million EUR) for TF 2004

<table>
<thead>
<tr>
<th>Component 1 Training Component</th>
<th>TF support</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Support</td>
<td>Institution Building</td>
<td>Total TF (=I+IB)</td>
</tr>
<tr>
<td>Component 1 Training Component</td>
<td>-</td>
<td>0,50</td>
</tr>
<tr>
<td>TOTAL</td>
<td>-</td>
<td>0,50</td>
</tr>
</tbody>
</table>

(Component 2- Establishment of PIFC—is foreseen under TF 2005: for further details see annex 5)

6. Implementation Arrangements

6.1 Implementing Agency

PAO:
Mr. Gábor Rónaszéki
Central Finance and Contracts Unit (CFCU)
H-1052 Budapest Deák Ferenc utca 5., Hungary
Phone: +36 1 327 3652
Fax: +36 1 327 3572

SPO:
Ms. Edit Weidlich, commissioner to the Minister of Finance
Ministry of Finance, PIFC Development Department
H-1051 Budapest, József nádor tér 2-4., Hungary
Phone: +36 1 327 5603
Fax: +36 1 327 5608

6.3 Non-standard aspects
The National Public Procurement Rules will be strictly followed.

6.4 Contracts
One service contract (0,5 MEUR) with regard to TF 2004.

7. Implementation Schedule
### Component Start of Tendering Start of Project Activity Completion

|------------------------|---------|---------|---------|

8. **Sustainability**

- All supported actions are sustainable in the long term. They will comply with the EU norms and standards, and will be coherent with the sector policies of the EU.

- The pool of trainers shall be registered, contracts shall be signed with each trainer, obliging them to take part as lecturers (employed part-time by HIPA) in the future training programmes.

- There will be a Decree of the Minister of Finance regulating the operation of the Centre and stipulating the obligation for all internal auditors and financial controllers in the public sphere to attend the training courses, pass the relevant exams on a regular basis and register themselves at MoF.

- As soon as the Centre is established and technically upgraded, it will be self-sustainable, since the trainings shall be financed from the state budgetary resources (as it is the situation with the current training programmes of HIPA).

9. **Conditionality**

A co-operation agreement should be concluded between the CHU in the Ministry of Finance and the Hungarian Institute of Public Administration by May 2004 at latest.

6 new employees should be hired on time to allow the functioning of the new unit.

An extract of the feasibility study is provided for the establishment of the training centre (see annex 7).
ANNEXES

Annex 1:  Logframe Matrix
Annex 2:  Detailed Implementation Chart
Annex 3:  Cumulative Contacting and Disbursement Schedule
Annex 4:  Relevant legislation
Annex 5:  Budget for Component 2 under TF 2005
Annex 6:  Indicative allocation table
Annex 7:  Feasibility study
Annex 8:  Background information on HIPA
### LOGFRAME PLANNING MATRIX FOR Project

**Project number:** 2004/016.689.04.01

### Improving Public Internal Financial Control System, Audit Mechanisms and Skills

**Contracting period expires for TF 2004 on November 2006**

**Disbursement period expires for TF 2004 on November 2007**

**Total budget:** 2004: 0.5 MEUR

**Phare budget:** 2004: 0.5 MEUR

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>To increase the economy, effectiveness and efficiency of the Hungarian PIFC system and transparency of the audit mechanisms in accordance with the EU regulations and internationally accepted audit standards</td>
<td>Satisfactory assessment of the Hungarian PIFC system by EC</td>
<td>European Commission Reports</td>
<td>New approaches to PIFC are strengthened</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>The purpose of the project is to create a pool of professional trainers, who shall train financial controllers, internal auditors and managers in the Hungarian PIFC system through the established PIFC Methodological and Training Centre.</td>
<td>- PIFC Methodological and Training Centre established and functioning;</td>
<td>- Reports of the State Audit Office and the Government Control Office; - Reports of the internal audit units</td>
<td>New approaches to PIFC are strengthened</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>- A pool of well trained trainers (45)</td>
<td>- Well trained experts (45 trainers tutoring the officials of 900 PBO’s at the central level and 10,000 PBO’s of the 3200 local governments)</td>
<td>- quarterly and final reports; - Summary Monitoring reports from the relevant SMSC; - Implementation Report from the NAC - Monitoring Reports from the IAs</td>
<td>Adequate legal system is established; New approaches to PIFC are strengthened; Full co-operation between CHU and HIPA</td>
</tr>
<tr>
<td>- Established and functioning PIFC Methodological and Training Centre, which is positioned in the training/education system providing continuous training programmes in the field of PIFC</td>
<td>- A PIFC training programme established - Manuals and studies on financial control and audit methodology in place - 20 regional units developed - 2 Budapest sites developed</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- High-skilled, well-trained professional officials at all Hungarian PBO’s (including 900 PBO’s and the more than 10,000 PBO’s of the 3200 local governments).</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Establishment of a PIFC Education and Training Centre, which shall review, update, develop methodological issues, based on which it shall adapt academic curriculum, and shall organise training and education programmes to the relevant civil servants (controllers, auditors and managers). - Training of trainers for the PIFC Education and Methodological Centre</td>
<td>- 1 service tender under TF 2004 - 1 service and 1 supply tender under TF 2005</td>
<td>regular co-ordination among project components as well as among central and local actors; commitment of participating actors; Commitment of HIPA to update and maintain equipment of the training centre</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Preconditions</th>
<th></th>
<th></th>
</tr>
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<tbody>
<tr>
<td>- A detailed co-operation agreement shall be concluded between the CHU in the Ministry of Finance and the Hungarian Institute of Public Administration by May 2004 the latest; - 6 new employees are hired on time to allow the functioning of the new unit - An extract of the feasibility study is provided in Annex 7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Annex 2: **Detailed Implementation Chart**

**Improving PIFC Mechanisms and Skills**

**Detailed Implementation Chart**

<table>
<thead>
<tr>
<th>Training under TF 2004</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>D D D D D T T T T T</td>
<td>T I I I I I I I I I</td>
<td>I I I I I I I I I</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Establishment of PIFC Methodological and Training Centre under TF 2005</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>D D D D D T T T T I I I I I</td>
<td>I I I I I I I I I I I</td>
</tr>
</tbody>
</table>

D: Design  
T: Tendering and contracting  
I: Implementation
Annex 3: Cumulative Contracting and Disbursement Schedule

Improving PIFC Mechanisms and Skills

Cumulative Contracting and Disbursement Schedule for TF 2004
(million EUR)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>III</td>
<td>IV</td>
<td>I</td>
</tr>
<tr>
<td>Contracting</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
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<tr>
<td>Disbursement</td>
<td></td>
<td>0.2</td>
<td>0.3</td>
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</table>
Annex 4: Relevant legislation

Hungarian legislation

Act XXXVIII of 1992
Act on Public Finance

Gov. Decree No 217/1998

Gov. Decree No 193/2003

Gov. Decree 233/2003
on financial management, control and audit of Structural and Cohesion Funds

Gov. Decree No 61/1999
Government Decree No 61/1999 on the Role, the Responsibilities and Scope of Authority of the Government Control Office

Gov. Decree No 249/2000
Government Decree No 249/2000 (XII. 24.) on the Public Accounting

Gov. Decree No 255/2000
Government Decree No 255/2000 (XII. 25.) on the Procedures Concerning the Financial Planning, Implementation and Control of the Use of Aids from Pre-Accession Funds

EC Regulations

Provisions of the Treaty on the European Union and in particular:

Article 10
Definition of the member states general commitments.

Articles 87 and 88
Conditions of authorisation and of notification of public grants.

Article 158-160
Social and economic cohesion policy.

Articles 248
Regulations concerning the European Court of Auditors.

Articles 268-279
Financial regulations.

Article 280
Fight against fraud.

Article 284
Collecting information.

Financial control & internal audit:

1260/1999
Article 9(o) of the Council Regulation 1260/99 concerning the setting up or strengthening of the structures that become responsible for payment, certification of claims, internal financial control and audit of future EU funded programmes
**Financial control & internal audit:**

<table>
<thead>
<tr>
<th>Regulation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>438/2001</td>
<td>Commission Regulation of 2 March 2001 laying down the rules for the application of Council Regulation 1260/99 regarding management and control systems</td>
</tr>
<tr>
<td>448/2001</td>
<td>Commission Regulation of 2 March 2001 regarding the procedures for making financial correction for assistance granted under the Structural Funds</td>
</tr>
</tbody>
</table>
Annexe 5   Indicative budget for TF 2005

<table>
<thead>
<tr>
<th>TF support</th>
<th>Other</th>
<th>MEUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Support</td>
<td>Institution Building</td>
<td>Total TF (=I+IB)</td>
</tr>
<tr>
<td>Component 2 Establishment of PIFC Methodological and Training Centre</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>-</td>
<td>1.5</td>
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Annex 6
Indicative allocation table

<table>
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<tr>
<th></th>
<th>2004</th>
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<th>2005</th>
<th></th>
<th>2006</th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>TF</td>
<td>National</td>
<td>TF</td>
<td>National</td>
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<td>National</td>
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<tr>
<td>Component 1: Training</td>
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<td>0,0</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>0,5</td>
<td>0,0</td>
<td>1,5</td>
<td>0,5</td>
<td></td>
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</tbody>
</table>
Annex 7

Feasibility study

Needs assessment on the planned technical assistance for the Ministry of Finance to provide sustainable training facilities for internal auditors, financial controllers and managers in the PIFC system

1. Present situation

1.1. General needs

Since the second half of 2003 a new PIFC system has been established in Hungary. New legislation and new methodological guidelines have been introduced in the field of Internal Audit (IA) and Financial Management and Control (FMC). These new rules and guidelines (such as corporate governance, risk assessment and management, new audit methods, audit trail, etc.) were not familiar in the Hungarian public sphere, therefore there is a very high need for sustainable training programmes (presenting and explaining in detail these guidelines) in this field.

The problem is that presently there is a lack of Institutions and educational programmes addressing these areas. The existing educational programmes besides being expensive, only deal with particular aspects of PIFC. Therefore providing adequate training is only possible through the development of a new, specific unit (Methodological and Training Centre) in the already existing HIPA, organising training programmes for the officials of all public organisations.

By assessing the needs for the establishment of the PIFC Methodological and Training Centre to be supported by the Transition Facility, the following main gaps are identified in the system:

- the absence of skilled trainers and permanent trainings,
- the non-existence of a specific education and/or methodological centre providing continuous training programmes,
- the lack of unified interpretation, adaptation of new methodological guidelines,
- the lack of experience with new methodological concepts (corporate governance, risk assessment and management, new standards for FMC, internal audit, new accrual accounting in the public sector, etc.)

TABLE ON INTERNAL AUDITOR STAFF REQUIREMENTS AT THE CENTRAL LEVEL

<table>
<thead>
<tr>
<th>Number of Institutions at the central level</th>
<th>Present situation</th>
<th>Development forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>2003</td>
<td>2004</td>
</tr>
<tr>
<td>Line ministries (15)</td>
<td>165</td>
<td>115</td>
</tr>
<tr>
<td>Public budgetary organizations (about 900)</td>
<td>1410</td>
<td>185</td>
</tr>
<tr>
<td>Total</td>
<td>1575</td>
<td>300</td>
</tr>
</tbody>
</table>
At the local level there are 3200 local governments, 7000 public budgetary organisations, and approximately 10,000 internal auditors.

A number of entities and bodies have been established or have started to emerge on local and regional level in the perspective of EU-accesssion. In the context of administrative reform on regional level micro-regions have been established by Government Decree (No. 244/2003). The Government has started a far reaching programme of public administration reform (Gov. Decision 2198/2003) and the FMC and IA section of the Act on Local Goverments is under amendment. The program appears to focus on further decentralization of Central Government tasks and responsibilities.

Evaluating the present administrative system and taking into account the ongoing reforms, the number of the trainees from the local level could be estimated as at least 500 persons per year.

1.2. Actors of the project

1.2.1. Central Harmonisation Unit (CHU) – general tasks

According to the Act XXXVIII. of 1992 on Public Finances, the Minister of Finance (MoF) is responsible for the harmonisation, coordination and development of the PIFC system. This task is performed by the Central Harmonisation Unit (CHU) within the Ministry.

Based on the Act XXXVIII. of 1992 on Public Finances, the Government Decree No. 193/2003 (XI.26.) on the internal audit of public budgetary organisations and on the Government Decree No. 140/2002. (VI.28.) on the tasks and competencies of the Minister of Finance, the CHU deals with the following tasks:

- Elaborates proposals for the implementation of tasks regarding the development of the legislative, institutional, methodological and training systems of the public internal financial control system.
- Upholds contact with those organisations of the European Commission, the present and future Member States of the European Union and of the OECD countries, which are responsible for the coordination of governmental control and audit.
- Monitors the implementation of the legislation, methodological guidelines and international internal audit standards and assesses the quality of the internal audit performed through compliance tests.
- Harmonizes the elaboration and issuing of proposals with regard to the development of the public internal financial control system, coordinates the professional regulation in order to improve the professional level of methodological tasks.
- Coordinates and harmonizes the FM/C and IA systems of pre-accession resources, and the proposals for establishing their legislative and institutional background.
- Coordinates and harmonizes the proposals concerning the establishment and development of FM/C and IA systems of organizations involved in the financial implementation, control and audit of Structural Funds and the Cohesion Funds of the European Union and other international resources, and the proposals regarding the operation of F/MC and IA systems.
- Establishes and operates the Consultative Inter-ministerial Committee for Public Internal Financial Control (CIC PIFC);
- Is responsible for the development of public relations and networking activities.
- Coordinates and harmonizes the development of FM/C and IA systems for all public budgetary organisations (covering all 4 subsystems of public finances: central budget, local municipalities, social security funds, extra-budgetary funds).

Number of staff: 11

CHU structure and the number of staff:

- Internal Audit department (3)
- FMC department (2)
- Legal and Co-ordination department (3)
- Head of Unit and administrative staff (3)

1.2.2. Hungarian Institute of Public Administration (HIPA)

Founded in 1969, the Hungarian Institute of Public Administration is the national centre for the continuous further training and education of civil servants and it is also a research centre for the development and modernization of the public administration in general. Related to its two main fields of activity, the Institute publishes documents, manages databases, participates in the work of national and international research projects, in certain cases it gives its opinion on draft legislation, etc.

In connection with the higher training of civil servants the Institute also performs tasks related to running the system of higher training, the organisation and methodology of the basic and the advanced qualifying examinations and certain EU training tasks. In the course of performing these tasks the Institute provides valuable assistance to the government’s efforts to improve the quality of human resources in the civil service.

Most of the organisational, training and methodological tasks related to the further training work are performed by a separate organisational unit within the Institute, the Department for Training and Methodology (DTM). The main idea of the current project is to establish a special unit within this Department, called PIFC Methodological and Training Centre.

The Institute has full legal personality, it is an independent budgetary organisation, under the supervision of the Minister managing the Prime Ministers Office.

Number of full-time employees: 50
Number of full-time researchers: 12

The Institute has two own sites in Budapest (at Alkotmany u. 25. and at Kelenhegyi út 28.) and 20 regional units in the country.
For further information on HIPA please see Annex 8.

1.3. Tasks and responsibilities of the actors in the project (CHU, HIPA)

A detailed co-operation agreement shall be concluded between the CHU and HIPA, prior to the signing of the Financial Memorandum for Transition Facility 2004.

The CHU shall:

A. Be the beneficiary of the project
B. With regard to the Training for Trainers component:

- Select the participants for the Training based on professional and territorial criteria
- Sign the contract with the training provider company
- Monitor the development of the curriculum, the organisation of trainings, the selection of lecturers by the training provider company

C. With regard to the Establishment of the Methodological and Training Centre component:

- Shall prepare the supply tender documentation
- Sign the contract with HIPA
- Guide, supervise and monitor the activities of HIPA in relation to methodological development, curriculum adaptation and training organisation

The HIPA shall:

A. Based on the guidance of the CHU:

a) review, update and develop methodological issues related to the PIFC system,
b) based on which it shall continuously adapt academic curriculum,
c) it shall organise training programmes to the relevant controllers, auditors and managers
d) ensure the continuous vocational training of trainers

B. Hire 4 new employees for tasks a) and b).
C. Hire 2 new employees for task c)
D. Sign contracts with the trainers

2. Planned improvement based on assistance from TF

2.1. Training for Trainers (Component 1)

According to the National Development Plan the country consists of 7 statistical regions. The main selection criteria for the future trainers will be the following:

- Territorial aspect, which shall mean 5 persons from the 7 regions, total 35 persons, plus 10 from Budapest,
- Professional aspect, which shall mean 20 people with expertise in internal audit, 20 people with expertise in FMC, and 5 persons having relevant higher education background.

As a result of the TF assistance, there will be 45 well trained trainers ready to tutor– through the training courses organized by the PIFC Methodological and Training Centre - internal auditors, financial controllers and managers at all PBO’s in Hungary.

2.2. Establishment of the PIFC Methodological and Training Centre (Component 2)

The HIPA has two sites in Budapest and 20 regional units all over the country, which will be the location of the trainings. The 22 ‘sites’ shall ensure the nationwide dissemination of the curriculum.
Within the Institute there is a separate organisational unit, the Department for Training and Methodology (DTM), which performs most of the organisational, training and methodological tasks related to the further training of civil servants. The idea of the current project is to establish a special centre within this Department dealing with methodological review, adaptation of academic curriculum and the organisation of trainings in the field of PIFC.

This component shall cover the setting up of the new unit in respect of infrastructure conditions.

- At the existing two Budapest sites:
  - the technical development of 6 – 4 rooms for 20 people, 2 rooms for 40 people – already existing seminar and class rooms (6 beamer, 6 overhead projector, 80 PC, 6 TV, 6 DVD player, 2 DVD camera, other furniture)
  - the development and technical furnishing of 4 office rooms (4 PC’s and other furniture)
- Technical development of the 20 regional units (20 beamer, 20 DVD player, 20 DVD camera)
- Establishment of the e-learning method (installation of large capacity servers at the Budapest sites and at the regional units; obtaining a sophisticated information system enabling the electronic adaptation of the curriculum)

All supplies shall be conveyed assets upon HIPA.

Regarding the operation of the new unit, 6 new employees shall be hired. 2 of them will be responsible for co-ordinating the training programmes, 4 of them shall be involved in the methodological tasks and curriculum development.

3. **Sustainability**

3.a. **Training for Trainers**

The pool of trainers shall be registered, contracts shall be signed with each trainer, obliging them to take part as lecturers (employed part-time by HIPA) in the future training programmes.

3.b. **Establishment of the PIFC Methodological and Training Centre**

There will be a Decree of the Minister of Finance regulating the operation of the Centre and stipulating the obligation for all internal auditors and financial controllers in the public sphere to attend the training courses and pass the relevant exams on a regular basis and register themselves at MoF.

As soon as the Centre is established and technically upgraded, it will be self-sustainable, since the PBO’s sending their officials for the training programmes shall cover the participation fees (as it is the situation with the current training programmes of HIPA) from state budgetary resources.
ANNEX 8

BACKGROUND INFORMATION ON THE HUNGARIAN INSTITUTE OF PUBLIC ADMINISTRATION

The Institute for Organising Council Administration, the legal predecessor of the Hungarian Institute of Public Administration (Magyar Közigazgatási Intézet), was established back in 1969 by the Council Office of the Cabinet Council. The institution has been working under the name of Hungarian Institute of Public Administration (HIPA) since 1989, when it was re-founded by the Ministry of the Interior. In its present form it has been working since 1997, when the currently effective Founding Charter was amended. The founding organs are the Prime Minister’s Office (PMO) and the Ministry of the Interior.

The HIPA is a governmental background institution under the supervision of the minister in charge of the PMO. The Director General and the Director of the Department for Financial Management are appointed by the authority of this minister, who also approves the annual working plan and the annual report of the Institute. Regarding finances the Institute is an independent budgetary institution. The PMO minister approves the budget and also exercises the fiscal regulatory powers and competences that are due to the supervisory office. However, the professional supervision of the educational and methodological tasks is partly performed by the Minister of the Interior. In the framework of this supervision the Minister has the right of agreement with respect to those issues in the annual working plan and report which concern the sphere of tasks of the Centre for Training and Methodology (CTM), the organisational unit of the Institute that works on these tasks. The Minister also proposes the appointment and dismissal of the CTM Director, receives his or her report through the Director General, and provides the conditions in which the CTM can operate.

The basic task of the Institute, as far as the needs of government are concerned, practically consist of two sets of tasks:
- the scientific research and examination of the organisational and operational questions of public administration, performing the research and professional tasks to create the professional, scientific background for government decisions concerning the development of public administration;
- performing certain tasks related to the basic and further training, executive training and senior executive management training, educational and methodological preparation and knowledge of the EU integration that is required for the civil service system, the civil servants’ examination system, and for the non-school and higher training of civil servants.

Using its remaining capacity the Institute also pursues supplementary activities, but without jeopardising its basic task and the obligations that derive from it. In the framework of supplementary activities the Institute participates in:
- research projects for the modernisation of the structure and operations of local authorities (LAs), and the basic and further training of the staff of LAs, if commissioned by the LAs and their allies;
- also on the basis of commission from the interested parties, in tasks related to the modernisation of state administration and area development, and in basic and advanced training programs in the same field and under the supervision of other governmental organs;
- in the realisation of international public administration development projects.

According to its Founding Charter, the Institute can undertake entrepreneurial activities, as well.
The staff of the Institute currently numbers 41, 36 of whom are public servants appointed for an indefinite period, and five others are employed for a determined period in relation to a particular task. Most of the staff are university graduates. Ten of them are researchers who have taken their scientific qualifications or are currently participating in Ph.D. courses, the others work on co-ordinating research and organising training.

The tasks performed by the Institute are financed from several different sources. Our basic budget occupies a separate line in the PMO chapter, but some of the new tasks are financed mostly from earmarked target funds managed by the PMO or the Ministry of the Interior. In addition, the Institute also has modest revenues of its own.

In April, 2001 a change of management took place in the Institute, primarily with the purpose of expanding its profile. Accordingly, the main tasks of this last period were the reshaping of the Institute’s working plan so as to fit the government’s task plan, the development of a mid-range research plan, creating an organisational structure to match the new tasks and, last but not least, the provision of the material and personal requirements for performing these tasks.

The character of the Institute as a governmental background institution also defines its basic tasks. In the past few years the government deliberately launched and put on track an innovative process to reform public administration. The essential aim of this process was to construct and operate a service-type public administration that would fit a modern state. These efforts are also closely linked to our joining Europe. Although the European Union does not lay down direct rules for the structure of a country’s public administration, one of the conditions of a successful integration is the creation of a system of public administration that can harmoniously fit in with the European system, whether in its structure, institutions, efficiency, or the expertise of its civil servants. To lay the foundations for this work the Institute needs a system of further training with regenerating content and structure, and the research that prepares the governmental decisions should leave the conventional ‘organisation of public administration’ approach and learn to utilise the findings of the sister disciplines.

The priority tasks within the basic activity of the Institute are shaped by the government decisions that affect the main directions of the modernisation of public administration and the framework of civil servant training. Among the recent developments two that had a considerable impact on the work of the Institute was the amendment of the law and of the associated executive decrees concerning the legal status of civil servants, and the governmental task plan for the modernisation of public administration in 2001-02.

Most of the research and methodological tasks meant to lay the foundations for the progress of public administration are linked to the governmental task plan for the further development of public administration in 2001-02. The government decree specified the research and methodological tasks the Institute needs to perform for making the operation of public administration more efficient. Within the range of these tasks, at the heart of research we find cost-efficiency analysis, organisational and personal performance evaluation and the assessment of the quality control systems that may be used in public administration. The Institute provides methodological assistance in the Hungarian application of the quality control systems that can be used in public administration, most importantly the Common Assessment Framework developed by the EU. In addition to those mentioned above, the other ministries and offices involved in the implementation of the government decree also rely on the capacities of the Institute in a wide variety of areas. Part of the tasks serve the formulation of long-term public administration and area policy concepts, another part relates to the actual preparation of laws and regulations. The first
category includes the research projects meant to lay the conceptual foundations for reforming the local public administration system. Within the framework of these projects we work on improving the whole of the local authority system, on reforming the local level, developing the public administration system of Budapest and its vicinity, and on drafting proposal related to the harmonisation of the communal or micro-regional administration. In the framework of the reform of regulation we participate in formulating the action plan that reflects the OECD country report about the reform of regulation, and we are also preparing a study on the methods of the preliminary and ex post impact assessment of laws and regulations and their drafts. Our role in the preparation of the amendment of the local authority law, in formulating the draft of the settlement law and in the work of the codification committee responsible for preparing the draft of the unified public administration procedure law are all examples for the Institute’s work in the preparation of actual laws and regulations.

In addition to the research arising from the government decree the members of the Institute are involved in other scientific projects, the long-term results of which may also appear in the work of legislators and administration organisers. These research topics include the revision of the system of settlement design, the examination of public finances and the legal regulation of the central budget, and the modernisation of the administrative system of disaster management, to mention only a few.

In connection with the higher training of civil servants the Institute also performs tasks related to running the system of higher training, the organisation and methodology of the basic and the advanced qualifying examinations and certain EU training tasks. We also co-operate in the development of central courses of further training and, if requested, the organisation of such programs. In the course of performing these tasks the Institute provides valuable assistance to the government’s efforts to improve the quality of human resources in the civil service.

Most of the organisational, training and methodological tasks related to the further training work are performed by a separate organisational unit within the Institute, the Department for Training and Methodology (DTM). The further training work of the DTM is defined in three quite distinct groups of tasks. In the course of reviewing these groups you can gain an insight into the system of further training for Hungarian civil servants.

Basic examination in public administration:
The first further training operation of the Institute was the introduction of the system of basic examination in public administration and general administration. The details of the rules for examining and for organising the examinations and of the performance of the professional and methodological tasks related to running the system are laid down in a Government Decree enacted in 1993. The DTM has been responsible for the basic examination of civil servants working in central administration, and for the organisation of consultations in preparation for these examinations. In the last nine years more than 13,000 civil servants won their basic examination certificate at examinations held by the Institute, and more than 12,000 people took part in consultation to prepare for the examination.

In addition to its organisational duties the DTM also plays a role in updating the unified exam requirements and questions and in preparing and up-dating the auxiliary study materials that help to prepare for the exams. Given the fundamental changes in the knowledge required for the basic examination and on the basis of evaluating the experiences that accrued from the examinations all over the country, in 1999 the DTM submitted to the National Public Administration Board of Examiners a comprehensive modernisation proposal concerning the adjustment of the system of requirements and the evaluation methods of the basic examination.
Advanced qualifying examination in public administration

In accordance with a Government Decree from 1998, since December 1998 the DTM has also been performing tasks related to the advanced examinations. Similarly to the basic exams, the organisation of the advanced examinations in public administration also revolves around 21 exam organisers scattered across the country. The central organs of public administration and the public servants of the institutions with national competence, which adds up to nearly 80 central agencies, all take their exams at the DTM, while the civil servants of the county organisations of ministries and other institutions with national competence, together with the civil servants of the local authorities, are examined in the public administration offices in Budapest or in the counties.

In relation to the advanced exams the DTM on the one hand plays an exam organising role, and on the other it serves as the methodological centre of the nation-wide examination system. The DTM has arranged for the advanced examination of more than 4,000 civil servants so far, and held three-day consultations in preparation for this exam for more than 3,500 senior civil servants over the last three years.

As regards the national methodological tasks related to the advanced examination, the DTM has been editing and up-dating the requirement system, the exam questions and the auxiliary material for the 4 compulsory and the 47 optional exam subjects, and provides the written problem sheets for every exam organiser. In the last year and a half the DTM has up-dated the requirement system and organised the rewriting and publication of the auxiliary materials for three compulsory and 29 optional exam subjects.

To assist the unified exam practice nationwide, the DTM has held professional and methodological courses for the exam organisers two or three times a year. Problems with the regulation and practice of the exam system are also brought up at these courses, and possible solutions are formulated. Methodological guidebooks prepared from the outcome of these courses are then sent to the exam organisers, thereby providing further assistance in the practice of a unified system of examination. The DTM handles and up-dates the registrations and databases for the system of advanced examination. The maintenance of the registry of examiners and the preparation and dissemination of national statistics and evaluation reports about the central and local examinations are among the DTM’s pertaining functions.

Further training for civil servants:
The system of further training for civil servants was established by a Government Decree in 1998, which named the DTM as the national methodological centre for the further and management training of civil servants. The decree specified numerous tasks for the new methodological centre, the most important of which are the following:
- it assists the annual planning process of further training in public administration. It assists the public administration organs responsible for the planning by arranging for methodological conferences and by drafting recommendations;
- it provides the professional background on the one hand for the decision of the Ministry of the Interior concerning the approval of the distribution of the sources for further training, and on the other for the decisions of the Minister’s advisory body concerning the College of Further Training in Public Administration;
- it performs the tasks related to the tendering, program evaluation and administration, and servicing of the accreditation and qualification of the further training programs;
- it prepares central programs of further training in the high-priority areas of further training;
- it organises the inspection of the further training funded from the central earmarked target funds;
- on the basis of the submitted tenders it collates the registry of lecturers who participate in the further training of civil servants, and arranges for the methodological and adult teaching training of the teachers.

Last year’s amendment of the law concerning the legal status of civil servants and the associated regulations resulted in fundamental changes in the tasks set for 2002 in the field of training and further training. The new regulation radically reforms the system of advanced examinations. Since the new exams begin in May 2002, preparation requires focused, well-organised and quite intense work. In the framework of a separate task plan we already began at the end of last year to formulate the system of requirements and the exam questions for the new examination and to develop the auxiliary materials for the various exam subjects and the central program of the consultations that will prepare the candidates for the exam. On the basis of a tender process the registry of teachers participating in the preparation and examination was already up-dated at the beginning of the year, and this spring will see the preparation of the teachers and examiners for the tasks arising from the new requirements. The training materials and courses will be corrected and finalised before the end of the year, in accordance with the first experiences with the new examination system.

A basic knowledge of EU integration is an integral part of the course materials in which the DTM is involved. Nonetheless, civil servants need to undergo a special EU integration training in addition to this. Since November 1997 the Institute, commissioned by the PMO, has been organising this training for the civil servants in the central administration (system of topics, teacher selection, auxiliary materials, etc.). The integration training is financed from the earmarked target funds of the Prime Ministerial budgetary chapter, and under the co-ordination of the PMO’s Department of Personnel and Functional Affairs. The courses of further training, depending on the preparation level and position of the enrolled civil servants, comprise of general basic training, general and specific courses, or specific courses only. In the near future the Institute will publish a book of selected studies based on the lectures given at the central preparatory courses. In addition to the centrally organised preparation for integration and on the basis of specific requests the Institute also holds other kinds of integration training. Examples of this include the training of civil servants in the Ministry of Economic Affairs, the Ministry of Defence, and the Constitutional Court.

We are in continuous co-operation with the TAIEX Office of the Brussels Committee, and it was in this framework that we held one-week preparatory courses on the acquis communitaire. The HIPA also performs ‘Training of Trainers’ activities related to the preparation of civil servants. In this framework and in co-operation with the Carl Duisberg Gesellschaft, which is supervised by the German Foreign Office, and with the Institut für Europäische Politik in Berlin we are conducting a teachers’ course for a group of 15, including civil servants at ministries, institutional public servants and university teachers.

Another new task, namely the preparation and launch of the training of chief executive civil servants, arose this year after the Government Decree concerning the operation of the senior and central civil servant bodies named the Institute as responsible for organising the senior civil service training. Preparations began at the end of last year, as a result of which the Institute has submitted its recommendation for the training concept. The most important tasks for this year are the establishment of the organisational, personal and material conditions for the training of senior civil servants, assessing the need for training, developing the training programs and launching the training itself.

Since reforming the system of advanced exams is only a step towards the renewal of the entire system of training, we regard it as our duty to elaborate the regulation concept for the further
development of the basic exam in public administration, to evaluate the operation of the system of further training and formulate its directions for the future, and to participate in the refashioning the systems of senior manager and EU integration training. A new component of our training work is that with the help of the Government Commissioner’s Office for Informatics we began the construction of the government’s distance teaching centre for public administration, and will launch the experimental phase of distance education.

In addition but related to its main tasks the Institution fulfils numerous other functions, including drafting and commenting on ad hoc regulations, publishing, running a document archive, provide services like for public administration and other institutions (organising events and professional trips, documentation, etc.), and also participates in the work of related Hungarian and international organisations, in Hungarian and international research and training projects, and maintains connections with a great number of associated institutions abroad.

The basic organisational structure of the Institute is shown on the following schematic chart:

The Institute is supervised by a Director General, appointed on an application and tender basis by the PMO Minister for a set period of time. Two Deputy General Directors, in charge of professional tasks, help the DG’s work, one responsible for scientific affairs, and the other for training and methodology. The head of the financial unit is the Director of the Department for Financial Management, appointed by the PMO Minister on the recommendation of the DG.

There is no sharp division between the professional organisational units, the tasks are usually performed in co-operation. Researchers, for example, participate in the development of the training material, in teaching, and in the methodological tasks. Both in our research and in training activity we regularly involve experts from outside, leading civil servants, researchers from other research institutions, and university lecturers.