STANDARD SUMMARY PROJECT FICHE

1. Basic Information

1.1 Désirée Number: LE00.11.01
1.2 Twinning Component Number: LE00/IB/FI-01
1.3 Title: Public Expenditure Management Project
1.4 Sector: Public Finance
1.5 Location:
Latvia, Ministry of Finance, Smilsu street 1, Riga.

2. Objectives

2.1 Wider Objective
The project’s ultimate goal is to provide for ample and sustainable improvement of public expenditure management. The project will aim at ensuring legality and maximising efficiency in the utilisation of public funds through strengthening different elements of the "chain" necessary for effective public expenditure management.

2.2 Immediate Objectives
• Strengthening of the budget process by bringing financial plans, cash management and reports of public institutions in line with requirements of financial control
• To reinforce compliance with public procurement rules
• To strengthen the internal audit function
• To strengthen the external audit function to fully comply with international standards and develop the capacity of the SAP to provide an effective external audit of EU resources
• To bring public institutions under the proper legal status and to establish proper performance management and accountability frameworks. To assist institutions in transition form stockholding company status to public agency status
• To establish and strengthen central capacity of Latvian government in managing development of institutional structure of public administration.

2.3 Accession Partnership and NPAA priority

Short-term
• Continue alignment in particular legislation on utilities and remedies…
• Introduction of (…) EU compatible public procurement rules…
• Complete the legislative framework for internal and external financial control; introduce “functional independence” for national internal controllers/ auditors at both central and decentralised levels and ex-ante financial control; enhance co-ordinating role of Ministry of Finance for harmonising internal audit/control functions…

Medium-term
• Establish an annual fiscal surveillance procedure aimed at bringing the reporting, monitoring and control of public finances (…) in line with EU procedures
• Strengthen public financial control functions through the provision of adequate staff, training and equipment
• …improve capacity of the public administration to implement and manage the acquis

The project will contribute to the achievement of the tasks outlined in the following technical fiches of the IV National Program for Adoption of Acquis:
LA-060, Priority measure: Perfection of budget administration process
LA-001, Priority measure: Ameliorate system of public procurement and strengthen its control mechanism.
3. Description

3.1 Background and justification

Despite the important progress made by the Latvian Government in recent years in improving the system of management of public finances, it is recognised that significant areas remain requiring further development.

This project will assist with the development initiated in the budget process and reinforcement of compliance with public procurement norms *inter alia* through assistance to the new public procurement monitoring body. The internal audit requirements should be extended to all institutions funded by public (including EU) money as well the external audit function to fully comply with international standards.

Simultaneously, the following current weaknesses of Latvian public administration will be addressed:

- status of public institutions is not appropriate to functions performed;
- weak supervision of subordinated, supervised bodies and public entities under ministerial authority;
- weak accountability of public entities to the ministry.

Thus, the project will cover the whole set of activities necessary to ensure legality and efficiency in the utilisation of public funds. Systemic approach to improving financial control system will maximise the efficient functioning of the different elements of the "chain" of financial control based on the principles of complementary action and avoid unnecessary duplication.

Specifically the project will bring about an increase of the reliability of the public expenditure management system by ensuring that:

- financial plans and reports of public institutions are in line with requirements of financial control (classifiers in accordance with principles of ESA 95 and the revised Manual on Government Finance Statistics are developed and adapted;
- detailed guidelines for all public procurement procedures are in place; a full set of internal procedures of Public Procurement Monitoring Bureau is in place; the staff of the new Bureau is sufficiently trained for performing its tasks;
- internal audit system is reinforced in the in Central Government through the introduction of IT-aided audit, audit of IT systems, other special types of audit, including audit of management agreements with agencies; strengthening of recently established internal audit structures in ministries; and in Local Governments through the provision of advice in the process of the establishment of internal audit units in local authorities;
- the external audit system is reinforced to fully comply with international standards for external audit and best European audit practices thus ensuring adequate capability to provide *inter alia* effective audit of EU resources;
- public administration entities are managed and operated in accordance with the *Framework Law on Public Administration* and *Law on Public Agencies* (to be adopted in the course of 2000), thus ensuring the basis for proper management of public finances in carrying out public functions.

**Component 1 – Improvement of the Budget Process**

Perfection of budget process is indisputably one of the key preconditions for the successful functioning of financial control system as a whole. Therefore great attention will be paid within proposed project to the further development of an integrated system of budget process and the promotion of sound and applicable financial performance indicators in Latvia. The present system of performance indicators is rather primitive and cannot serve financial control structures, neither for short-term nor for longer-term
evaluation of the efficiency of spent funds. In addition, this system does not incorporate economic accounts of state enterprises and organisations.

**Sub-component 1.1 Strengthening fiscal forecasting function**
The macroeconomic and fiscal models established in the Ministry of Finance are very important instruments for budget planning and economic policy formulation. Notwithstanding the steps already taken during previous years for the improvement of the models, further work on their upgrade is necessary. Taking into account considerable structural developments in the economy, revision of the models, improvement of the economic and fiscal data bank and strengthening the links between macroeconomic and fiscal models will be needed in the coming years.

Successful upgrade of performance indicators system in the context of the multi-annual budget planning system will not be possible without further improvements in fiscal forecasting. This, in turn, will require further improvement of the Fiscal LATIM-F model operated by the Ministry of Finance, including strict control of inputs.

The analytical framework in budget forecasting should be developed to be ready to implement Council Regulation (EEC, Euratom) No 1552/89 on the Communities Own Resources, and more broadly on regular tax payments to the EU budget.

The development and use of the Economic Activity Index has to be reinforced for the purposes of fiscal planning. Also analytical models to analyse the impact of currency fluctuations on the economy have to be developed for improving quality of fiscal forecasting.

**Sub-component 1.2 Follow up for the implementation of Budget Planning IT System.**
According to the current plans, there will be a Budget Planning IT System installed in the Budget Department of MoF framework of Phare98 programme “State Treasury IT upgrade” (please see 3.2 for programme details). It is foreseen that upon completion of the IT supply/installation project the systems will be in place and operating by the end of 2000. The concurrent smaller TA project will ensure successful kick off of the IT systems, id est they will have been implemented and the personnel will have been trained to run them. Last advisor will leave the MoF circa the first quarter of 2001.

As the actual budget planning process for the budget of 2002 will start in June-July 2001 to end in September-October 2001, so will the active usage of the Budget Planning IT system. Undoubtedly, application of the newly introduced IT tool in “real” circumstances will bring up the difficulties, concerns and problems not encountered during the simulation training. To enable effective and efficient operation of the system it is deemed necessary to involve short-term external advisors who would assist the local operators in resolving ad hoc the arising questions and complications in specific aspects of running the Budget Planning IT system.

Such regular short-term missions by the EU experts carried out during the period of budget planning (April-October 2001) to ensure follow up to the implementation efforts of the previous TA project will provide for the needed sustainability of the system and guarantee that the IT solutions are used in accordance to the best common practices. In addition, an assessment will have to be carried out by the experts to determine areas within the mentioned IT system to be addressed to ensure successful shifting to accrual and mid-term methods of budgeting and accounting.

**Sub-component 1.3 Multi-annual budget planning.**
This sub-component will ensure the introduction of the Medium Term Expenditure Framework (MTEF) as an approach to re-linking policy, planning and budgeting and thereby improving budgetary outcome. Introduction of high-quality, medium-term, budget planning is essential precondition for benefiting from the Pre-Structural Funds.

Traditional input-oriented annual budget process has significant drawbacks such as the unpredictability of resource flows; as absence of a link between policy, planning and budgeting; low performance and service delivery because the emphasis is on input controls.
Turning to the medium-term perspective, policy decisions and resource availability can be aligned so that the country can restructure its spending on different programs as well as state enterprises and organisations, in the most effective way.

Successful performance of the above mentioned activities will require close co-operation between the Ministry of Finance (Budget Department) and Public Administration Reform Secretariat. Especially in (re) setting priorities within different sectors, in improving resource inter/intra sector allocation to strategic priorities and introducing output oriented costing.

The precondition for successful development of multi-year budgeting capability is the integration of foreign assistance programming, commitments, as well as state enterprises and organisations, etc. into the national budget process. Links with the Public Investment Programme will have to be improved and also clear guidance to the programme on the basic planning parameters and resources available will have to be provided. A formal programme of establishing links with other institutions concerned with budgetary issues (Ministry of Economy, Foreign Assistance Programs Co-ordination Directorate and Welfare Ministry) is required. Such a programme should include as a minimum the development and institutionalisation of procedures for the exchange of information and definitions of timetables and responsibilities of institutions in the annual budgetary process. Undertaking these tasks could help to align overall budget priorities with those of the Public Investment Programme and National Phare programme.

Assistance in the development of a forward estimates system, monitoring the expected budgetary impact of new proposals and existing commitments up to three years into the future is needed as well (involving both Budget department of MoF and State Treasury). Initially such a system might only incorporate major spending commitments, and later be extended to cover more detailed spending. It should also include procedures to update the Cabinet and the Parliament on current situation. The system should include provisions for the publication and public scrutiny of estimates.

Substantial work has to be done for the adoption of output based budgeting (using the system of performance indicators). It will be necessary to establish and guide working groups together with line ministries on ways of developing performance indicators, and means of monitoring them and appropriate responses to them. Great attention will have to be paid to the preparation of strategic business plans by government agencies and to the control of the agencies.

**Sub-component 1.4 Sound financial management**

Accrual budgeting and accounting has to be introduced by both the Budget Department of the MoF and the State Treasury. The assistance in this field should concentrate on: modernisation of international Public finance statistic system, ensuring introduction of new classifiers as well adaptation of existing classifiers, to comply with European System of Accounts ESA 95 and revised IMF Manual on Government Finance Statistics (classifiers to adapt shall include *inter alia*: government function classification, classification of budget revenues, economic classification of budget expenditure, classification of financing according to the type of creditor, classification of financing according to the type of financial liability, classification of debt according to the type of creditor, classification of debt according to the type of liability, classification of non-financial assets, classification of other financial flows); development of clear guidelines to be followed applying accrual method; training of personnel to apply accrual methods and relevant classifiers; implementation of accrual methods and corresponding classifiers in budget accounting and reporting system, developing methodology for preparation of respective government financial accounts; identification of software necessary for implementation of accrual methods and respective classifiers in budget accounting and reporting system.

Harmonisation of accounting standards used by the State Treasury with relevant international standards has to be completed. The key preoccupation would be adaptation of *International Public Sector Accounting Standards*, *IFAC 1999 Exposure Drafts* along with application of their provisions in drafting of accounting legislative acts (the mentioned standards will be issued in November 2001).
The Treasury sees a need for advisory support and training in various topics concerning effective state debt management (both internal and external, with a focus on internal debt management). The topics should include *inter alia*: Accounting system and reporting related to debt management; Asset management (deposits, REPO, etc.); Evaluation software systems for debt management; Debt portfolio’s currency; Interest rate exposure prevention; Currency and interest rate hedging techniques; and other. These activities should be backed by concurrent efforts to develop Latvian legislation on government securities emission, trade and respective payment procedures. All these measures would assist the ST in reducing financial risks in the state debt management, balancing the state debt portfolio to the optional position with respect to currencies and interest rates, as well as minimising state debt service costs.

Cash management methodology used by the State Treasury has to be improved. This includes the accounting of the financial instruments used (forward contracts, swap contracts, etc.), safeguarding cash flow, refinancing public debt to reduce the risk, etc.

As amendments to the law On Budget and Financial Management come into force in January 2000, the State Treasury will progressively assume responsibility of processing accounts of all agencies financed from state budget. Moreover, upon delivery of respective political decision processing of accounts of all municipalities will gradually be taken over by the ST too (the Treasury currently services accounts of 2 municipalities). Technical assistance is required to increase the ST capacity in this regard.

Finally, attention has to be paid to reporting techniques in the State Treasury. As mentioned above, accrual method and respective classifiers should be implemented in budget accounting and reporting system; new methodology for preparation of finance statistics reports should be addressed, etc.

**Component 2 - Reinforcement of Control in the Field of Public Procurement**

Although the alignment of public procurement system with the EU requirements is at the final stage, much can still be done to ensure the application of best practice both in procurement process itself and in control over procurement activities.

The alignment of basic procurement legislation with the EU requirements will be accomplished with the adoption of the Law on works, supplies, lease and services procured by entities operating in the public utilities sector. Adoption of the aforementioned law will *inter alia* lay down the legal basis for the creation of an independent Bureau for monitoring of public procurement.

**Sub-component 2.1 Guidelines for public procurement procedures**

Uniform application of the norms of public procurement legislation requires the development of detailed guidelines for all public procurement procedures. These guidelines will serve as a tool for everyday work of procuring officers. Respective guidelines have to be widely available. The minimum number of copies of the guidelines to be distributed is evaluated at 5000 units (~200 pages each).

Along with the clarification of the norms of new legislation, the staff of the main procuring entities will have to be trained for the work with the Guidelines. For this purpose it is planned to organise a programme of training seminars.

It is necessary to stress that detailed guidelines for public procurement procedures are essential also for the work of auditors (both internal and external) to evaluate organisation's compliance with good practice in the field of public procurement.

**Sub-component 2.2 Development of the Bureau for Monitoring of Public Procurement**

Being conscious of the fact that large portion of the state budget is disbursed through public procurement system, one should be greatly concerned with ensuring efficiency and effectiveness of the mentioned system.

The twinning team should be able to carry out a research to determine the weaknesses of the current public procurement system, analyse present and prospective external factors influencing its development and ultimately elaborate a strategy of further adequate development of effective and
efficient public procurement system. Assistance could be delivered to implement the strategy: prepare implementation plan, consider specific measures, support their practical introduction, etc.

One very important event in the process of strengthening the monitoring of public procurement will be the establishment of an independent monitoring bureau with extensive powers to ensure the efficient performance of its functions. Basic support in the process of establishment of the Bureau will be provided under PHARE-98 project.

Further assistance will be required to complete the elaboration of the full set of internal procedures of the Bureau and to modify the initial description of procedures after gaining first work experience. The staff of the bureau will need on-the-job training. It is expected that the number of personnel involved in public procurement monitoring will increase to approximately 25 specialists (the number envisaged in the State Budget for 2001) from the present number of 6 specialists before the start of the project (the increase of the public procurement monitoring specialists will be necessitated by the reinforcement of the public procurement review system after adoption of the necessary amendments to legislation). All the new staff will need to undergo substantial training. In addition to on the job training, it is necessary to organise short study visits for the staff of the new Bureau to corresponding organisations of the Twinning partner's country.

One of the specific areas of concern comprises the fact that public procurement system is currently too decentralised. Deep research into the possibilities of (partial) centralisation of the public procurement system has to be done both at central and local government level (e.g. creation of joint procurement committees by several municipalities) in the framework of the project. Within the above-mentioned research and analysis, it is necessary that the project produce several models for possible centralisation. Upon political acceptance of a certain model, the project would then support development of the respective legal framework.

**Sub-Component 2.3 Technological Improvements**

Following the formal establishment of the Public Procurement Monitoring Bureau, extensive expansion of the personnel should take place. The number of employees will quadruple leaping to an estimated 25. Along with the assumption of new enhanced powers and responsibilities, the Bureau will have to undergo considerable information technology adjustments to fit in its new status.

It is indisputable that besides costly procurement of extra PCs for the new staff, the IT upgrade should comprise actions to ensure new level of local and external network support, advance in IT mobility of inspectors, as well as solid safeguarding of information and data.

The Budget 2000 did not envisage any appropriations for upgrade of the Bureau. While the financing for procurement of extra PCs is expected to come from the next year’s budget, this is not the case for other priority tools. It would be ideal that supporting the Latvian initiative of Bureau’s IT upgrade, the project allocates limited funds for supply of the following hardware/software:

- one network server complemented with adequate software package (e.g. NT, SQL, EXCHANGE) to enable the establishment of the Bureau as a world-wide information centre on the Latvian public procurement (tender opportunities, rules, legislation, etc. available to everyone at the Internet site) as well as to support local network, maintain email and Internet connections;
- a data-protection software system (Firewall-type) and one back-up copy creation drive (e.g. CD-RW) to provide for safety of stored data;
- 3 notebooks for Bureau’s experts who are to carry out on-site visits to ensure higher efficiency, mobility and confidentiality of the checks (connection to the HQ database via telephone line during on-site checks, longer trips out of town) as well as to facilitate introduction of computer-aided techniques in public procurement monitoring.

Concerted efforts of the project and the Bureau budget in this aspect would have a long spin-off effect contributing immensely to establishment of appropriate technical base for sound operations of the new Bureau. In the future, such a solid foundation would allow the Bureau to ensure sustainable future development of information technology within the common budgetary restraints.
Component 3 - Development of Internal Audit Function

This project component will strengthen the internal control environment not only in central government but also in all other institutions that receive funding from the government budget, fulfil tasks entrusted by the government or are fully or partially owned by the government. It will also lay the groundwork for possible development of internal audit at the local government level.

Prior to start of the main activities under this component, an in-depth analysis should be undertaken to detect the problems in the current internal audit system. The assessment will include research into external and internal factors hindering successful establishment and implementation of the system, as well as necessary solutions scenario. After the findings and the proposed scenario are brought onto the table the beneficiary shall provide a commitment to implement the steps identified to address the issues discovered. The below activities should be carried out in the context of this review and might need to be adjusted according to the philosophy of the agreed scenario.

Sub-component 3.1 Central Government Internal Audit
This sub-component will be aimed at strengthening the Internal Audit structural units within the Ministries. The main emphasis will be put on direct advice/on-the-job training by selected EU experts. In the process of on-the-job training it is expected that the experts will carry out at least two joint audits with specialists of the internal audit structures of the line ministries(12). This is a minimum requirement for successful transfer of auditing "know-how" techniques.

Realisation of this project component will help to develop the necessary skills among internal auditors of Latvia to be able to do some specialised (IT-systems-, management contracts-, for example) audits where this is efficient. The introduction of IT-aided internal audit will be promoted.

It is planned to complete 5 audits in speciality areas once the strategic plans for all ministries have been adopted. It is planned to prepare the basis for introduction of secondment/exchange system for performing of specific audits. The possibility of outsourcing certain audit activities will be considered where the government is not able to attract/retain specialists with the required qualifications.

It is assumed that the audit work linked to utilisation of Pre-Structural funds (especially under SAPARD facility) will increase over time. Therefore at least some audit functions will have to be delegated to regional structures of the Central Government. This could be the case with the structures subordinated to the Ministry of Agriculture. In this circumstances it would be very important to provide basic advice to the pilot-regions selected for the project.

In the light of rapid development of internal audit functions within line ministries followed by a greater demand for in-depth advice concerning specifics of internal audit techniques, the Audit Department will require capacity enhancement to be able to satisfy such incoming enquiries on a more detailed level as well as to assist the Internal Audit Council. The project should develop a system of updating information in key communications points (public administration Bulletins, Internal Audit home page, other points to be identified) for managers and for the specific internal auditors’ audience.

Sub-component 3.2 Internal Audit of Public Bodies
At present, state enterprises and state joint stock companies are not subject to internal audit requirements. It is expected that the problem will be solved with the adoption of the Law on Agencies and the Law on Internal Audit (this is expected to replace Internal Audit Regulations in the future). This sub-component would help to develop effective internal audit in all bodies receiving central government funds (with exception of ministries), for example, agencies.

After identification of the major problem areas in the sector, a few of specialised audits will be carried out in identified agencies in the framework of the project.

The project will assist the MoF Audit Department develop schedule and scheme for implementing internal audit in public bodies. The strategy should result in decisions about supervisions, reporting lines and capacity building in the many public bodies for which internal audit will be a new activity.
Sub-Component 3.3 Local Government Internal Audit
Within this sub-component the groundwork for development of internal audit at local government level will be prepared. This would include the elaboration of internal audit guidelines adapted to the needs of local government; undertaking internal audit pilot-projects in selected municipalities as well as undertaking training events for broader range of participants. This sub-component will be undertaken in close co-operation with the Association of Local Governments, the local government training centres.

Sub-Component 3.4 Internal Audit Training System
This sub component will be focussed on developing the capacity of Latvian Internal Auditors to provide a service across all the operations of the Ministries, other public administration institutions and, with time, in local government. It will also provide a framework for a competency-based certification programme for public administration auditors and the mechanisms to provide the necessary input and certification. The training system will be established in co-operation with Latvian School of Public Administration, which will have responsibility for organising regular training for internal auditors.

The main task to be implemented is preparation of detailed training programme for internal auditors (including full sets of training materials) based on the findings of PHARE-97 Public Administration Reform Project.

To ensure sustainability, the training materials produced should be substantial and complex enough to be used by different public administration internal audit trainers independent of the training environment.

Component 4 - Strengthening the External Audit function
The State Audit Office (SAO) has experienced a rapid development since it was re-established in 1993. The SAO is well positioned to have a positive influence on public administration and accountability in Latvia. The SAO has been accepted as a member of the International Organisation of Supreme Audit Institutions (INTOSAI) and the laws establishing the SAO satisfy most of the basic requirements of the INTOSAI Lima declaration.

To prepare for Latvia’s Membership of the EU, the Auditor General of the SAO requested SIGMA to undertake an assessment of the SAO’s activities to establish what improvements are necessary for the work of the SAO to comply with international standards. Based on the findings of the SIGMA Peer Review (Summary attached as Annex), the SAO have agreed a Strategic Development Plan which provides a comprehensive set of proposals to ensure that the activities of the SAO are strengthened and meet best European practice (Strategic Development Plan attached as Annex).

Until the SAO receives the requested Phare assistance it will be in the development preparation stage. As one of the first steps a working group has been established to identify all auditable government institutions. The WG comprises representatives of all audit departments and the IT section to gather the necessary information for the database. This database will be enhanced by budgeted audit times for each institution and eventually a fully implemented time management system will be in place to monitor the actual audit times in relation to budgeted times.

The below component will be managed in five sub-components, reflecting major areas of needed development in SAO work. These are: legislation approximation, quality control, staff development, management techniques and the technical support, i.e. all major directions of the modernisation of the SAO work will be covered.

To ensure that this complex task is successfully completed, the SAO propose to engage an experienced, long-term expert with at least 10 years recent financial control experience within a framework of a Twinning arrangement with a sister Supreme Audit Institution who will provide overall support for the change process in the SAO. The Twinning expert will ensure that the sub-components set out below are effectively co-ordinated as well as providing continuous strategic advice to the SAO.
Similar to the internal audit component, this component should be preceded with a thorough review of current situation, in particular the difficulties and hindrances for smooth and effective functioning of external audit body in Latvia. Without prejudice to the SAO Peer Review and the SAO Development Plan, this assessment should reveal the latest problems and weaknesses of the current institutional arrangement, functions, powers, etc. The assessment will include research into external and internal factors with respect to current and prospective situation. After the findings are brought onto the table the beneficiary shall provide a commitment to address the issues discovered. The below activities should be carried out in the context of this review and might need to be adjusted according to the philosophy of the agreed scenario.

**Sub-Component 4.1 Laws and Regulations**
A need has been identified to clarify the SAO audit objectives and mandates and to prepare for the management and control of Community funds in Latvia and for future accession to the European Union. The changes will include improved financial independence for the SAO, the establishment of a Parliamentary Audit Committee, revision of surcharging arrangements, audit of Local Authorities and clearly-defined access to end users of EU funds and to Joint Stock Companies. Support will include advice to SAO staff and other relevant parties.

The State Audit Office prepare the necessary legislative amendments, as required by the planned introduction of the instruments of Pre-Structural Funds. EU expertise is also required at the final stage of the legislation approximation exercise is desirable.

**Sub-Component 4.2 - International Auditing Standards and Quality Control**
The SAO will have to adopt and ensure the effective use of the European Guidelines for the implementation of INTOSAI Standards and EU Member State best practice auditing. The focus will be on the implementation of annual attestation audits and performance audits of financial management and control. A more comprehensive approach for the audit and certification of EU funds will also be developed. Support will include technical advice to the Audit Methodology Department regarding the translation and elaboration of audit standards, updating audit manuals and regulations, attestation audits, developing internal quality control, policies and procedures, co-operation and co-ordination with the professional accounting bodies (particularly on professional training and the development of standards). A major part of the activity will involve practical application of standards and best practice through pilot audits.

**Sub-Component 4.3 - Staff Development**
The key focus of this sub-component will be to continue the staff appraisal exercise started by SIGMA. Based on the results and the internationally accepted standards in the area of external audit the new personnel (recruitment) strategy has to be prepared and implemented.

Another key area will be the development and implementation of the strategy and detailed training plan to enhance the professional capacity and capability of SAO staff at all levels. A Training Unit and facilities, and an enhanced technical library will be established. Training activities for SAO staff will include: Client Relations; Auditing Standards; Audit Methodology; Planning and risk assessment; Audit Management; audit of EU Funds; Language Training; fraud and corruption awareness; Information Technology; Statistical Sampling. An important part of the strategy will be the training of staff as trainers to help enable training to be self-sustainable in the future.

**Sub-Component 4.4 – Management and Administrative Capacity**
Developing and implementing strategies for planning and managing change in the organisation, including the efficient use of resources, optimising the use of technology applied and improving client relations and liaison (particularly with Internal Audit). The support will include the development of the capability and capacity of the SAO to produce corporate, strategic and plans based on realistic assessments of risk and materiality, contracting out of audit work, modern audit management practices and systems.

Special attention will be paid also to the issue of separation of functions with internal audit.
The project activities should ensure that links and co-operation with the Parliament, *id est* Parliamentary Budget Commission (or Public Accounts sub-committee, if such will have been established) be adequately amplified and improved.

**Sub-Component 4.5 - Technological Improvements.**

Developing and implementing the appropriate information technology at the SAO is needed to ensure that audit and management procedures and processes are carried out effectively.

Currently the SAO, with some 150 staff, has fewer than 20 modest PCs which support contemporary office software. There are only few Internet/Email connected computers (5 as of March 2000). The situation cannot improve soon due to the absence of budgetary appropriations in the 2000 Budget for this purpose. There is a high chance that only limited funds will be allocated for SAO IT upgrade in the 2001 Budget, which excludes the possibility for the needed sharp development of information technology at the SAO.

It is an agreed opinion by all the SAO, MoF and SIGMA experts that both hardware and software will need to be provided as soon as possible to bring the SAO IT capacity at least up to the same standards that apply in government ministries. This will enable the SAO to provide an e-mail service for its staff to facilitate communications particularly whilst they are located at clients’ premises. Text processing, spreadsheets and databases will finally become available to ensure that audits are undertaken efficiently and also to enable SAO management to monitor and control work effectively. Finally audit software will be utilised to assist the SAO to undertake audits using modern cost-effective audit methodologies, in line with best practice adopted by sister Supreme Audit Institutions in Europe.

The SAO’s Strategic Development Plan, supported by SIGMA, estimates an initial requirement of some 80 PCs and 30 laptops. This will provide one PC for every two members of the SAO’s staff. The laptops are required for visits to auditees’ premises to ensure that audit confidentiality and efficient working practices are maintained. As indicated by SIGMA experts, this complies fully with working practices undertaken by SAIs throughout the EU.

Shortly after, expert advice will be necessary for training SAO staff in the application of the full range of possibilities offered by the new equipment and technology e.g. in the introduction of computer-assisted audit techniques.

Further on, the SAO will itself continue to enhance and improve its IT capability throughout the span of the Development Plan with state budget financing upon the foundation laid down by this project.

**Component 5 - Reform of Administrative Structures**

Latvian central administration structure has been established according to the *Law on Cabinet of Ministers* and *Law on Ministries*. During 1996-1999 there has been uncoordinated development of institutional systems within different ministries characterised by decentralisation tendencies and introducing of private sector legislation to run public functions. As a result central administration suffers from fragmentation, poor accountability and reporting, lack of transparency in financing public functions. A number of agencies are operating under the company law and have significant autonomy in financial management issues. This seriously damages the government efforts to consolidate public finance management and ensure proper accountability for public expenditure. Urgent measures need to be taken to bring all public spending agencies under the government budget process and ensure that the allocation of public resources follows government priorities.

This component is designed to assist ministries in implementation of *Framework law on public administration* and *Public agency law*. The implementation of this project component will consist of the following three sub-components:

**Sub-component 5.1 Strengthening capacity of the Reform Secretariat to manage effective implementation of the new institutional framework**
Reform secretariat needs project’s assistance to enhance its capacity to perform the following functions:

• assisting ministries and other public entities in analysis of their functions and institutional status and formulation of proposals for establishment of effective and coherent structures;
• performing of a cross-sectoral analysis of institutional structures to design the most rational and cost effective administrative structures capable of implementation of acquis;
• assisting ministries in translating the mandate and mission of the entity under re-structuring into statutory documents;
• assisting ministries in setting proper management, performance management, control and accountability systems;
• reviewing and analysing performance of public entities and preparing the consolidated reports of performance of the public sector, linking performance to the public expenditure;
• performing ex ante evaluation of impact of the status of an entity on future performance.

Sub-component 5.2 Restructuring state non-profit stockholding companies into public agencies

The project will provide assistance in coordinating ministerial reviews of the state companies to be transformed into public agencies. Initially three pilot projects on re-structuring state non-profit companies will be conducted in the Ministry of Transport, Ministry of Welfare and Ministry of Education. The model for re-structuring will be developed and offered for the remaining ministries for implementation. During the pilot the following key issues are to be tested:

• designing of the management structure for agencies and establishing procedures for reporting to the ministry;
• developing key performance objectives for an agency and elaboration of business plan;
• designing of model performance contracts between the agency and ministry, based on agreed performance targets and business plan;
• defining the role and responsibilities for the ministry’s nominated responsible (liaison) person;
• setting up of the coordinating council, including representatives of related bodies and agency’s clients and drafting a statute for such a body;
• if need be, agencies should be advised on proper implementation of accrual accounting as a basis for their financial management
• in coordination with Sub-component 3.2, setting up of internal audit in agencies should be in focus of the pilots.

At the end of the financial year, newly established agencies will be assisted in preparing Annual report featuring performance attained and financial statements. Based on the results of the pilot projects, a report containing i.a. lessons learned will be prepared by the consultant and disseminated for all ministries. The experience from the pilots should then be presented to all ministries in a seminar and consultations provided upon request.

To enable all ministries to benefit from the experience acquired in pilots, a series of topical seminars should be organized for interested agencies. Best practices should be identified, assessed and disseminated. Reform secretariat must be acting as a focal point for learning on implementation of the Public agency law.

Time and resources permitting, the issues of quality management and client information policies should be developed. A report and training seminar(s) on these issues could be a possible output.

Sub-component 5.3 Implementation of Framework law on public administration

The law prescribes the specific status of public institution based on classification of functions. Public administration institutions are classified as: ministries, subordinated institutions, supervised institutions (with a strictly limited political influence on performance) and public entities under the management of ministry. Public agencies are found in the third group of public entities.

To implement the law, initial guidance should be provided to ministries and their review of the transformation of institutional status should be guided and assisted through consultations and monitoring. It will be necessary during the first half of the project to review the reorganisation plans of all ministries and ensure that the institutional system evolving is in compliance with the law,
economically justifiable and ensuring effective implementation and supervision of key public functions. Any possible duplication or unnecessary fragmentation should be avoided. Ministries should be advised on a degree of decentralisation which is compatible with accessibility of public services and economic effectiveness. Economic and financial implications of decentralisation should be assessed. There should be coordination with the activities of the Component 3 of this project, specifically Sub-component 3.2 on establishment Internal audit in public bodies.

While implementation of the activities mentioned under this component, the project will address problems indicated in the report on the Public Administration Reform prepared by Sir R.Mountfield by:

- strengthening capacity of the Secretariat (sub component 5.1) as well as
- developing the coordination mechanism between the Secretariat and State Chancellery in order to co-ordinate the reform of the public administration on horizontal issues.

3.2 Linked activities

The needed upgrading of the budget process will partly take place in the framework of PHARE 1998 institution building project "Internal Market Capacity Building and Enforcement" (LV98/IB/FI/01). Great attention within the project will be paid to the incorporation of budget expenditures forecasting “block” in the fiscal model, to the improvement of the economic and fiscal data bank and to strengthening the links between macroeconomic and fiscal models.

Support to the budget process will also be provided through the Phare 1998 Special Preparatory Programme for Pre-structural funds. And a grant has been requested form the World Bank SAL Technical Assistance facility for the introduction of the Medium Term Expenditure Framework.

The Phare programme 9805.01 “State Treasury IT upgrade” is designed to strengthen budgetary process through development and installation of the best IT solutions and practices in the treasury process for the State Treasury and MoF. The programme consists of two closely linked projects to be run concurrently: IT procurement (1.55MEUR) and a Technical Assistance project (0.2MEUR). The IT project comprises procurement of four distinct interconnected IT tools: Treasury Management System; Budget Planning System; Firewall; Cluster Server. The Budget Planning IT System will be installed in the Budget Department of MoF. The basic system will be in place by the end of 2000 if the contract for procurement of the system under Phare98 program is signed as planned by mid-2000. A relatively small allocation of the funds reserved for TA will be directed to manage the installation arrangements and ensure successful kick off of the four new IT systems (including the Budget Planning system). It is planned that upon completion of the IT supply/installation project and the smaller TA project, the systems will be in place and operating.

The most considerable previous Phare assistance to budget process was delivered under Phare95 programme “TA to budget and treasury” (2.5 MEUR). The project aimed at a complete review and improvement of the budgetary process and included most constituent elements: 1) institutional advice, 2) budget planning and forecasting, 3) treasury and debt management, 4) government accounting and internal audit and 5) training and IT. The project was successfully completed in late 1999.

In the framework of Phare 1998 project “Internal Market Capacity Building and Enforcement” The Ministry of Finance will receive assistance in the areas of public procurement in drafting bylaws for the procurement law and improving the procurement practices. The assistance under this project will also include an information system, training and preparation for the Bureau for Monitoring of Public Procurement. The aforementioned SPP will also provide some assistance to the procurement in relation to Pre-structural funds.

With assistance of the Phare 1997 project “Public Administration Reform in Latvia – Component 4.1. Achieving accountable management and effective delivery and control systems” the following basic documents necessary for development of internal audit function were prepared by the newly established Internal audit department of the Ministry of Finance (the department has responsibility to co-ordinate internal audit system development in the structures of the Central Government)– Internal Audit regulations, Internal Audit standards. The regulations “On internal audit” and “Internal Audit
Council” were accepted by Cabinet of Ministers on 5th of October. Minister of Finance approved on 8th of November the guidelines on risk methodology in internal audit work and manuals for internal auditors. By the end of the project the strategic audit plans will be prepared for all ministries; the basic guidelines for training program of internal auditors will be drafted; peer review methodology will be elaborated; basic assistance provided to the Internal Audit Council.

It has to be mentioned that the basic assistance to train internal audit structures of the ministries which will be directly involved in the utilisation of the Pre-Structural Funds resources will be ensured under PHARE project LE 9805.0301 "Special Preparatory Program for structural Funds in Latvia").

To prepare for Latvia’s Membership of the EU, the Auditor General of the SAO requested SIGMA to undertake an assessment of the SAO’s activities to establish what improvements are necessary for the work of the Latvian external audit body to comply with international standards. Based on the findings of the SIGMA Peer Review (Summary attached as Annex), the SAO have agreed a Strategic Development Plan which provides a comprehensive set of proposals to ensure that the activities of the SAO are strengthened and meet best European practice (Strategic Development Plan attached as Annex). The development of the SAO as set out in the ‘Implementation Phase’ of the Strategic Development Plan follows the support provided by SIGMA to ensure that the ‘Preparation Phase’ of the Plan is successfully introduced. This involves an expert in external audit working practices and methodologies providing advice and support to the SAO from January to December 2000. This is designed to bridge the support already provided to assist the SAO prepare their Strategic Development Plan and the support requested under the Phare 2000 Program.

Prior reviews of the existing public agencies have been carried out in the course of 1999 with the support from the World Bank. Problems with financial reporting, accountability to the ministries and flaws in management structure have been identified, as well as recommendations on necessary improvements have been formulated. The project will assist to re-organise currently opaque public entities in line with the laws (the Cabinet of Ministers passed law on Public Administration Framework and law on Public Agencies and submitted them to Saeima for parliamentary approval) and to practically design and implement performance management systems for public service entities. Performance systems will allow for further strengthening the accountability and reporting systems.

3.3 Results/Outputs

Results

Budget management

- Quality of fiscal forecasting improved
- Effective multi-annual budget planning can be carried out
- Sound financial management is ensured

Public procurement

- Control in the field of public procurement is reinforced (the design of the control system is improved, the Control Body is capable of effective supervision)

Internal audit

- Internal control environment is developed further in all levels (i.a. the ground for internal audit at local government level is laid down)
- The co-ordinating role of the MoF is strengthened at all levels

External Audit

- Understanding and practical knowledge of EU requirements has been increased;
- Sustainability of the training process is ensured;
- Full use made of INTOSAI Auditing Standards and Guidelines;
- Quality assurance system is in place;
- Liaison with Internal Audit is ensured;
- Planning and management of audits based on materiality and risk introduced;
- Certification of EU resources is provided for.

Reform of Administrative Structures
Ministerial structures (ministry and subordinated, supervised institutions and agencies) correspond to Framework law on public administration; clear functional responsibilities are assigned to public entities with relevant status;

- System of public administration is transparent, predictable and economically sustainable.

**Outputs**

**Budget management**

- macroeconomic and fiscal models upgraded;
- economic and fiscal data bank improved;
- analytical models to assess impact of currency fluctuations on economy is in place
- use of Economic Activity Index is reinforced;
- budget planning IT system is completed;
- forward estimates system is introduced;
- Budget Planning IT system smoothly operates throughout the Budget 2002 planning process
- all practical problems and difficulties in use of the Budget Planning IT system are immediately resolved
- Mechanism for alignment of overall budget priorities with those of the Public Investment Program and National Phare Program is in place
- Medium Term Expenditure Framework is successfully introduced
- Forward estimates system is introduced
- the basic system of performance indicators introduced;
- ST adequately equipped with state debt management techniques;
- all aspects of cash flow management by the State Treasury revised;
- accounting and reporting system of the State Treasury fully optimised
- full information on the long-term sustainability of financial situation of the state entities is available as the result of a shift to accrual accounting;

**Public procurement**

- 5000 copies of guidelines for public procurement entities produced and distributed;
- training seminars organised on the new guidelines (a programme of over 5 seminars);
- current public procurement system is assessed and analysed;
- strategy for further development of public procurement system is developed; respective implementation plan ready;
- elaboration of the internal procedures of the Bureau for Public procurement Monitoring completed;
- On the job training organised for the staff of the bureau;
- Centralisation analysis in the area of public procurement completed;
- Appropriate IT equipment supplied (supply contract)

**Internal audit**

- Current problems detected, framework for prospective development prepared and agreed
- 24 internal audits completed;
- Audits completed in 5 speciality areas;
- 2 specialists seconded by other ministries to do specialised audits;
- 2 ministries use budget resources to outsource an audit that can not be done by government specialists (most likely IT audit);
- 2 pilot projects completed;
- Internal audit guidelines adapted to the needs of local government;
- 3 pilot projects in local governments carried out;
- Detailed training program for internal auditors developed (the whole package of training materials prepared);
- Certification system in place and a number of internal auditors certified (about 25 auditors during first 2 years );
- Regular publications on internal audit have been developed;
- Internal Audit Internet site has been developed.
External Audit

- Recruitment strategy is in place, training plan elaborated and approved, 10-15 trainers trained;
- ‘Attestation’ audits, including regularity (legal) audit to applied public sector financial statements;
- SAO regulations, handbooks and manuals based on European standards have been produced;
- Pilot audits to apply new standards are performed;
- Human resources policy is developed;
- Advice and training is delivered on development and implementation of development strategies;
- SAO is supplied with necessary IT equipment (80 PCs and 30 laptops).

Reform of Administrative Structures

- Government stockholding companies performing public functions are transformed into public agencies with transparent financial management and effective accountability structures;
- Capacities to develop and manage a performance management system for state bodies created;
- Monitoring, advisory, evaluation and co-ordinating capacity of the Reform secretariat to assist ministries in re-organization of public administration structures is established and strengthened. Secretariat is monitoring the structure of public administration, prepares annual reports for the Government on structure and performance of the public sector;
- Secretariat has developed a permanent capacity to review and advise Government on functions and structures of public entities, taking account of Institution building needs, decentralisation and de-concentration issues;
- Secretariat has developed capacities to support ministries in drafting of management agreements with public agencies under ministry’s management;
- Secretariat with the assistance from the project has facilitated setting up the new entities and restructured the old ones to be able to implement the acquis.

3.4 Inputs

The complexity of the project as well as the ambitious goals set therein call for involvement of three PAAs.

One **Pre-accession Advisor (PAA-1)** is needed to be the Chief Project Co-ordinator for the whole duration of the project (2 years) to:

- ensure horizontal coherence of the project components, both under TA and Twinning arrangements;
- be the head of all the project’s experts and activities, being the leading EU counterpart of the beneficiary;
- be responsible for management and co-ordination of all the Twinning components of the project to ensure that they proceed, as planned, in an efficient and orderly fashion;
- organise, provide for and co-chair regular Project Steering Committee (PSC) meetings;
- advice the PSC on ways to improve design, planning and implementation framework of the project components;
- assist MoF, the leading engine of development of public expenditure management system, in carrying out and strengthening this leading and supervisory function;
- to follow all the activities by various institutions and TA projects (Phare, bilateral) in the sectors linked to the project objectives, ensuring coherence of these scattered efforts with the present project;
- upon request from the head of the PSC, deliver general advisory support to the MoF, other involved institutions, in *ad-hoc* issues in areas such as strengthening of financial control functions, budget and treasury process improvement, public administration development and other;
- ensure successful correlation and collaboration of all the institutions engaged in the project activities as far as it is necessary to achieve the project objectives;
- ensure co-operation with other institutions involved in financial control, e.g. Prosecutor’s General Office and State Revenue Service;
- follow up on the activities carried out during short-term missions of the expert pool in all the components proposing the PSC any further measures needed to ensure the sustainability of the project.
The PAA profile should comprise recent 7-10 year experience in budget and treasury process, ideally with expertise in internal audit. He/she should ideally have experience/ability in strategy, complex management and like (because of the complexity of the project).

The PAA will be situated at the MoF. Mrs. Ingūna Sudraba, State Undersecretary of MoF will be the Latvian counterpart of the PAA.

**Component 1 (TA)**

*Total estimated 29 man/months of short-term expertise (Under Technical Assistance Contract)*

Sub-component 1.1 EU expert(s) with extensive experience in the fiscal forecasting fields indicated within the fiche under description of the respective sub-component

Sub-component 1.2 EU expert(s) with experience in the aspects of computer-aided budget planning able to accomplish specific tasks named in description of the respective sub-component

Sub-component 1.3 EU expert(s) with strong expertise in questions of multi annual budget planning, more specifically in areas implied within the description of the respective sub-component

Sub-component 1.4 EU expert(s) with deep experience in various aspects of sound financial management, namely in the areas implied within the fiche, under the respective sub-component

**Component 2 (Twinning)**

*Total estimated 13 man/months (short-term experts) of twinning*

Sub-component 2.1 Twinning expert(s) with a set of skills and knowledge necessary to produce sound guidelines on public procurement procedures for procurement officers

Costs of production of the manuals 40 000 EURO

Sub-component 2.2 Twinning expert(s) highly capable in institution building support to Bureau for Monitoring of Public Procurement (see description of the respective sub-component for details)

Non-expertise costs for training courses: 20 000 EURO

Sub-component 2.3 IT equipment 40 000 EURO (Supply)

**Component 3 (TA)**

*Total estimated 25 man/months of short-term expertise (Under Technical Assistance Contract)*

Sub-component 3.1 EU expert(s) with capacity for development of internal audit function, able to accomplish specific tasks named in description of the respective sub-component

Sub-component 3.2 EU expert(s) with extensive experience in the internal audit of public bodies able to accomplish specific tasks named under description of the respective sub-component

Sub-component 3.3 EU expert(s) capable of preparing a groundwork for development of internal audit at local government level (see description of the respective sub-component for details)

Sub-component 3.4 EU expert(s) with a set of skills and experience necessary to develop an operational internal audit training system (see description of the respective sub-component for details)

**Component 4 (Twinning)**

2 years (PAA) + 18.5 m/months (short-term experts)
**PAA-2**

The pre-accession advisor should have
- min 7-10 years of recent financial control experience
- been employed by a Supreme Audit Institution of a Member State
- strong command of oral and written English
- (ideally) background in institution building and/or administration

Being resident at the Latvian SAO for the whole duration of the component 4, he will
- provide overall support for the change process in the SAO
- deliver continuous strategic advice to the SAO management and staff
- be responsible for planning and management of short-term experts’ pool within the component 4
- regular reporting to the Project Co-ordinator (PAA-1)

**Sub-component 4.1** Short-term twinning expert with skills allowing him to deliver advice in drafting of external control legislation

**Sub-component 4.2** Short-term twinning expert(s) with extensive experience in the international auditing standards and quality control, able to accomplish specific goals named under description of the respective sub-component

**Sub-component 4.3** Short-term twinning expert(s) with extensive experience in staff development (see description of the respective sub-component for details)

**Sub-component 4.4** Short-term twinning expert(s) with a set of skills and experience necessary to develop management and administrative capacity of the SAO (see description of the respective sub-component for details)

**Sub-component 4.5** 80 PCs and 30 laptops with estimated cost of 150 000 EURO(Supply)

**Component 5 (Twinning) Total 20 man/months (PAA) + ~10 /months (expert pool) twinning**

**PAA-3**

The pre-accession advisor (PAA-3) employed for the whole duration of the Component 5 will be permanently working at the Secretariat for Public Administration Reform. He will be responsible for
- co-ordination and implementation of actions under Component 5
- reporting to the Project Co-ordinator (PAA-1) on progress in implementation of Component 5
- planning and management of input from specific short-term experts involved in the component
- provision of advisory assistance (fully) envisaged in sub-component 5.1
- general support to the Secretariat of PAR

This resident pre-accession advisor should have
- recent experience of at least 5 years in a senior position at the central government institution
- expertise in re-organisation of government entities
- ideally a background in public management department
- strong command in English (written and oral).

**Sub-component 5.1** The PAA-3 is expected to deliver all the necessary assistance under this sub-component.

**Sub-component 5.2** The PAA-3 would be responsible for planning and managing the activities under 5.2 supplemented by short term practitioners in managing public agencies in the sectors chosen for the pilots (Welfare, Transport and Communications, Regional Development). An expert capable of assisting in designing of output performance targets.

**Sub-component 5.3** Short term experts working under the guidance from the pre-accession advisor in the following areas: systems analysis, design of policy implementation structures, implementation of quality management systems, etc.

4. **Institutional Framework**
The project will deal with structures within the Ministry of Finance - the Budget Department, the State Treasury, the Public Procurement Monitoring Department and the Internal Audit Department, as well as the State Audit Office (the key structures ensuring sound financial management and financial control in the Republic of Latvia) and Secretariat for Public Administration Reform under the Minister of Special Assignment on Public Administration.

The Ministry of Finance will be the ultimate LV counterpart and master of the project (all contracts). Under direct guidance of MoF, the leading PAA will manage and lead the whole public expenditure management development process enforcing close co-operation between all the involved institutions to ensure the most optimal implementation of the project. Especially close co-operation is necessary in restructuring ministerial institutional system, in (re) setting priorities within different sectors, in improving resource inter/intra sector allocation to strategic priorities and introducing output oriented costing.

The Steering Committee (comprising both TA and Twinning components) will be headed by Under-secretary of State of the Ministry of Finance, Ms. I. Sudraba. The PSC will be co-chaired by the PAA. The Project Steering Committee meetings will take place at least once every two months. In addition to the Project Steering Committee, special progress monitoring committees, upon necessity, can be established within separate project contracts and components thereof.

The technical day-to-day co-ordinator of the project’s activities will be Ms. A. Cirule, Head of the European Integration Division, MoF.

Responsibility for successful technical implementation of the separate components lies within respective institutions:

- **Component 1 (Improvement of Budget Process)** - Budget Department, MoF; State treasury; Department of Economic Analysis and Fiscal policy; Public Administration Reform Bureau; – Solvita Zvidriņa, Director of the Budget Department
- **Component 2 (Reinforcement of Control in the Field of Public Procurement)** - Public Procurement Monitoring Department, MoF, – Edvīns Pārups, Director of the Department
- **Component 3 (Development of Internal Audit Function)** - Internal Audit Department, MoF, – Dace Nulle, Director of the Department
- **Component 4 (Strengthening of External Control function)** – Raits Černajs, the Auditor General
- **Component 5 (Reform of Administrative Structures)** – Svetlana Proskurovska, Deputy Head of Secretariat for Public Administration Reform

The above-mentioned persons will be responsible for establishment of review mechanisms to ensure the successful completion of the project within their concrete spheres of competence as well as for provision of team of competent LV experts from their institutions for work within the project.

### 5. Budget

<table>
<thead>
<tr>
<th>Phare</th>
<th>Support</th>
<th>Investment Support</th>
<th>National Co-financing*</th>
<th>IFI*</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twinning Covenant</td>
<td>Building</td>
<td>1.700.000</td>
<td>170.000</td>
<td></td>
<td>1.870.000</td>
</tr>
<tr>
<td>Services Contract</td>
<td></td>
<td>1.110.000</td>
<td>110.000</td>
<td></td>
<td>1.220.000</td>
</tr>
<tr>
<td>Supply Contract</td>
<td></td>
<td>190 000</td>
<td>50.000</td>
<td></td>
<td>240.000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>190.000</td>
<td>3.000.000</td>
<td>330.000</td>
<td>3.330.000</td>
</tr>
</tbody>
</table>

* In cases of co-financing only

Note: expenditure for equipment should be put under Investment

### 6. Implementation Arrangements
6.1 Implementing Agency

Central Financing and Contracting Unit, PAO Valentina Andrejeva, State secretary of the Ministry of Finance.

The Technical Implementation of TA, Supplies and Twinning contracts will be the responsibility of the SPO at the Ministry of Finance

6.2 Twinning

One Twinning Covenant will comprise the components 2,4,5 (except for the investment part thereof, which will be contracted separately after open local tender) and include one PAA (the presiding consultant for the whole project and leading EU counterpart), who will be employed for the whole duration of the project and placed at MoF, the leading LV counterpart of the project. The twinning expert pool comprising short/mid/long-term experts in concrete fields (e.g. external control, public procurement, public administration etc.) to be involved under specific project sub-components. These twinning experts will be located in the Latvian MoF (Component 2), SAO (Component 4) and Secretariat for Public Administration Reform (Component 5).

Mrs Ingūna Sudraba, Under Secretary of State, MoF, will be the official LV contact point for the twinning arrangement. For further details about the specific counterparts for each component, please see point 4 of this fiche.

6.3 Non-standard aspects

6.4 Contracts

One Twinning Covenant with selected twinning counterpart(s) (1PAA & expert pool) for the total amount of €1'700'000 to cover TA activities under Components 2,4,5 (except for investment portion thereof).  
One Service Contract (restricted international tender) for €1’110’000 comprising activities under Components 1 and 3.  
One Local Open Tender for procurement of supplies (IT equipment for Sub-component 2.3 & Sub-component 4.5) €190’000.

7. Implementation Schedule

7.1 Start of tendering/call for proposals

<table>
<thead>
<tr>
<th>Twinning arrangements</th>
<th>Services contract</th>
<th>Procurement of supplies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical Covenant ready:</td>
<td>Terms of Reference ready</td>
<td>Start of tendering: IQ 2001</td>
</tr>
<tr>
<td>IVQ 2000</td>
<td>IVQ 2000</td>
<td></td>
</tr>
</tbody>
</table>

7.2 Start of project activity

<table>
<thead>
<tr>
<th>Twinning arrangements</th>
<th>Services contract</th>
<th>Procurement of supplies</th>
</tr>
</thead>
<tbody>
<tr>
<td>IIQ 2001</td>
<td>IIQ 2001</td>
<td></td>
</tr>
</tbody>
</table>

7.3 Project Completion
8. Equal Opportunity

When recruiting, promoting and rotating their employees, Latvian public institutions (including *inter alia* MoF, SAO, PARS and ST) take into account professional qualification, level of competence, compliance with the Law on State Civil Service (when applicable), correspondence to the job description, performance and like factors, not their age, sex or nationality. There will be equal opportunity for both men and women.

9. Conditionality and sequencing

**Conditionality**

- Government defines continuation of Public Administration Reform as constant priority
- Government of Latvia is committed to implementation of the expert recommendations on strengthening the co-ordinating role of the centre of government in order to enable formulation of government strategic priorities and to ensure coherence among the various public policies as well as proper assessment of impacts of government action.
- Government of Latvia undertakes measures to strengthen unified civil service by designing and implementing relevant policy instruments.
- Secretariat for Public Administration Reform (responsible for implementation of the project component 5) has governmental support, adequate capacity and legal base
- Necessary resources from the state budget (financial years 2001, 2002) for co-financing of the described project activities (the figures indicated in the budget table represents a pessimistic scenario). Adequate staffing of all the institutions involved;
- Laws on Public Agencies and Framework law on public administration are adopted by the Parliament in the course of 2000
- Full commitment from the beneficiary to transparently co-operate with external project experts, including *inter alia* access to all sources of information (including classified, under condition of proper arrangement of confidentiality)
- Internal political will to undergo administrative and structural change
- Commitment from the recipient to follow/implement the delivered advice, including necessary political support and decisions
- Project steering committee is monitoring implementation progress and facilitates coordination among the various components of the project
- Commitment by Saeima to establish a parliamentary sub-committee for discussion of SAO reports.

**Sequencing**

The project will be a continuation of the previous technical assistance projects: Phare Project "Assistance to the Budget and Treasury Process in Latvia", Phare-97 Public Administration Reform Project, PHARE-98 Project "Special Preparatory Program for Structural Funds in Latvia" and PHARE-98 Institution building project "Internal market capacity building and enforcement". These projects are finishing, respectively, in autumn, 1999; mid-2000, autumn 2000 and beginning of 2001.

Activities of TA and Twinning parts may start and run concurrently. Simultaneous implementation of all five components of the proposed project is desirable though, as that reduces dependence of one component on the other and, consequently, reduces the risk of delays in implementation of the entire project.
At the same time, the organisation of the implementation (see section "Implementation Arrangements") will ensure maximum synergy between different project components.

Specific activities within respective project components can largely be organised simultaneously, depending on expert availability.

The only exception to this principle is Project component "Development of internal audit function". In this case development of internal audit at local government level will be intensified only after successful reinforcement of respective structures at the level of the Central Government.

**ANNEXES TO PROJECT FICHE**

1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule by quarter for full duration of programme (including disbursement period)
<table>
<thead>
<tr>
<th>Annex 1 to Project Fiche</th>
<th>Programme name, number: Project Number LE00.11.01</th>
<th>Date of drafting:</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOGFRAME PLANNING MATRIX FOR Public Expenditure Management</td>
<td>Contracting period expires:</td>
<td>Disbursement period expires:</td>
</tr>
<tr>
<td>Project Number LE00.11.01</td>
<td>Total Budget: (MEUR) Phare contribution: (MEUR)</td>
<td></td>
</tr>
<tr>
<td>Wider Objective</td>
<td>Indicators of Achievement*</td>
<td>How, When and By Whom Indicators Will Be Measured</td>
</tr>
<tr>
<td>• To provide for ample and sustainable improvement of public expenditure management through strengthening different elements of the &quot;chain&quot; involved</td>
<td>• Full legality and maximum efficiency in the utilisation of public funds is ensured</td>
<td>• Cabinet of Ministers</td>
</tr>
<tr>
<td></td>
<td>• Institutions are fully able to enforce acquis through the new management arrangements</td>
<td>• DG IXX (via Phare/Sigma)</td>
</tr>
<tr>
<td></td>
<td>• Evaluation by int., ext. audit</td>
<td>• Commission Regular Reports</td>
</tr>
<tr>
<td>Immediate Objectives</td>
<td>Indicators of Achievement*</td>
<td>How, When and By Whom Indicators Will Be Measured</td>
</tr>
<tr>
<td>• Strengthening of the budget process</td>
<td>• sound analytical basis and sustainability of budget planning is ensured;</td>
<td>• Cabinet of Ministers</td>
</tr>
<tr>
<td>• To reinforce compliance with public procurement norms</td>
<td>• savings in the spending of public resources; free competition protected; corruption possibilities reduced;</td>
<td>• DGIXX,XX (via Phare/Sigma)</td>
</tr>
<tr>
<td>• To strengthen internal audit function</td>
<td>• internationally accepted internal audit standards are correctly applied in practice</td>
<td>• Evaluation by internal audit and external audit structures</td>
</tr>
<tr>
<td>• To strengthen the external audit function</td>
<td>• Intern-liv accepted external audit practices/standards applied;</td>
<td>• EU Commission and other international institutions reports</td>
</tr>
<tr>
<td>• To bring public institutions under the proper legal status and to establish proper performance management and accountability frameworks</td>
<td>• Public entities are managed and operated in accordance with legislation, thus ensuring the basis for proper management of public finances in carrying out public functions</td>
<td></td>
</tr>
<tr>
<td>Outputs</td>
<td>Indicators of Achievement*</td>
<td>How, When and By Whom Indicators Will Be Measured</td>
</tr>
<tr>
<td>• Fiscal forecasting and cash flow management and reporting system improved; accrual accounting, forward estimates, basic system of performance indicators introduced;</td>
<td>• public spending efficiency increases (priorities for utilization of different funding are consistent; full information on existing funds available for decision-making)</td>
<td>• Cabinet of Ministers</td>
</tr>
<tr>
<td></td>
<td>• Guidelines for public procurement entities distributed; training done; new monitoring body strengthened</td>
<td>• full set of information (including yardsticks for measuring performance) is available for the needs of internal/external audit</td>
</tr>
<tr>
<td></td>
<td>• On the job training done for central government IA auditors</td>
<td>• The number of cases of incorrect application of the norms of the public procurement legislation decreases</td>
</tr>
<tr>
<td></td>
<td>• Measures taken to spread IA rules public institutions outside central government</td>
<td>• quality of recommendations of IA structures increases as measured by quality evaluation table</td>
</tr>
<tr>
<td></td>
<td>• Full use made of INTOSAI, etc.</td>
<td>• Audit reports by SAO widely used and respected by Parliament, Ministries and the public;</td>
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<td></td>
<td>• Adequate capacities for re-organization of public administrative structures ensured</td>
<td>• Specialized advisers trained and functioning at the secretariat demand for their services increased</td>
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<td></td>
<td>• Performance management system is in place</td>
<td>• Performance management system adopted and applied consistently throughout the administration</td>
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<tr>
<td>Inputs</td>
<td>Indicators of Achievement</td>
<td>How, When and By Whom Indicators will be Measured</td>
</tr>
<tr>
<td>• Technical assistance</td>
<td>• Qualified advice by PAA and short-term experts provided; training events organised;</td>
<td>• Feedback from MoF; Secretariat, SAO and Parliament</td>
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<tr>
<td>• Twinning</td>
<td>• Latvian institutions responsible for financial control provided with necessary equipment</td>
<td>• Quality control and review of progress by Phare/SIGMA</td>
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<tr>
<td>• Training</td>
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### Annex 2
### Implementation Chart

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<tr>
<th>Institution Building</th>
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<tr>
<td>Perfection of Budget Process</td>
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<td>Strengthening Fiscal Forecasting Function</td>
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<td>Follow-up implementation of Budget Planning IT-System</td>
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<td>Integration of financial instruments</td>
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<td>Sound Financial Management</td>
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<td>Control in Public Procurement</td>
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<td>Public Procurement Procedures Guidelines</td>
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<td>Developing Administrative Capacity of BMPP</td>
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<tr>
<td>Technological Improvements*</td>
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<td>Internal Audit Function</td>
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<td>Local Government Internal Audit</td>
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<td>Internal Audit Training System</td>
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<td>Promotion of the Internal Audit Role</td>
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<td>Strengthen. capacity of the Reform Secretariat</td>
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<td>Restructur. state non-profit stockholding companies into agencies</td>
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*See Investment section for implementation schedule
### CUMULATIVE CONTRACTING and DISBURSEMENT SCHEDULE (€ thous.)

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