STANDARD SUMMARY PROJECT FICHE

1. Basic Information

1.1 Désirée Number: RO-0006.06
1.2 Title: STRENGTHENING INTERNAL AUDIT AND FINANCIAL CONTROL
1.3 Sector: Financial Sector
1.4 Twinning component: RO2000/IB/FI03 Strengthening internal audit and financial control
1.5 Location: Romania, Ministry of Finance

1. OBJECTIVES

1.1. Wider Objective(s):

Support for developing the Directorate-General of Internal Audit in co-
ordination with the Directorate of Preventive Financial Control in the
Ministry of Finance, for improving the efficiency and effectiveness of its
audit and control systems relating to national and extra-budgetary public
funds as well as of its policies and procedures for sound financial
management and control of EU Funds, in strict accordance with best
international practice.

Twinning assistance on Internal Audit in the Ministry of Finance is foreseen
for:

a. The implementation, at central and decentralised level, of the
recent Government Ordinance No. 119 on Internal Audit and
Financial Control and

b. The gradual extension of the process of decentralisation of
responsibility and accountability for the management and control
of EU funds to the Line Ministries and Implementing Agencies in
Romania, subject to the most rigorous application of the
principles and procedures for sound financial management and
control, fully consistent with modern EU standards in this field
(with reference to the Annex of Commission Regulation 1266/99
and others).

1.2. Immediate Objective:

The objective of this support is to ensure that the Ministry of Finance, the
National Fund and the National Authorising Officer guarantee, to the
satisfaction of the Commission, the planning, design, implementation, and
evaluation of a reliable financial management and control framework for
national budget funds including EU transfers.

The present assignment, in particular, will facilitate the progressive
decentralisation of authority and responsibilities of the National Authorising
Officer to relevant Line Ministries and Implementing Agencies for the Pre-Accession funds (Phare, ISPA and SAPARD), after developing full and adequate capacity of these Line Ministries and Implementing Agencies to properly manage all EU-funding in accordance with relevant EU standards and methodology.

The aim is to significantly accelerate the establishment and increase the capacities of the required public internal and financial control and monitoring systems taking into full account all relevant EU rules and standards, including the needs for developing financial management and control manuals, audit manuals and audit trails.

1.3. Accession Partnership and NPAA priority

Reinforcement of administrative and judicial capacity (institutions) including capacity to manage and control EU Funds:

Strengthen public internal audit and financial control functions through the provision of adequate staff, training and equipment.

NPAA priority

- Organisation of using the control of financial instruments of EU pre-accession and assuring co-operation with the EU in this area;
- Unitarian co-ordination of the activities for the fight against fraud;
- Increase efficiency in recovering unduly paid sums from public funds;
- Increase the administrative capacity for applying the "acquis communautaire" in the field of the EU Own Resources.

1.4. Contribution to National Development Plan

N/A

1.5. Cross Border Impact

N/A

2. DESCRIPTION

2.1. Background and justification:

The European Union provides support under its Phare Programme to the Government of Romania for facilitating and accelerating the accession of Romania to the EU. Based on the NPAA and Accession Partnership the draft Phare 2000 programme has proposed a component for Institution-Building in the Ministry of Finance. This component includes further development of the capacities of the Internal Audit and Internal Control functions of the Ministry of Finance, and in particular their capacities to assure sound financial management and control in Line Ministries and Implementing Agencies dealing with future EU funding.

The Government and the European Commission on 20 October 1998 signed the Memorandum of Understanding establishing the National Fund. The National Fund is established in the Ministry of Finance. It will be
responsible for all future EU funding in Romania. The Financing Memorandum for EU Phare 99 Programmes was signed in December 1999.

It is expected that in 2000 the Commission will adopt the Romanian Rural Development Plan, which will be leading to a Financing Memorandum for SAPARD (Support for Pre-Accession measures for Agriculture and Rural Development). The National Fund will receive the SAPARD 2000—2006 funds. As of 31 January 2000 the Ministry of Finance has the responsibility to establish the SAPARD Paying Agency, and to manage its operations. The National Fund will be the Competent Authority for the accreditation of the SAPARD Agency, while the Ministry of Finance will be responsible for the Paying Agency. The Ministry of Agriculture and Food will be the Implementing Body.

The first batch of projects for ISPA (Instrument for Structural Policies for Pre-Accession) will also be reviewed and approved by the Commission, hopefully in 2000. ISPA funds will also be channelled through the National Fund.

The Ministry of Finance, under Ordinance 119, has established a new structure for Internal Audit and for Internal Preventive Financial Control under Government Ordinance 119 as of January 1st, 2000. The Romanian Court of Accounts (Court of Auditors) was previously responsible for the Preventive financial control functions (or a priori approval systems) The Court is now exclusively responsible for the external control (ex post auditing) of the public sector expenditure. The further development of the new internal control functions is presently supported by a twinning covenant between Romania and France.

The project under review has been given the highest priority as it is meant to assure, as rapidly as possible, the good governance of public internal financial control in Romania and to guarantee the integrity of all present and future EU funding. The priority is underlined by the fact that these systems have to be in place and in good working order before EU Pre-accession funds can be transferred under extended decentralised management and control.

2.2. Linked activities:

The findings and output of the running twinning project from September 1999 to February 2001, on internal financial control in the Ministry of Finance will be available to future twinning partners for drafting the covenant(s) for this project.

3.3 Expected outputs/ results:

The expected output of this project should enable the Government for Romania to commit itself to take all necessary measures at national, regional and sub-regional levels to adopt a regulatory framework, analogous to that of EU Member States, in order to:

- Adopt or amend existing relevant legislative and statutory regulations in accordance with the "acquis";
• Develop the administrative structures for fulfilling all legal obligations and requirements relating to institution building in relation to the financial management and control of EU pre- and post-accession funds).

• The project will assist the Romanian authorities to define all the texts, institutions and working procedures and manuals, necessary for effective application the rules and guidelines relating to EU funding at all implementation levels.

• The final aim of the project is the establishment of an effective administrative system covering all tools of accounting, management, control, audit, monitoring and evaluation throughout the Government and also ensuring that EU funds are used efficiently, effectively and economically in accordance with EU legislation and the principles of sound financial management and control.

• The project will also have to introduce into the Romanian public internal financial control systems all relevant elements of the best international practice relating to sound financial management and control.

Central to the accomplishment of this overall goal should be:

• A timely and policy oriented analysis of any remaining “gaps” between current Romanian internal control systems and relevant Community regulations and best practice with recommendations as to how to overcome such gaps (PIFC Policy Paper). In this context it is of importance to consider the best possible ways to develop synergy between the Preventive Financial Control and the Internal Audit;

• The development of a model management and control system following EU requirements for the implementation and control of pre- and post-accession instruments, including the development of financial management and control manuals, audit manuals and audit trails;

• Extensive training programmes for senior officials to manage and control the new structures and systems, followed by wider training (including training to the proposed Public Finance School, presently under development with the support of a Dutch twinning project) to ensure the highest standards of professional qualification.

• Clear definition of responsibilities, transparent and adequate control systems and comprehensive documentation for each specific area of the administration of government expenditure.

Anticipated Measurable Results

Based on the above scope of works the result should be an internal audit system designed to fulfil the following audit objectives in accordance, inter alia, with EU best practice and national standards:

Objective 1. Systems should be adequate to ensure that payments are only made when due, that the amounts are correct and eligible and that community funds are properly safeguarded;
Objective 2. Each relevant Authority must establish adequate accounting and financial systems in accordance with best international practice to ensure that all expenditure is correctly recorded and properly allocated;

Objective 3. The relevant control authorities must perform on-the-spot audit planning, and ensure that methodology and follow-up procedures comply with best international practice and with EU rules and regulations; they must provide adequate assurance on the quality of systems and the progress of actions, both in terms of the achievement of objectives and in terms of the efficient, effective, and economical use of resources;

Objective 4. Adequate arrangements to ensure that recipients of national and EU-funding provide appropriate information on their activities, and that this information provides a fair and true view of the actual progress made;

Objective 5. Adequate procedures to ensure that applications for funding and relating decisions comply with the relevant rules, are in accordance with needs, and that decisions by the Authority are fully documented.

Activities:

This project should aim at developing the most optimal programme for the implementation of the sound financial management and control strategies in the light of the results of the Initial Assessment through the following core activities:

• detailed review of existing legislative and regulatory procedures relating to financial management and control;

• evaluation of the financial management and control operation of the National Fund;

• review of existing administrative systems for financial management and control at central and local levels;

• specification of gap analysis between the Romanian PIFC system and ideal PIFC systems;

• setting a time-table for the implementation plan, in close co-operation with other experts and Ministry of Finance officials, for adopting necessary new legislation and/or amending existing legislation;

• changing administrative structures following new or amended legislation, identifying necessary work organisation, resource and staffing requirements, job descriptions, and a timetable for implementation of such changes.

• Advise on the establishment of sound financial management and control system for all national budget and EU funding;

• Advise on control, monitoring and evaluation functions;

• Advise on the establishment of roles and responsibilities of the National Fund and the future EU-funds.
Scope of Work:

- Development of an action programme in order to advise on and participate in:
  - Preparation of internal audit regulations/standards/methodology;
  - Preparation of standards and manuals/audit trails;
  - Introduction of risk analysis;
  - Preparation of a strategy for IT-based computer-auditing;
  - Preparation of strategic audit plans and self-assessment controls;
  - Participation by the twinning partners in joint audits with Directorate-general Internal Audit in at least two Line Ministries and two public agencies to enhance “know-how” transfer.
  - Preparation of, and participation in, detailed training programmes for internal auditors, including study tours/“stages” to Member States I/A institutions
  - Development of publications, newsletters, Internet Home Page, etc. to promote greater understanding of the value of Internal Audit at the different levels of the public sector
  - Advice on the establishment of an appropriate technical base for enhanced use of computers in the I/A function, and the progressive introduction of computer-aided techniques. In particular this will be important as the SAPARD programme expands.

Inputs:

The activities will be carried out by 3 components, twinning, technical assistance and investment support:

1. Twinning (1.6M€)

The project envisages that the Member State(s)/Twinning Partner provide the following:

- 1 senior Pre-Accession Advisor (PAA) on Internal Audit to the Directorate-General for Internal Audit of the Ministry of Finance for a period of 24 man/months

Profile of the PAA
Senior experience of at least 10/15 years in public financial management, in auditing and with a good understanding on internal control. Practical experience in institution-building and management of auditing/internal control functions. Extensive knowledge of EU Financial and Structural Funds Regulations. Good communication and team-leadership skills. Good command of English and/or French.

Short-term Experts
Short-term experts will provide inputs in the areas identified above in section 3.4 Activities, and will in particular assist in the design and delivery of training programmes. Short-term experts support will be provided to both the Directorate General of Internal Audit and the Directorate of Preventive Financial Control. The exact
allocation of tasks to short-term experts will be identified and agreed with the twinning counterpart during the detailed formulation of the twinning covenant.

The twinning partner will arrange a limited number of study tours, traineeships and placements in support of the objectives of the project.

2. Technical Assistance (0.35M€)

It is proposed that allocation be made for technical assistance to provide specific expertise and training in IT systems in Romania in internal audit, financial control; and computer-based monitoring, auditing and risk analysis models.

3. Investment Support/Equipment (0.45M€)

It is proposed that allocation be made for procurement (under a separate Phare contracting procedure but with the technical advice of the twinning partner) of appropriate software and limited hardware to provide a demonstration effect and for purposes of supporting the training programmes.

- The Contracting Authority (Ministry of Finance of Romania) will ensure the provision of suitable office accommodation with adequate filing capacity; appropriate access to phone/fax/copying facilities; and necessary computer facilities (including E-mail and access to Internet).

4. Institutional Framework

4.1. The project will be implemented within the General Directorate for Internal Audit, in close co-operation with the Direction for Ex-ante Financial Control.

The project will be an integral part of the strategy for Institution – Building and Human Resource Development of the Ministry of Finance which will be elaborated in the course of 2000/2001.

4.2. The Secretary General of the Ministry of Finance will establish two Committees to advise and oversee the project as follows:

1. Advisory Committee of senior professional experts from the public and private sector as well as academic experts in the field of financial management and control, and possibly with participation of international professional bodies such as the Institute of Internal Auditors.

2. A Steering Committee within the Ministry of Finance, supplemented by representatives of the Line Ministries and Agencies as appropriate to review monthly work programmes and progress. The appointed Romanian project manager will report to the Steering Committee

Both committees will be chaired by the Secretary - General.
### 5. Detailed Budget

<table>
<thead>
<tr>
<th>Phare Support</th>
<th>Support</th>
<th>Total Phare (=I+IB)</th>
<th>National Cofinance</th>
<th>IFI*</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Support</td>
<td>Institution Building</td>
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</tr>
<tr>
<td><strong>Contract 1</strong></td>
<td><strong>Twinning total</strong></td>
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<tr>
<td>Internal Audit</td>
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<td>Pre-Accession Advisor 24 m/months</td>
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<td>Short-term Experts and other twinning project activities</td>
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<td>1.10</td>
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<td>1.10</td>
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<td><strong>Contract 3</strong></td>
<td><strong>Investment support/Equipment</strong></td>
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<td>0.45</td>
<td>0.1125</td>
</tr>
<tr>
<td><strong>Total for Internal Audit</strong></td>
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<td>0.45</td>
<td>1.95</td>
<td>2.40</td>
<td>0.1125</td>
</tr>
</tbody>
</table>

### 6. Implementation Arrangements

6.1. Implementing Agency

The implementing Agency will be the CFCU. The Implementing Authority will be General Direction for Internal Audit the in Ministry of Finance.

6.2. Twinning

CFCU will be responsible for disbursement of the twinning component in accordance with Twinning Manual and procedures.

CFCU will be responsible, at the request of the Programme Officers (see below) for tendering, contracting, and disbursement of the Technical Assistance component strictly in accordance with Phare DIS procedures.

Internal Audit PO and Twinning contact point:

Mr. Emil Dinga,  
General Director,  
Directorate-General Internal Audit
6.3. Non - Standard aspects

The DIS and Twinning Manuals will be strictly followed.

6.4. Contracts

(a) Twinning contracts: one covenant of 1.60 MEURO, and a contract for investment of 0.45 MEURO and a contract for Technical Assistance of 0.35 Meuro.

7. IMPLEMENTATION SCHEDULE

7.1 Start of tendering/call for proposals October, 2000

7.2 Start of project activity January, 2001

7.3 Project Completion December, 2002

8. EQUAL OPPORTUNITY

Equal opportunity for men and women will be assured as a specific item on the Steering Committee agenda.

9. ENVIRONMENT N/A

10. RATES OF RETURN N/A

11. INVESTMENT CRITERIA N/A

12. CONDITIONALITY AND SEQUENCING

12.1. Principal conditionality is continued programme of appointment of the number of controllers to a level of approx. 140/150.

12.2. Second important conditionality is the implementation of measures to provide for “functional independence” of internal auditors.

12.3. A third conditionality for any future further funding for Financial Audit and Internal Control should be the inclusion in the programmes of the proposed School of Public Finance of the Ministry of Finance of specific modules of continuing education and refresher courses, leading if possible to specific internationally-recognized qualifications in audit and control, such as the Institute of Internal Auditors at the Practitioner and Professional levels.
12.4. Projects implemented through twinning require the full commitment and participation of the senior management of the beneficiary institution. In addition to providing the twinning partner with adequate staff and other resources to operate effectively, the senior management must be fully involved in the development and implementation of the policies and institutional change required delivering the project results.

ANNEXES TO PROJECT FICHE

1. Logical framework matrix
2. Detailed implementation chart
3. Contracting and disbursement schedule by quarter for full duration of programme (including disbursement period)
# ANNEX 1 TO THE PROJECT FICHE

## LOGFRAME PLANNING MATRIX

<table>
<thead>
<tr>
<th>Programme name: and number:</th>
<th>Date of drafting:</th>
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<tbody>
<tr>
<td>Audit and Financial Control</td>
<td>12.02.2000</td>
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</table>

### INTERNAL AUDIT AND FINANCIAL CONTROL

<table>
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<tr>
<th>Contracting period expires:</th>
<th>Disbursement period expires:</th>
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</thead>
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<tr>
<td>30.11.2002</td>
<td>30.11.2003</td>
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</tbody>
</table>

### Project Number

<table>
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<tr>
<th>Project Number</th>
<th>Total Budget:</th>
<th>Phare contribution:</th>
</tr>
</thead>
<tbody>
<tr>
<td>RO-0006.06</td>
<td>2.5125 MEURO</td>
<td>2.4 MEURO</td>
</tr>
<tr>
<td>RO/IB/FIN/00/03</td>
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</tr>
</tbody>
</table>

### Wider Objective

- Improving the effective and efficient use of budgetary resources and EC pre-accession financial instruments by establishing a decentralized system of financial control.

### Indicators of Achievement*

- Degree of covering the ex-ante financial control on public expenditures.
- The degree of covering by norms for the financial control structure and mechanism.

### How, When and By Whom Indicators Will Be Measured

- Ministry of Finance by internal audit annual reports.

### Assumptions and Risks

#### Assumptions

- A better use of national and Phare funds

#### Risks

- The adoptions of the legal text do not be approved in time.
- The decentralised controls do not be approved until next year.

### Immediate Objectives

- To ensure that the Ministry of Finance, the National Fund and the national Authorizing Officer guarantee the planning.

### Indicators of Achievement*

- The degree of transparency of public funds spending.
- The degree of covering by norms for commitment

### How, When and By Whom Indicators Will Be Measured

- Ministry of Finance in administrative ways.
- European Delegation by Romanian specifically report.

### Assumptions

- Reorganising central and decentralised structure of the Ministry of Finance.
design, implementation and evaluation of a reliable financial management and control framework for national budget fund, including EU transfers.

- Facilitate the progressive decentralization of authority and responsibilities of NAO to relevant Line Ministries and IAs for Pre-Accession funds (Phare, ISPA and SAPARD).
- To develop full and adequate the capacity of Line Ministries and IAs to properly manage all EU funding in accordance with relevant EU standards and methodology.
- To significantly accelerate the establishment and the increase capacities of the required public internal and financial control and monitoring systems taking into full account all relevant EU rules and standards, including the needs for developing financial management and control manuals and audit trails.

<table>
<thead>
<tr>
<th>Outputs</th>
<th>Indicators of Achievement*</th>
<th>How, When and By Whom Indicators Will Be Measured</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Adopt and amend existing relevant legislative and accounting.</td>
<td>• The number of decentralised financial controller trained.</td>
<td>• Chief financial controller’s annual reports.</td>
<td>• Assuring all the conditions to train the financial controllers in a systemic way and in a sufficient number.</td>
</tr>
<tr>
<td></td>
<td>• The number of EU specialists and the times spent by EU specialist in order to assist the delegate controller body to reach a higher theoretical, methodological and practical level in financial control activity.</td>
<td></td>
<td>• Realising the national integrated network for financial control and commitment accounting Employing.</td>
</tr>
<tr>
<td></td>
<td>• The degree of homogeneity of the structure and the methods used to perform the preventive financial control.</td>
<td></td>
<td>• Delays in changing the perception on preventive financial control at Ministry of Finance level.</td>
</tr>
<tr>
<td></td>
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<td>• Lack of financial resources.</td>
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<td></td>
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<td>• Incomplete and/or narrow knowledge in computer network using.</td>
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<td></td>
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<td></td>
<td>• Delays in decision making for decentralizing financial control.</td>
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</tbody>
</table>

Risks

- Delays in changing the perception on preventive financial control at Ministry of Finance level.
- Lack of financial resources.
- Incomplete and/or narrow knowledge in computer network using.
- Delays in decision making for decentralizing financial control.

- The legal framework is approved in
<table>
<thead>
<tr>
<th>Statutory regulations in accordance with the “acquis”.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Develop the administrative structures for fulfilling all legal obligations and requirements relating to institution building in relation to the financial management and control of EU pre and post accession funds.</td>
</tr>
<tr>
<td>• Texts, institutions, working procedures and manuals, necessary for effective application the rules and guidelines relating to EU funding at all implementation levels.</td>
</tr>
<tr>
<td>• The final aim of the project is the establishment of an effective administrative system covering all tools of accounting, management, control, audit, monitoring and evaluation throughout the Government and also ensuring that EU funds are used efficiently, effectively and economically in accordance with EU legislation and the principles of sound financial management and control.</td>
</tr>
<tr>
<td>• Introduce into the Romanian public internal financial control</td>
</tr>
<tr>
<td>Government and Parliament.</td>
</tr>
<tr>
<td>• Operational administrative structures in place.</td>
</tr>
<tr>
<td>• Approved handbook and working procedures at all implementation levels.</td>
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<tr>
<td>• Degree of EU funds used economically and effectively.</td>
</tr>
<tr>
<td>• Degrees of harmonisation of the best sound financial</td>
</tr>
<tr>
<td>Internal audit's annual reports.</td>
</tr>
<tr>
<td>• Court of Accounts annual reports.</td>
</tr>
<tr>
<td>• Court of Accounts annual reports.</td>
</tr>
<tr>
<td>- trimestrial reports of the GDIA.</td>
</tr>
<tr>
<td>- Annual report of the Court of Accounts.</td>
</tr>
<tr>
<td>- Report of DG Audit of EC.</td>
</tr>
<tr>
<td>No risks are foreseen.</td>
</tr>
<tr>
<td>The trained personnel stay in the public administration.</td>
</tr>
<tr>
<td>due time.</td>
</tr>
<tr>
<td>Systems all relevant elements of the best international practice relating to sound financial management and control.</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>• A timely and policy oriented analysis of any remaining “gaps” between current Romanian internal control systems and relevant Community regulations and best practice with recommendations as to how to overcome such gaps (PIFC Policy Paper). In this context it is of importance to consider the best possible ways to develop synergy between the Preventive Financial Control and the Internal Audit;</td>
</tr>
<tr>
<td>• The development of a model management and control system following EU requirements for the implementation and control of pre- and post- accession instruments, including the development of financial management and control audit manuals, and audit trails;</td>
</tr>
<tr>
<td>• Extensive training programmes for senior officials to manage</td>
</tr>
</tbody>
</table>
and control the new structures and systems, followed by wider training (including training to the proposed Public Finance School, presently under development with the support of a Dutch twinning project) to ensure the highest standards of professional qualification.

- Clear definition of responsibilities, transparent and adequate control systems and comprehensive documentation for each specific area of the administration of government expenditure.

<table>
<thead>
<tr>
<th>Inputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phare financial contribution</td>
</tr>
<tr>
<td>MoF co-financing</td>
</tr>
</tbody>
</table>

- Test paper passed by the officials.

* Must be quantified and measurable
ANNEX 2 TO THE PROJECT FICHE NUMBER RO-0006.06

DETAILED TIME IMPLEMENTATION CHART FOR PROJECT NUMBER RO/IB/FIN/00.03

STRENGTHENING OF THE INSTITUTIONAL CAPACITIES REGARDING
THE FINANCIAL CONTROL AND AUDIT

<table>
<thead>
<tr>
<th>activities</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
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<tbody>
<tr>
<td>Conclusion of Twinning Covenant</td>
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<tr>
<td>• Internal Financial Control and Audit</td>
<td></td>
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</tr>
<tr>
<td>• Implementing the covenants</td>
<td>I I I I I I I I I I I I I I I I I I I I</td>
<td></td>
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<tr>
<td>• Equipment procurement</td>
<td>D D C C I I I I</td>
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</tbody>
</table>

D = Design
C = Contracting
I = Implementation
# STRENGTHENING OF THE INSTITUTIONAL CAPACITIES REGARDING THE FINANCIAL CONTROL AND AUDIT

## CUMULATIVE CONTRACTING AND DISBURSEMENT SCHEDULE 2.4 MEURO

**DATE:**

<table>
<thead>
<tr>
<th></th>
<th>31/12/00</th>
<th>30/03/01</th>
<th>30/06/01</th>
<th>31/09/01</th>
<th>31/12/01</th>
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<th>30/09/03</th>
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<td>CONTRACTED</td>
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<td>2.3</td>
<td>2.4</td>
<td>-</td>
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</tbody>
</table>

**NB:**
1. All contracting should normally be completed within 6-12 months and **must** be completed within 24 months of signature of the FM.
2. All disbursements **must** be completed within 36 months of signature of the FM.