STANDARD SUMMARY PROJECT FICHE

1. **Basic Information**

1.1 Desire Number: SR0109
1.2 Title: Public Internal Financial Control
1.3 Sector: Reinforcement of administrative capacity
1.4 Location: Slovak Republic

2. **Objectives**

2.1 **Overall objective:**

Strengthening of the present internal financial control system (covering ex-ante financial control, ex-post financial control and internal audit) in the Slovak Republic and thus supporting adequate utilisation of public funds in compliance with EC standards.

2.2. **Project purpose:**

Implementation of an adequate internal financial control in the Slovak Republic which will meet all requirements laid down by the EC directives:

- Council Regulation 1258/1999
- Council Regulation 1260/1999
- Council Regulation 1266/1999
- Council Regulation 1267/1999
- Council Regulation 1268/1999

2.3. **Accession Partnership and NPAA priority**

**Accession Partnership – medium-term priorities**

Reinforcement of administrative and judicial capacity including the management and control of EU funds

„Strengthen the Supreme Audit Office, financial control and internal audit functions through the provision of adequate staff, training and equipment.“

**NPAA**

Mid-term priorities, as stated in the chapter on Financial Control, which fall under the responsibility of the Ministry of Finance, foresee notably:

- To address the issue of internal financial control in relation to pre-accession and structural funds;
• To upgrade the PIFC system according to the principles and definitions as approved by the Ministry of Finance in the “Concept Paper on Public Internal Financial Control (PIFC)”.

The managerial and control tasks in the area of the European Communities funds are in more detail defined in the Accession partnership 1999, where (under the short-term priorities for the Slovak Republic) is specifically stated: “…to complete the establishment of legislative framework for internal and external financial control; to create the internal audit units in spending centres; to ensure “functional independence” of the national internal controllers/auditors on the central and also on the decentralise level and financial control “ex ante”.

2.4. Contribution to National Development Plan

The project will cover and develop the framework for internal financial control of all public funds, pre-accession funds and the future structural funds in accordance with the National Development Plan and Rural Development Plan of the Slovak Republic. The programme will contribute to the smooth implementation of the National Development Plan by strengthening the internal financial control framework under the frame of regional and sectoral programmes.

2.5. Cross Border Impact: not applicable

3. Description

3.1. Background and justification:

The public internal financial control system in the Slovak Republic is gradually changing. Various players are actively involved:

- The Ministry of Finance
- Other line ministries (their designated departments)
- Regional Financial Control Offices

The aim is to increase the efficiency of PIFC while focusing on management, expedience and economy of public finance.

Ministry of Finance and its Regional Financial Control Offices

The Ministry of Finance is the leading control authority as concerns the management of the state budget resources, individual budget chapters and state funds. The regional financial control authorities, on the other hand, execute the control of the management of funds of the subsidised and non-profit organisations and management of financial resources from the state budget and the state funds extended to the municipalities and legal and natural persons.

In order to align the Slovak legislation to the relevant acquis, an amendment to the Budgetary Rules Act No. 303/1995 Coll. came into force on 1st January, 2001. The Act further strengthens the role of the Ministry of Finance in the field of financial control, by authorising it to methodologically direct and co-ordinate the financial
control of budgetary chapters administrators. The amendment, inter alia, defines the term financial control, lays down equal rules for management and procedure in the event of disciplinary offences concerning the management of the Slovak Republic’s budgetary funds, European Communities funds and other resources provided in the frame of multilateral or bilateral assistance on the basis of international treaties for all budgetary and semi-budgetary organisations, legal and natural persons and other entities, which the provisions of the budgetary rules Act concerns.

In order to achieve full alignment with basic principles of the internal financial control of the EC, further legislative changes are required to introduce the system of ex-ante control, internal audit and to arrange for methodological management and co-ordination of the whole financial control system. The upgraded system shall cover co-ordinated approach to the control of funds from the state budget and financial means provided by the EU.

To this end, the Act on Financial Control and Internal Audit that shall come into force on 1st January, 2002 stipulates the basic principles and rules of the internal management of the financial control in the public administration and position of control bodies, relations between control bodies and controlled subjects, aims and organisation of the internal audit. The new Act – in conformity with the Regular Report of the European Commission on Slovakia's Progress towards Accession – clarifies the set-up and structure of independent internal audit units in other government spending centres with one co-ordinating centralised government body at the Ministry of Finance which will act as a central harmonisation unit. The Central Harmonisation Unit will be responsible for the harmonisation of methodology for FMC and internal audit procedures.

The new FMC and internal audit functions will apply in the same manner on pre-accession funds. In this regard, Phare support will focus inter alia on the development of audit trails relating to the pre-accession funds.

**Line ministries**

The other bodies involved into the public funds control mechanism are individual departments of internal control within the line ministries and other administrators of budgetary chapters. The main control task of the state administration is to exercise preclusive activities, perform cognitive, comparative, educational and informative functions.

Under Act No. 10/1996 Coll. on Control of Public Administration, state administration bodies are obliged to establish a functional internal control system within their scope of competence. The internal control in state administration bodies, at all levels, is performed by their own directly subordinated control units.

Therefore, in line ministries and national budget spending centres it is needed to:

- create internal audit units;
- build up an information network for financial management and financial control;
- ensure qualified staff in an adequate number for financial management, financial control and internal audit.
Regional Financial Control Offices

Regional Financial Control Offices carry out the financial control in accordance with the Act No. 440/2000 Coll. on Territorial Financial Bodies (aligned to EU relevant legislation), in force since 1st March 2001. This Act primarily governs the financial control of means used by the state budgetary organisations and semi-budgetary organisations, financial control of subsidies provided from the state budget to municipalities, and to civic and other associations, while further control is carried out on the basis of authorisation from the Ministry of Finance. They also decide in proceedings on violation of budgetary discipline in accordance with a special regulation.

3.2. Linked activities:

The twinning project SR98/IB/FI/02-03, on “Reinforcement of control. Procedures and adoption of financial control methodology”, started its implementation in March 2000 and is still on-going.

3.3 Results:

**Result 1: Establishment and strengthening of the Central Harmonisation Unit (CHU) at the Ministry of Finance and Internal Audit Units in the line ministries and spending centres**

The CHU will develop and harmonise a methodology for Financial Management and Control Systems (FMC) as well as for Internal Audit Systems in the spending centres. The CHU will also ensure that its recommendations on harmonised methodology are followed throughout the Government.

The CHU will elaborate the manuals for procedures relating to FMC as well as to internal audit. The CHU will also develop audit trails.

The Unit will also ensure adequate training of staff, including training of trainers.

**Result 2: Training of controllers and internal auditors of the Central Harmonisation Unit (CHU) at the Ministry of Finance and Internal Audit Units in the line ministries and spending centres**

To ensure the smooth implementation of the above methodology and application of the audit trail, it is imperative to train the controllers and internal auditors. Numerous training and seminars will be provided to educate the controllers and internal auditors in order to apply the above methodology, to proceed in line with the audit trail and communicate using ad-hoc designed software linking all relevant subjects.

**Result 3: Communication software for the Central Harmonisation Unit (CHU) at the Ministry of Finance and Internal Audit Units in the line ministries and spending centres**
The CHU and Internal audit units in the line ministries and in the spending centres will be inter-connected with an IT system facilitating the communication among these players operating in the financial control field. It is therefore necessary to design ad-hoc software supporting the communication flows through automated transfer of data and information (such as audit and financial control reports).

3.4 Activities:

Result 1: Establishment and strengthening of the Central Harmonising Unit (CHU) at the Ministry of Finance and Internal Audit Units in the line ministries and spending centres

Activity 1: Elaboration of a comprehensive methodology for execution of public internal financial control

The methodology will be completed by developing audit trails and manuals for internal audit performance and financial control of all funds including EU funds. Central Harmonisation Unit will also elaborate manuals and procedures for Financial Management and Control System.

Phare assistance will be provided through a twinning arrangement with a duration of 18 months. The Pre-Accession Advisor (PAA) will have the overall responsibility for the timely and effective provision of the assistance required for the three sub-projects, short-term expertise and training included.

The PAA should have at least 10 years of professional experience in the field of FMC and internal audit and in the development of methodology and legislation.

The candidate should have a University degree in the relevant field, good management and communication skills; be computer literate and have a fluent written/oral knowledge of English.

The Pre-Accession Adviser will be supported by an assistant.

Additional short-term experts will focus on audit trails procedures and manuals, contributing to the improvement of annual and mid-term planning and procedures for elaboration of internal audit reports. They will focus their activities on implementation of different types of audit e.g. Financial Audit, Performance Audit and IT System Audit.

Short-term expertise will be also required to design the methodology (manuals & procedures) and the audit trails as follows:

- Elaboration of methodology of internal audit and financial control;
- Procedures for audit performance within the line ministries;
- Procedures for elaboration of internal audit reports;

Result 2: Training of controllers and internal auditors in the Central Harmonisation Unit (CHU) at the Ministry of Finance and Internal Audit Units in the line ministries and spending centres
Activity 2: Training of staff and training of trainers

This activity will include training focused on practical examples of financial control and internal audit by using modern auditing methods (Monetary Unit Sampling, Risk Analysis and Formal Belongings of the Final Audit Reports). The training will be provided through workshops and/or seminars.

Recipients of this training component will be internal financial controllers and auditors from all involved institutions – the Central Harmonisation Unit at the Ministry of Finance and Internal Audit Units in the line ministries and spending centres. This may amount to 300 controllers divided into 15 groups each consisting of 20 people that will receive the training under this activity.

As an indication, three methodology and three audit-trainers (overall 24 man/months) will be necessary and one short-term expert (1 man/month) shall provide software training. A maximum amount of 50,000 EUR shall be set aside to finance the study tours.

To ensure the sustainability of the training process great emphasis will be placed on training of trainers. Those most qualified and experienced financial controllers will participate in a special six-week training of trainers programme.

Result 3: Communication software for the Central Harmonisation Unit (CHU) at the Ministry of Finance and Internal Audit Units in the line ministries and spending centres

Activity 1: Development of software, implementation and testing of the IT system

Special attention will be paid to build up an information network among the Ministry of Finance, Financial Control Offices, other relevant ministries, regional offices and the central spending units.

Development of software to be used by employees performing financial control and internal auditors at all levels, testing of the whole IT system and its implementation will be an integral part of this activity. Under the overall supervision of the PAA, short-term expertise (approximately 9 man/month) will be required to design the software specifications. The allocated budget for the purchase of software and networking, estimated at 250,000 EUR, will be fully financed by the Slovak Government.
4. Institutional Framework

Existing bodies in charge of financial control of EU funds
- the National fund at the Ministry of Finance
- the Pre-Accession Funds Control Department of the Control Section of the Ministry of Finance

New institutions expected to be established:
- Central Harmonisation Unit.
- new departments for the control of co-financed projects from the EU within the Regional Financial Control Offices;
- Internal Audit Units at the relevant ministries

5. Detailed Budget

<table>
<thead>
<tr>
<th>Phare Support</th>
<th>Institution Building</th>
<th>Total Phare (I+IB)</th>
<th>National Co-financing*</th>
<th>TOTAL</th>
</tr>
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<tbody>
<tr>
<td>Results 1-3 Twinning</td>
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<td>1.0</td>
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</table>

*Co-financing provided by the State Budget for the Supplies component

6. Implementation Arrangements

6.1. Implementing Agency

CFCU
PAO: Mr. Milan Michalička
Mlynské Nivy 61, Bratislava 826 19
Tel.: +421-2-5341 8093

6.2. Twinning

Ministry of Finance
Control Section, Department of Pre-Accession Funds Control
Contact person: Mrs Alena Barancová
Phone.: + 421 2 5958 3121
Fax: + 421 2 5958 3148
E-mail: abarancova@mfsr.sk

6.3. Non-standard aspects: not applicable

6.4. Contracts: One twinning covenant

7. Implementation Schedule

7.1 Start of tendering / call for proposals: 4th quarter 2001
7.2 Start of project activity: 2nd quarter 2002

7.3 Project Completion: 4th quarter 2003

8. Equal Opportunity

Equal opportunity in participation in project, subprojects and tasks for women and men will be guaranteed.

9. Environment: not applicable

10. Rates of return: not applicable

11. Investment criteria

11.1. Catalytic effect: not applicable

11.2. Cofinancing

Co-financing available in the amount of EUR 250,000.

11.3. Additionality: not applicable

11.4. Project readiness and size: not applicable

11.5. Sustainability: not applicable

11.6. Compliance with state aids provisions: not applicable

11.7. Contribution to National Development Plan:

The project will cover and develop the framework for internal financial control of all public funds, pre-accession funds and the future structural funds in accordance with the National Development Plan and Rural Development Plan of the Slovak Republic. The programme will contribute to the smooth implementation of the National Development Plan by strengthening the internal financial control framework under the frame of regional and sectoral programmes.

12. Conditionally and sequencing

Milestone of the project:
Law on Financial Control in force on 1 January 2002
Central Harmonising Unit established

Result 1: activity 1 completed by third quarter 2003
Result 2: activity 2 completed by third quarter 2003
Result 3: activity 3 completed by fourth quarter 2002
### LOGICAL FRAMEWORK PLANNING MATRIX FOR:

**Public Internal Financial Control**

<table>
<thead>
<tr>
<th>Overall objective:</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening of already existing financial control system (covering ex-ante financial control, ex-post financial control) in the Slovak Republic. Adequate utilisation of public funds in compliance with EU programmes.</td>
<td>• 44 internal auditors must start their activities within six months from the day of enactment of the Law on Financial Control and Internal Audit</td>
<td>• List of internal auditors available at the Ministry of Finance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project purpose:</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| Implementation of an adequate internal financial control in the Slovak Republic which will meet all requirements laid down by the EC directives. | • Compatibility Tables in the relevant Slovak control legislation  
• Sufficient budget for the financial control system in the Slovak State Budget | • Regular report of the EC on SR progress into accession  
• Methodological guidelines for control execution of the Ministry of Finance  
• Control reports from executed controls | * |

**Programme name and number**

**Contracting period expires:** 30.11.2003

**Disbursement period expires:** 30.11.2004

**Total budget (MEUR):** 1,25

**PHARE budget (MEUR):** 1,0
<table>
<thead>
<tr>
<th>Results:</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
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</thead>
</table>
| 1. Establishment and strengthening of the Central Harmonising Unit (CHU) at the MoF and Internal Audit Units in the line ministries and spending centres | • Audit Units established  
• Methodology, procedures, manuals drafted and in use  
• Information network in place  
• Certified continual education for financial controllers | • Technical assistance reports  
• Certificates for the qualified financial controllers  
• MoF web page | • Political will  
• Support from relevant institutions  
• Adequate provision from state budget |
| 2. Training of controllers and internal auditors in the Central Harmonising Unit (CHU) at the MoF and Internal Audit Units in the line ministries and spending centres | | | |
| 3. Communication software for the Central Harmonising Unit (CHU) at the MoF and Internal Audit Units in the line ministries and spending centres | | | |

<table>
<thead>
<tr>
<th>Activities:</th>
<th>Means</th>
<th>Assumptions</th>
</tr>
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</table>
| Result 1: Activity 1: Elaboration of comprehensive methodology for execution of public internal financial control | Twinning – 1 PAA, 18 mm | • Organisations involved provide adequate staff  
• Central Harmonising Unit established  
• Internal Audit Units established |
| Result 2: Activity 2: Training of staff and training of trainers | Short-term experts - Study tours | |
| Result 3: Activity 3: Development of software, implementation and testing of the IT system | Short-term experts | |

<table>
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<tr>
<th>Preconditions</th>
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<td>• Law on Financial Control and Internal Audit in force on 1 January 2002</td>
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## CUMULATIVE CONTRACTING AND DISBURSEMENT SCHEDULE (MEUR)

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**TIME IMPLEMENTATION CHART**

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