Standard Summary Project Fiche for Transition Facility

1. BASIC INFORMATION

1.1. CRIS Number: 2006/018-175.03.01
    Twinning Number: SK06-I-B-Fi-01
1.2. Title: Strengthening the Internal Auditors' Independence in the Public Sector by Creating Audit Committee(s)
1.3. Sector: Financial Control
1.4. Location: Slovak Republic, Ministry of Finance, Bratislava

2. OBJECTIVES

2.1. Overall Objective:

To strengthen Internal Audit in the central authorities of the Slovak Republic through the establishment of Audit Committees which will raise the effectiveness of the internal audit function by securing senior management participation in internal control and governance issues.

2.2. Project Purpose:

Establishment of the Audit Committee(s) at the Ministry of Finance and at the other central state administration bodies.

2.3. Comprehensive monitoring report on Slovakia’s preparations for membership:

Under Chapter 28 – Financial control the following has been underlined:

1) “The acquis requires the existence of adequate ex ante financial control and functionally independent internal audit systems;”

2) “The newly set-up internal audit units need to be adequately staffed with well-trained and experienced personnel.”

3) “On the issue of protection of the EC financial interests, the legal framework must be further refined and administrative capacities must be substantially strengthened.”

3. DESCRIPTION

3.1. Background and justification:

The Slovak Republic as a Member State of the European Union had to modify certain organisational structures and competencies in the process of transposing the acquis communautaire into the Slovak legislation. It was necessary to complete the system of the Public Internal Financial Control by introducing new elements into it i.e. internal audit, designation and creation of a single centre for harmonisation of financial control and internal audit methodologies and a contact point with the Directorate General for Budget and Directorate General for Regional Policy of the European Commission. The centre is known as the Central Harmonising Unit (CHU) and is placed within the Section of Public Internal Financial Control System of the Ministry of Finance. It came into being in October 2001. Since then CHU has been in charge of preparing laws, secondary and tertiary legislation for financial control and internal audit. It also provides training to internal auditors and financial controllers of other line ministries and thus contributes to the strengthening and improving of the overall control environment.

All these aspects, and of course other important issues, were included in the new generally binding legal regulation, the Act No. 502/2001 Coll. on Financial Control and Internal Audit as amended by Act No.
The important task of the member state public internal financial control (PIFC) system is also underpinned by Article 280 of the Treaty of the European Community laying down that all Member States have an obligation to prevent fraud and other unlawful acts damaging financial interests of the Community, by measures in accordance with the Article that have to safeguard efficient security. The Member States shall adopt the same measures for preventing frauds damaging financial interests of the Community as they adopt for preventing frauds damaging their own interests. This main responsibility belongs according Organisational Order of the ministry to the Section of Public Internal Financial Control System of the Ministry of Finance (MoF).

Bearing in mind recent developments in internal audit, the CHU has embarked on another notion, this time on creating the Audit Committee as the indispensable part of the internal audit environment.

The Audit Committee has its roots in the private sector; however its function, responsibilities and benefits have spread into the public sector over the recent years as well. Thus, it became recognised and credited tool of the top management of ministries and other organisation of public administration. So in essence the function of the Audit Committee in central government is to support the internal auditors, accounting officer and Management board by monitoring both the risk, control and governance processes which have been established in the organisation, and the associated assurance. This is achieved by introducing an independent perspective and a process of constructive challenge, not to undermine the actions of the accounting officer or board, but to help them to be fully assured that the most efficient, effective and economic risk, control and governance processes are in place and that the associated assurance processes are optimal.

To distinguish the CHU from the Audit Committee, one has to realise that CHU is in principle responsible for the full range of PIFC activities in policy making, drafting primary and secondary legislation, templates and manuals, coordination and supervising training of auditors and raising professionalism of internal audit what in turn contributes to the quality assurance of internal audit (IA). In the field of mediating it issues opinion on nomination and dismissal of internal audit staff and resolves conflicts of interests of internal auditors with management. Annually it reports to the Ministry of Finance on PIFC status. It is also responsible for the full range of activities for EU funds control.

While the CHU on the field of policy making can be regarded as the executive body, the Audit Committee has its role in safeguarding independence, elaborating PIFC policies, issuing opinion on CHU policies, opinion on the legislation improvements and amendments strategic IA and IA annual plans. The Audit Committee is also responsible for the quality assurance of IA. This task is performed again, by issuing opinion on MoF Peer reviews (assign experts), providing for common professional training and assessing the role of CHU Head. The Audit Committee also considers internal audit tasks for EU funds and prevention of irregularities.

The Audit Committee is the high level political sounding board for providing advice to the ministries and to the other heads of central state administration and the CHU about future development of public internal audit. Thus the Audit Committee if created and properly staffed, shall be capable of contributing to the quality of control environment, especially where the CHU may find that it has not adequate access to the highest levels of management and policy making to promote the added values of PIFC.

The supporting arguments for having the Audit Committee at the Ministry of Finance and other line ministries can be found in the following recommendations:

- The SIGMA Peer Assistance, carried out in September 2003 was focused on the overall evaluation of PIFC. In addition it was also focused on further administrative building. The following is a quotation of SIGMA Peer Assistance to the Public Internal Financial Control System in the Slovak Republic:
“So far the process of institution building, notably the establishment of internal audit units in line ministries and agencies is developing but is far from being completed. The existence of an audit committee is an essential feature of good corporate governance and an aid to the provision of an effective system of public and financial control. In the same way that it is difficult to recruit sufficient internal auditors of the right calibre and experience, the same can be said about audit committee members. However much of this experience can only be gained through trial and error and learning as you go along. If properly constituted the audit committee will at the least provide support to the internal auditor and furthermore help in ensuring independence and support in sensitive cases possibly involving undue pressure and directions from ministers. This may be ambitious at this early stage in development of internal audit in ministries but is something towards which Slovakia must aim in the medium to long term”.

**Recommendation:**
The establishment of audit committees in Ministries needs to form part of a longer term strategy of providing effective public finance and control.

- One of the recommendations listed in the Final Report, issued in October 2004 by the KPMG Slovakia that carried out the external system audit of readiness of the managing and control systems of relevant institutions for implementation of Structural Funds, Cohesion Fund an Initiatives of the European Communities is to immediately create Audit Committee or to have it established by 30 June 2005. The recommendation reads: “We recommend creating central functionally independent advisory body, the role of which would be to assist internal auditors in auditing structures involved in implementation Structural Funds and Cohesion Fund, assist in resolving specific problems and on the basis of practical experience promulgate opinions on issues which may arise in the course of auditing”. This recommendation applies to all institution involved in implementation of the said funds.

- The Ministry of Finance implemented PHARE project Strengthening of the protection of the communities’ financial interests and the fight against fraud (project number. 2003-004-995-01-04). The Chapter 7 - Audit of the Final Report recommends “The Ministry of Finance should give utmost priority to the setting up of a specific, specialised, experienced and efficient contract audit unit with audit committee.”

And finally one shall bear in mind that Audit Committees have been also established in other new member states. Even countries like Bulgaria, Romania and Turkey which are still in the accession process have established their Audit Committees, although under different names, as early as in 2002 and 2003 respectively.

Further supportive Council Regulations, national legislation and documents are listed as follows:

- Council Regulation (EC) No 2988/95 of 18 December 1995 on the protection of the European Community’s financial interests;
- Commission Regulation (EC) No 1386/2002 of 29 July 2002 laying down detailed rules for the implementation of council Regulation (EC) No 1164/94 as regards the management and control systems for assistance granted from the Cohesion Fund and the procedure for making financial corrections;
- Treaty on Accession, Art. 34 – “...to develop and strengthen their administrative capacity to implement and enforce Community legislation and to foster exchange of best practice among peers. Assistance shall address the continued need for strengthening institutional capacity in certain areas through action which cannot be financed be financed by Structural Funds, in particular in the following areas:
  - financial control,
  - protection of the Communities’ financial interests and the fight against fraud,
  - strengthening public administration according to needs identified in the Commission’s comprehensive monitoring report which are not covered by the Structural Funds”;

3
- Commission decision of 2004 on conferring management of aid provided under PHARE to the CFCU-Central Finance and Contracting Unit, the RDSA - Regional Development Support Agency and the NADSME - National Agency for Development of Small and Medium Enterprises in the Slovak Republic.

**National legislation:**
- No. 575/2001 Coll. on Organisation of the Government’s activities and on Organisation of the Central State Administration as amended,
- Act No. 502/2001 Coll. on Financial Control and Internal Audit as amended by Act No. 618/2004 Coll.,
- Decree of the Ministry of Finance No. 286/2002 laying down details on the content of the annual report on activities of an internal auditor and on performing internal audit;
- Tertiary legislation for performing internal audit according to the Act No. 502/2001 Coll. as amended;
- Government Resolution No. 406 of May 28, 2003 to the Report on introducing of internal audit in the Slovak Republic public service;

**Other documents**
- Comprehensive monitoring report on Slovakia’s preparations for membership 2003: Chapter 28 – Financial Control, Chapter 21 – Regional Policy;
- Report of SIGMA2 Peer Assistance to the Public Internal Financial Control System in the Slovak Republic (October 2002 – February 2003);

Within the implementation of this project the legislation for creating and effective functioning of the Audit Committee will be created at the Ministry of Finance as the pilot project. This idea of having the Audit committee will be then spread out, still within the implementation of the project, on other line ministries and other central state administration organisations (in the first phase on 14 line ministries and other central state administration organisations, it is expected that this process will coincide with the end of the project) and other central state administrations. The Ministry of Finance as the central state authority for financial control and internal audit (according to the Act No. 575/2001 Coll.) will create legislative environment, provide the know-how and serve as an everyday help desk.

### 3.2. Linked Activities:

**SR0109 Public Internal Financial Control**

The Twinning Project SR 0109-01 Public Internal Financial Control dealt with the strengthening of institutional structures aimed at achieving, upon accession, sound financial management. It especially focuses on the completion of harmonisation tasks related to the 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 EU standards. The project was implemented with France, senior twinning partner, and Sweden, junior twinning partner. Project finished on 11 July 2004 and according to the Twinning Covenant delivered results as follows:

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\(^1\) SIGMA – Support for Improvement in Governance and Management in central and eastern European countries – is a joint initiative of the Organisation for Economic Co-operation and Development and the European Community, principally financed by the European Communities.
- Defined and established monitoring system and software for the control of financial flows of Structural and Cohesion Funds enabling the transfer of computerised data in compliance with EU standard management of public funds
- Manual for performing internal audit
- Manual for performing system audit
- Manual for performing compliance audit
- Manual for performing financial audit
- Manual for performing audit of information systems
- Manual for performing Performance audit
- Chart of internal auditor
- Ethical code of internal auditor
- Ethical code of financial auditor
- Procedures for financial management system of Structural Funds
- Procedures for financial management system of Cohesion Fund
- Procedures for financial control of Structural Funds and Cohesion Fund
- Trained staff able to use methodologies and procedures for a transparent and efficient financial management and internal financial control system, covering audit trail, ex-ante control, risk analysis and reliable prevention of irregularities but also standardisation of audit plans, audit execution and audit reports, correct interpretation of all professional terms related to public internal financial control and internal audit

Training of Financial Controllers

The objectives of the framework contract AMS 451 LOT 10 No Czuczorova40-PHARE-SR-PAO/CFCU Training of Financial Controllers were to provide training for ex-post financial controllers on execution of at least 5% sample checks on operations of structural funds, 15% sample checks on operation of Cohesion fund, 10% sample check on operations of Schengen Facility of eligible expenditures, in order to enhance qualification of staff involved in public internal financial control system.

Project finished on 30 June 2005 and according to the Terms of Reference delivered results as follows:

- planning of 5%, 10% and 15% sample checks of the total eligible expenditures;
- execution of 5% sample checks on operations financed from Structural Funds;
- execution of 5% sample checks on operations financed from Community Initiatives Programme CIP (INTERREG, Equal) and its specification;
- execution of 15% sample check on operations financed from Cohesion Fund and its specification;
- execution of 10% sample check on operations financed form Schengen Facility;
- execution of on the spot checks;
- findings on irregularities, solving of frequent shortcomings, financial corrections and recovery of payments;
- explanation on EC requirements in relation to n+2 rule, public procurement, information and publicity, financial corrections, irregularities, check of eligibility of expenditures, accounting, financial reporting and archiving, use of currencies and exchange rate differences, eligibility of value added tax, adherence of the competition rules;
- co-financing of operations and projects implemented in accordance with EC rules and policies;

Transition Facility 2004 - Completion of Permanent Education System for Internal Auditors

The Twinning Project has commenced on 16 January 2006. It deals with creation of advanced level of permanent education system for internal auditors in public sector. It is focused on:

- EU compliance review of legislation (primary, secondary and tertiary) issued by CHU for performing internal audit carried out; audit report with findings, conclusions and recommendations for elimination of ascertained shortcomings;
- Performing of the Internal on the spot audit jointly carried out with the Internal Audit Departments of the Ministry of Finance and line ministries;
- Designing and implementation of the Third level – Advanced Level – Internal Audit in the Public Administration - of permanent education system of internal auditors of central administration authorities;
- Staff training (50 internal auditors) to be able to use methodologies and procedures for transparent and efficient internal financial control system; training of trainers (6) within the third level of permanent education system of internal auditors; in addition they will be trained in using **International Standards for Professional Practice of Internal Auditing** (excluding **International Standards for Best Practice of Internal Auditors** which will be part of this project).
- Providing advise on implementation of recommendations from SIGMA Peer Report.

Enclosed as the **Annex No.6** to the Project Fiche is the Twinning work plan outline among others training activities.

The training within the first **Basic Level - Internal Audit in the Public Administration** developed by the CHU and accredited by the Ministry of Education of the Slovak Republic (on 16 December 2002), has been continually provided to the internal auditors of the public administration institutions. An organisation sending its own internal auditor(s) to undergo the training has to fully cover training costs from its budgetary chapter.

### 3.3. Results:

1. Strategy for establishment and introduction of the Audit Committee(s);
2. Primary and secondary legislations to allow for creating of the Audit Committee(s) amended;
3. Tertiary legislation with the same purpose drafted;
4. Audit Committee Charter/Status drafted;
5. Ethical Code of the Audit Committee Members drafted;
6. Implementation of the Pilot Project at the Ministry of Finance;
7. Members of the Audit Committee, internal auditors, accounting officers and employees of the CHU trained;
8. Observing the work of a similar Audit Committee in a Member State(s) of the European Union;
9. Consulting and advisory activities, conference, seminars and workshops on dissemination of relevant Audit Committee information;

Documents drafted will be approved by the Ministry of Finance SR and will serve as bidding specimen for other line ministries and other central state administration bodies.

### 3.4. Activities:

**The specific activities leading to the achievement of result 1.**

The twinning partner shall make himself aware of the system of PIFC in the Slovak Republic including relevant legislation, organisational structure of the MoF and other relevant documents, and charts in order to produce strategy leading to the establishment and work of the Audit Committee. It shall also outline the practical steps and a time framework that shall be taken into account to introduce the Audit Committee into being.

**The specific activities leading to the achievement of result 2**

A thorough revision of the primary and secondary legislations (as listed in the section 3.1 Background and Justification under the heading National Legislation) shall be carried out with the aim of creating favourable conditions for establishment of the Audit Committee, determining its main objectives and tasks and stipulating personal and material conditions and requirements.

**The specific activities leading to the achievement of result 3.**

The audit committee handbook will be prepared to provide details for establishing Audit Committees, appointing members of Audit Committees and outlining its roles. It is expected to contain mainly these chapters:

- Principles of having an Audit Committee;
- Role of the Audit Committee;
- Audit Committee with the Management Board of the Ministry of Finance;
- Independent external members;
- Use of executives on the Audit Committee;
- Size of the Audit Committee;
- Terms of Reference of the Audit committee (membership, reporting, responsibilities, information requirements and the like);
- Audit access to the Audit Committee;
- Vocabulary.

The specific activities leading to the achievement of result 4
Audit Committee Charter/Status shall be drafted. It shall contain provisions describing purpose, committee membership, committee meetings, authority, key responsibilities — internal audit, audit independence, internal control and risk mitigation, financial reporting, annual financial statements, compliance with laws, regulations, ethics, and policies, conflict of interests and other responsibilities.

The specific activities leading to the achievement of result 5
Ethical Code of the Audit Committee Members shall be drafted. It shall contain comprehensive declaration of values and principles which should accompany the daily work of the Audit Committee members of the public administration bodies. It shall outline basic principles like e.g. independence, integrity, impartiality, objectiveness, and confidentiality, compliance with applicable rules and regulations and conflict of interests.

The specific activities leading to the achievement of result 6
On the basis of the strategy and supporting documents elaborated within activities 2 till 5 concrete steps and time framework for implementation of the Audit Committee at the Ministry of Finance will be drafted. According to it the Section of Public Internal Financial Control System prepares a material on establishment of the Audit committee at the Ministry of Finance which, if approved by the Management Board, will introduce the Audit Committee into the practice.

The specific activities leading to the achievement of result 7

There will be a need to train/educate management on the responsibilities associated with membership of audit committees: understanding the audit needs assessment, developing an understanding of risk and control issues, understanding the concept of assurance, monitoring and managing the internal audit resource, understanding the role and responsibility of internal audit and its organisational requirements, and co-ordinating the work of the internal and external auditor and other audit and control agencies.

The training will be provided by the assistance of the experts to following participants:

a) 5 members of the Audit Committee;
b) 25 top and middle management staff of line ministries;
c) 50 internal auditors (internal auditors of the Ministry of Finance, internal auditors of line ministries);
d) Audit authority of the Ministry of Finance;
e) Training of trainers 6 employees of CHU dealing with internal audit methodology.

The specific activities leading to the achievement of result 8
One 5 day study visit for 5 participants to the long established Audit Committee(s). The aim of the study visits is to enable BC officials to gain experience on work of the Audit Committee(s). The visits will be focused mainly on the daily work, agenda, problems and actions to be taken of the Audit Committee.
The specific activities leading to the achievement of result 9
A one day conference shall be held at the facility provided by the MoF in the second half of 2005 year.

The aim of the conference is to:
- present the strategy of establishment of Audit Committee(s) in the public sector;
- discuss possibilities, pros and cons and problems of having Audit Committee(s) in the public sector; and
- good practice examples presentation.

The participants are expected to present their own Audit Committee(s), and share their experience in applying International Standards for Professional Practice of Internal Auditing as well as in International Standards for Best Practice of Internal Auditors.

Besides the representatives of the Ministries of Finance and of the other central state administration bodies officials (top and middle managers, internal auditors) respectively and other beneficiaries of the Twinning Project, the participation of experts from the prospective Twinning Partner Member States, SIGMA/OECD are expected as well.

To implement all activities a pool of short term experts will be needed. The range of knowledge of individual experts should cover different fields to fully accomplish the objectives of the project. Expected experience and number of experts are specified as follows:

- Resident Twinning Advisor – he/she shall act in the terms of Twinning Manual; he/she will be a civil servant, shall have a University degree in Business Administration and hold Certificate of IA and/or Certificate of Chartered Accountants; he/she shall have at least 10 years of working experience, practical experience in project management and international cooperation, posses good knowledge of English Language and be able to explain subjects in an understandable and concise way; he/she is required for the whole period of project implementation. His/her role apart from taking active part in the project implementation by providing consultancy and advisory services (e.g. drafting legislation, organising and attending meetings with heads of ministries and central state administration organisations, delivering training, prepare documents, briefing materials) is the coordination of the activities, communication with short term experts, participation in the Steering Committee meetings etc; he/she must be a real expert in the field and fulfil a considerable amount of tasks foreseen within the project.
  RTA mission – 12 man/months (in the period April 2007 – April 2008, or according to the signature of the Twinning Contract). The total budget for the project is 400,000 €.

- Project Leader – senior expert of the partner administration – bears the ultimate responsibility for the project results delivery, shall have organizational, communication and presentation abilities and be fluent in English Language.

- 2 short term experts shall have a University degree in Business Administration, hold a Certificate of (Internal) Auditing, have at least 15 years of working experience out of which 3 years performed audit in public sector, experience as members of the Audit Committee, posses good knowledge of English Language and be able to explain subjects in an understandable and concise way;

- 1 short term experts shall have a University degree in Business Administration, hold a Certificate of (Internal) Auditing, have at least 8 years of working experience, posses good knowledge of English Language and be able to explain subjects in an understandable and concise way;

- 1 short term experts shall have a University degree in Business Administration, hold a Certificate of Accountancy, have at least 15 years of working experience in the field of Financial Management and Control (FMC), posses good knowledge of English Language and be able to explain subjects in an understandable and concise way;

- 1 short term experts shall have a University degree in Business Administration, hold a Certificate of Accountancy, have at least 8 years of working experience in accountancy, budgeting, internal controlling
etc. posses good knowledge of English Language and be able to explain subjects in an understandable and concise way;

- 1 RTA assistant shall have a University degree in Business Administration, have good organizational skills and sense of responsibility, possess good knowledge of English language and be able to work in a multinational environment.

Short term experts shall spend 250 man-days in the beneficiary country.

3.5 Lessons learned

Experience form a previous PHARE Twinning project SK 0104.02 Public Internal Financial Control Project and Framework contract: Training of Financial Controllers (see 3.2 - Linked activities) in areas of management and control of public funds (national and EC recourses) will be used in order to ensure the effective cooperation and coordination of the activities to be carried out during the implementation of this project. As we have learned from the previous PHARE projects the close cooperation and strong involvement of the officials from the MoF and other central state administration organisations is essential in reaching project results. Therefore the Ministry of Finance will strive to safeguard the proper working relationships and implementation and effectiveness. As has been stated in the Interim Evaluation report No. R/SR/INT/0204 under the Heading 2.5.3 Effectiveness “some effects of the assistance have been lost due fluctuation of staff and on – going internal reforms, decrease from 44 to 36 internal auditors in regional offices”. In drafting this Project Fiche, the Ministry of Finance the number of internal auditors has increased to 50

4. INSTITUTIONAL FRAMEWORK

Administrative capacities of the Section of Public Internal Financial Control System and respective central authorities which are according to the Act No. 502/2001 Coll. on Financial Control and Internal Audit as amended obliged to establish internal audit are continuously build up and strengthened. Currently 50 internal auditors in central authorities are appointed. According to Art 26 of the Act No. 502/2001Coll. as amended internal audit is performed at the auditee. The Act also defines the central authorities of the state administration which are obliged to perform internal audit by their own employee, i.e. internal auditor/auditors. Those having such an obligation have created internal audit positions or units of internal audit.

**Contracting Authority:** Central Financing and Contracting Unit – Ministry of Finance of the Slovak Republic

**Final Beneficiary:** Department of Financial Control and Internal Audit Methodology (CHU) – Ministry of Finance of the Slovak Republic

**Recipients of the project:** Annex 4

The whole project will be run and coordinated by the final beneficiary the Ministry of Finance. To make sure the project is all the time kept on the right course a Steering Committee chaired by the Director of the Department of Financial Control and Internal Audit Methodology of the Ministry of Finance and consisting of representatives of the Ministry of Finance and other beneficiaries, and contractor's representatives will be set up. Representatives of the EC and the CFCU may take part in meetings as observers. The Steering Committee will convene its session within two months of the adoption of the Commission’s Financing Decision to discuss Inception Report and then quarterly. The Steering Committee will approve reports (Inception Report, Quarterly Reports and Final Report), discuss progress of the project in view of its specific objectives and recommend changes to the twinning partner if needed.
5. DETAILED BUDGET

<table>
<thead>
<tr>
<th>Transition Facility support in €M</th>
<th>Co-financing in €M</th>
<th>Total in €M</th>
</tr>
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<tbody>
<tr>
<td>Investment Support</td>
<td>Institution Building</td>
<td>Total Transition Facility (=I+IB)</td>
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<tr>
<td>Twinning</td>
<td>0.400</td>
<td>0.400</td>
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<tr>
<td>Total</td>
<td>0.400</td>
<td>0.400</td>
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</table>

(*) contributions from National, Regional, Local, Municipal authorities, FIs loans to public entities, funds from public enterprises  
(**) private funds, FIs loans to private entities  
The proposed budget for the twinning project is € 400,000 including € 5,000 allocated for performing audit at the end of the project.  
VAT does not constitute eligible expenditure except where it is genuinely and definitely borne by the final beneficiary. VAT which is considered recoverable, by whatever means, cannot be considered eligible, even if it is not actually recovered by the final beneficiary or individual recipient.

6. IMPLEMENTATION ARRANGEMENTS

6.1. Implementing agency

Ministry of Finance of the Slovak Republic  
Central Financing and Contracting Unit  
Mrs. Silvia Čuczorová, Director  
Ph.: +421 2 5958 2546  
Fax: +421 2 5958 2559  
scuczorova@mfsr.sk  
Štefanovičova 5  
817 82 Bratislava, Slovak Republic  
Final Beneficiary:  
Ministry of Finance of the Slovak Republic  
Section of Public Internal Financial Control System  
Mr. Lubomír Partika, Director General  
Štefanovičova 5  
817 82 Bratislava, Slovak Republic  
Ph.: +421 2 5958  
Fax: +421 2 5958  
lpartika@mfsr.sk  
Mrs Jana Minarovičová  
National Contact Point  
Office of Government of the Slovak Republic  
Námestie slobody 1  
813 70 Bratislava, Slovak Republic  
Ph.: +421 2 57295514  
Fax: +421 2 54430056  
jana.minarovicova@vlada.gov.sk

6.2. Contracts:

Twinning Contract € 400,000
7. IMPLEMENTATION SCHEDULE

7.1. Start of Tendering / Call for Proposals: 1st quarter of 2007
7.2. Start of Project Activity: 2nd quarter of 2007
7.3. Project Completion: 2nd quarter of 2008

8. SUSTAINABILITY

The final beneficiary commits itself to providing sufficient number of staff for project implementation. All employees of the Section of Public Internal Financial Control System of the Ministry of Finance at disposal in the time of the project implementation will take active part in all activities.

9. CONDITIONALITY AND SEQUENCING

Non applicable
### Transition Facility Log Frame

**LOGFRAME PLANNING MATRIX FOR**

**Project:** Strengthening of Independence of Internal Auditors in Public Sector by Creation of Audit Committee(s)

**Programme name and number:** 2006 Transition Facility programme 2006/018-175.03.01

<table>
<thead>
<tr>
<th>Contracting period expires: 15 December 2008</th>
<th>Disbursement period expires 15 December 2009</th>
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<tr>
<td>Total budget: € 400,000</td>
<td>TF budget: € 400,000</td>
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**Overall objective**

- To strengthen Internal Audit in the central authorities of the Slovak Republic through the establishment of Audit Committees which will raise the effectiveness of the internal audit function by securing senior management participation in internal control and governance issues.

**Objectively verifiable indicators**

- Increased expert level of internal audit in the Slovak Republic meeting international standards for professional practice of internal auditing

**Sources of verification**

- Audit Report of the European Commission/European court of Auditors

**Project purpose**

- Establishment of the Audit Committee(s) at the Ministry of Finance and at the other central state administration bodies.

**Objectively verifiable indicators**

- Nominated members of the Audit Committee
- Actions taken by the Audit Committee (approval of the 30 annual internal audit plans)
- 75 Audit Committees meetings (each Committee at least four times a year)

**Sources of verification**

- List of Audit Committee members filed with the Ministry of Finance
- Audit Committee Minutes of Meeting filed with the Ministry of Finance
- Opinions and recommendations issued and distributed to the relevant partners
- Official web page

**Assumptions**

- Line ministries have the information on functioning of the Audit Committee at the Ministry of Finance and the resources for its establishment available
- Retention of trained and qualified internal auditors by way of sufficient remuneration based on qualification, working experience and quality of work

**Results**

- Strategy for establishment and introduction of the Audit Committee(s);
- Primary and secondary legislations to allow for creating of the Audit

**Objectively verifiable indicators**

- Elaborated strategy
- Revised primary and secondary legislation
- Tertiary legislation drafted

**Sources of verification**

- Financial Bulletin of the Ministry of Finance
- Collection of Laws of the Slovak Republic

**Assumptions**

- Support from the top and middle managers of relevant central state institutions

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**Programme name and number:** 2006 Transition Facility programme 2006/018-175.03.01

**Contracting period expires:** 15 December 2008

**Total budget:** € 400,000

**TF budget:** € 400,000
<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
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<tbody>
<tr>
<td>Committee(s) amended;</td>
<td>- Audit Committee and Ethical Code approved</td>
<td>- Requirement of the Management Board of the Ministry of Finance to establish and make functioning of Audit Committee</td>
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<tr>
<td>- Tertiary legislation with the same purpose drafted;</td>
<td>- 50 internal auditors trained</td>
<td>- Effective cooperation with other institutions</td>
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<tr>
<td>- Audit Committee Status drafted;</td>
<td>- 25 middle management staff of line ministries</td>
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<tr>
<td>- Ethical Code of the Members drafted;</td>
<td>- 5 Audit Committee members trained</td>
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<tr>
<td>- Implementation of the Pilot Project at the Ministry of Finance;</td>
<td>- 6 trained trainers</td>
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<tr>
<td>- Members of the Audit Committee trained;</td>
<td>- 80 attendees of conference aware of role and responsibilities of the Audit Committee</td>
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<td>- Observing the work of a similar Audit Committee in a Member State(s) of the European Union (should be redrafted to show the value-added of the study visit);</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>- Conference, seminars and workshops on dissemination of relevant Audit Committee information;</td>
<td>- Strategy filed with the Ministry of Finance, Section of PIFC System</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- List of trained internal auditors filed with the Ministry of Finance, Section of PIFC System</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- List of trained trainers filed with the Ministry of Finance, Section of PIFC System</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- 50 internal auditors trained</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- 25 middle management staff of line ministries</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- 5 Audit Committee members trained</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- 6 trained trainers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- 80 attendees of conference aware of role and responsibilities of the Audit Committee</td>
<td></td>
</tr>
</tbody>
</table>
- Ethical Code of the Audit Committee Members drafted, approved and published.
- Members of the Audit Committee(s), internal auditors, accounting officers and employees of the CHU will be trained.
- Consulting and advisory activities, conference, seminars and workshops on dissemination of relevant Audit Committee information will be realised.
- One 5 day study visit for 5 participants to the long established Audit Committee(s) member states.

**Preconditions**
- Well established and function internal audit at the central state administration bodies in accordance with the Law No 502/2001 Coll. on Financial Control and Internal Audit as amended
**Time Implementation Chart**

**CRIS number:** 2006/018-175.03.02  
**Project title:** Strengthening of Independence of Internal Auditors in Public Sector by Creation of Audit Committee(s)  

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>2007</th>
<th>2008</th>
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<tr>
<td>Strategy</td>
<td>X X</td>
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<tr>
<td>Legislation</td>
<td>X X X</td>
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<tr>
<td>Charter/Status</td>
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<td></td>
</tr>
<tr>
<td>Ethical Code</td>
<td>X</td>
<td></td>
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<tr>
<td>Pilot Project</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td>X X X</td>
<td></td>
</tr>
<tr>
<td>One study visits</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Steering Committee</td>
<td>X X X</td>
<td></td>
</tr>
</tbody>
</table>
Cumulative Contracting and Disbursement Schedule

CRIS number: 2006/018-175.03.02

Project title: Strengthening of Independence of Internal Auditors in Public Sector by Creation of Audit Committee(s)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracted</td>
<td>0.400</td>
<td></td>
</tr>
<tr>
<td>Disbursed</td>
<td>0.320</td>
<td></td>
</tr>
</tbody>
</table>
Final Beneficiaries:

Project’s beneficiaries of the other central state administration bodies will be:

1. Ministry of Finance
2. Ministry of Construction and Regional Development
3. Ministry of Transport, Posts and Telecommunications
4. Ministry of Economy
5. Ministry of Agriculture
6. Ministry of Environment
7. Ministry of Interior
8. Ministry of Defence
9. Ministry of Justice
10. Ministry of Health
11. Ministry of Labour, Social Affairs and Family
12. Ministry of Education
13. Ministry of Culture
14. Ministry of Foreign Affairs
15. General Prosecution Office
16. Office of Government
17. Office for Public Procurement
18. Office for Standards, Metrology and Testing
19. Nuclear Regulatory Authority
20. Industrial Property Office
21. Office of Geodesy, Cartography and Cadastre
22. Management of State Material Reserves
23. National Security Office
24. Antimonopoly Office
25. Slovak Academy of Science
26. Slovak Information Service
27. Supreme Audit Office
28. Statistical Office
29. Chancellery of the President of the Slovak Republic
30. Chancellery of the National Council of the Slovak Republic
31. Constitutional Court
32. Supreme Court
33. Ombudsman
Detailed Report of the Peers

SIGMA Peer Assistance to the Public Internal Financial Control System in the Slovak Republic

October 2002 – February 2003

Section 3: Making internal audit more effective

2.9 Audit committees

The existence of an audit committee is an essential feature of good corporate governance and an aid to the provision of an effective system of public and financial control. In the same way that it is difficult to recruit sufficient internal auditors of the right calibre and experience, the same can be said about audit committee members. However, much of this experience can only be gained through trial and error and learning as you go along.

If properly constituted the audit committee will at the least provide support to the internal auditor and furthermore help in ensuring independence and support in sensitive cases possibly involving undue pressure and directions from ministers. This may be ambitious at this early stage in development of internal audit in ministries but is something towards which Slovakia must aim in the medium to long term.

Recommendation
The establishment of audit committees in Ministries needs to form part of a longer term strategy of providing effective public finance and control.