STANDARD SUMMARY PROJECT FICHE

1. Basic Information

1.1 Désirée Number: 2004/016—710.02.02
   Twinning SI04-Fi-01

1.2 Title: Further strengthening of PIFC and anti-fraud coordination

1.3 Sector: Financial control, Budget Supervisory Office

1.4 Location: Slovenia

2. Objectives

2.1 Overall Objective(s):

The overall objective is to fully implement Public Internal Financial Control (PIFC) and audit according to the acquis.

2.2 Project purpose:

The project is aimed at training the Budget Supervisory Office staff in order to:

- Develop generic model for risk assessment to be adopted by budget spending centers,
- Develop generic audit trail document to be adopted and adapted by budget spending centers,
- Develop model budget spending center internal audit service manual,
- Carry out audits of internal audit services of budget spending centers whether proper internal audit standards and guidelines are consistently applied.

2.3 Comprehensive Monitoring Report

The Comprehensive Monitoring Report on Slovenia’s preparations for membership concerning chapter 28 (Financial control) of the acquis states, inter alia, that Slovenia should continue in implementation of PIFC (Public Internal Financial Control), with existence of adequate ex ante financial control and functionally independent internal audit system; an independent external audit of the public internal financial control systems in the public sector; an appropriate financial control mechanism for EU pre-accession funding and future structural action expenditure and arrangements on the protection of EC financial interests. In addition, an anti – fraud co-ordination service, capable of co-operating with the Commission’ Anti-fraud Office OLAF at an operational level is to be designed.
Internationally agreed and EU compliant principals of public internal financial control need to be transposed into the control and audit systems of the entire public sector.

2.4 Acquis Communautaire

Slovenia is essentially meeting the commitments and requirements arising from the accession negotiations in the chapter Financial Control and is expected to be in a position to implement the acquis as of accession.

Relevant Regulations for the project:

- R 448/2001, laying down detailed rules for the implementation of Council Regulation (EC) No 1260/99 as regards the procedure for making financial corrections to assistance granted under the Structural Funds
- R 438/2001 laying down detailed rules for the implementation of Council Regulation (EC) No 1260/99 as regards the management and control systems for assistance granted under Structural Funds.
- R 1073/1999 concerning investigations conducted by the European Anti-Fraud Office (OLAF)
- R 1074/1999 concerning investigations conducted by the European Anti-Fraud Office (OLAF)

3. DESCRIPTION

3.1 Background and justification:

BACKGROUND INFORMATION

In the Position Paper of the EU (Conf-SI 28/00 dated 7 June 2000) the Council noted the following: "In order to enhance the quality of its internal financial control in all spending centres responsible for national budget income and expenditure, including EU funding, the EU considers it necessary that Slovenia continues close co-operation with the relevant EU bodies in view of:

- further developing internal financial control secondary legislation,
- organizing a functionally independent internal audit service throughout the public sector,
- following up the related down-stream activities like the development of financial management and control manuals, audit manuals, audit trails and training of staff and
• training on audit for certification procedures concerning certification for SAPARD.

According to the Public Finance Act (Official Gazette No.79/1999) direct budget spending centers and municipalities were obliged to have established their internal audit functions. On the basis of this same Act the Budget Supervisory Service (from 1st January 2004 The Budget Supervisory office) within the Ministry of Finance has the function of co-coordinating the Public Internal Financial Control system including internal audit services and to perform independent financial control on EU funds and national co-financing.


Various documents are used to guide the programming of ISPA. These include the Accession Partnership (sets the objectives and priorities), the National Programme for the Adoption of the Acquis (presents the commitments made by Slovenia to the EU), the two separate ISPA Strategy Papers for transport and environment (which are based on other national sectoral strategic documents, having wider national coverage), the ISPA application forms and the ISPA Financing Memorandum(s), as well as various other documents such as the ISPA Manual, the Practical Guide to Phare, ISPA and SAPARD, the Commission working document "Preparing for Extended Decentralization (EDIS) of Phare and ISPA programmes" and guidance notes from DG Regio and other Commission services.

These structures involve various departments located in the Ministry of Finance: National Fund (NF), headed by the National Authorizing Officer (NAO) - State Secretary for budget, Central Finance and Contract Unit (CFCU), headed by the Programme Authorizing Officer (PAO), the Sectoral Authorizing Officer (SAO) for transport and environment sectors - appointed by the NAO - and respective supporting staff and the Budget Supervisory Service (BSS); and in the Implementing Bodies: Ministry of Environment and Spatial Planning (MoESP) and Ministry of Transport (MoT). Referring to EDIS, the line ministries will take over full responsibility for implementation of projects and have therefore to be familiar with all roles and responsibilities pertaining to Implementing Bodies and Final Beneficiaries (e.g. Departments within IBs and Municipalities). Equally important, relations between Final Beneficiary, Implementing Bodies, Paying Authority and Managing Authority have to be clearly defined in terms of who is doing what.

Structures managing and controlling ISPA funds are in place. Improvement of their administrative capacities to manage and control EU funds under EDIS is supported in the scope of several other measures, listed under Chapter 3.2 Linked Activities. Among them ISPA technical assistance is exclusively intended to develop administrative capacity within the Ministry of Environment and Spatial Planning and within the Ministry of Transport for taking over the responsibilities for future implementation bodies, concentrating on development of internal audit services of both ministries. At the second level, Budget Supervisory office is responsible for performing of the financial control over the line ministries.

The BSO has also been nominated to protect the financial interests of the EU and in this role it shall effectively coordinate anti-fraud related matters with relevant partners, with the EU and other Member States.
The Budget Supervisory office and SIGMA findings confirmed that there still is an important lack of practical experiences in the field of risk assessment, audit trail and auditing in general at the budget spending centers. The Budget Supervisory office has too limited resources to deliver these experiences without additional assistance of foreign audit experts.

The results of this project proposal will reinforce the capacity of the BSO for the task of following procedures for financial control. Furthermore the project aims to further define and strengthen the existing anti-fraud coordination structure.

3.2 Linked activities:

Projects related to the Financial Internal Control:

- **SL 99/IB/Fl/02 Public Finance and Control (Twinning)**
  The Ministry of Finance carried out a twinning project, initiated in December 2000 and lasting 16 months, with a German Federal Ministry of Finance.
  The main task of the project was to set up systemic and organizational criteria for Public Internal Financial Control (within the competence of the Ministry of Finance) and to lay down the rules and procedures for the control of public expenditure of both budgetary and foreign assistance funds.
  
  This was the first classical twinning to deal with the needs assessment and the setting up of the general PIFC legal framework in which it was successful (Policy Paper, Public Finance Act Amendment). Further light twinings were mostly dedicated to preparing the national structures for the EDIS and further for the cohesion and structural fund implementation.
  
  The project value was EUR 400,000.

- **SI0104.01 Public Finance Internal Control Methods and Techniques (Twinning light), with UK partner, NAO London**
  The project was designed for the needs of internal revision with emphasis on techniques and certification and was not linked to Structural or Cohesion funds. The expected results of the project were:
  Elaboration of manuals on internal financial control and training of staff from the Budget Supervisory Service within the Ministry of Finance in its role of a central internal audit coordinating body and a certifying body;
  Introduction of best practice of public internal financial control techniques and methods;
  
  The project value was EUR 150,000.

- **2002 EDIS Stage I for PHARE: Preparation of List of Recommendations for Stage II and III (Twinning light), with German Twinning partner-Federal Ministry of Finance, Berlin**
The project purposes were:

Set up of List of recommendations for all relevant bodies to be fulfilled during the stage II and checked during the stage III of Roadmap to EDIS;

Elaboration of TORs for Stage II and III to be addressed through PHARE EDIS Horizontal Programme.

The project showed the real weaknesses, which could prevent EDIS being approved and which weaknesses can be compensated in the short period by other controls.

The project value was 75 000 EUR, the project started in February 2003 and finished June 2003.

- **ISPA 2002\SI\16\PA\003: TA for Preparation to implement EDIS (Stage II and III)**
  
  The project aimed at assisting ISPA Implementing Bodies to:
  
  - remedy shortcomings (gap plugging) identified in the areas in which the structures and procedures are not yet capable of fulfilling all requirements for EDIS and Cohesion Fund in the scope of its first part and
  
  - support and guide the NAO at verifying that all corrective measures have been properly implemented (compliance assessment) to later ensure a successful granting of EDIS by the Commission in the scope of its second part.
  
  The project value was EUR 150 000. Project started in June 2003 and finished in January 2004.

**3.3 Results:**

Completion of harmonization tasks related to public internal financial control and audit of EU funded programmes in line with the acquis on Structural Funds and Cohesion Funds

**3.4 Activities**

The project will assist the BSO to:

- strengthen its administrative capacity in its role of coordination and harmonization of PIFC to be able to execute the increased workload and perform its tasks with best practice.

- reinforce the existing structures that are responsible for certification, internal financial control and audit of future EU funded programmes in line with Commission Regulations 438/2001 laying down the rules for the application of Council Regulation 1260/1999 regarding management and control system
• develop a methodology for Financial Management and Control systems as well as standardization of audits, risk-analysis, audit plan, reports and prevention of irregularities which also includes:

  • Development of model for risk assessment (initial risk registers)
  • Development of model audit trail document
  • Development of model budget spending center internal audit service manual
  • Preparation of a program for audit of internal audit services of budget spending centers whether proper internal audit standards and guidelines are consistently applied.
  • Train BSO staff for trainers

The guaranteed results – benchmarks for the project include:

• administrative capacity of the BSO strengthened and PIFC harmonized and able to perform tasks with best practice
• Structures responsible for payment, internal financial control and audit in line with Commission Regulation 438/1999
• Elaborated methodologies for transparent and efficient financial control system, covering audit trail, ex-ante control, risk analysis and reliable prevention of irregularities. In particular:

  • Drafting with the BSO staff of all the documents
    o model risk assessment,
    o model audit trail,
    o model internal audit service manual,
    o model audit program

    in Slovenian and English language

• Train BSO staff to apply best procedures for financial control in line with the documents, prepared in the scope of this project and projects listed under Linked activities in the form of
  o preparation of the cited model documents in cooperation with the BSO staff
  o training of the BSO staff for trainers
  o field work in the form of joint audits (preparation and execution of audits inc. elaboration of audit reports)
  o workshops for BSO staff and state internal auditors.
3.5 Lessons learned:

As explained in point 3.2, the three Phare projects were very effective in setting up the general legal framework for the PIFC and EDIS implementation. However there still is a lack of practical experiences in the field of internal control with emphasis on risk assessment, audit trail and auditing which would be the task of the proposed project.

This project will influence the longer-term success of the BSO in the functions it is being asked to undertake and the extent to which it has, or is likely to have, the staff needed to carry out these functions to an appropriate level.

4. Institutional Framework

The project will have to operate within Ministry of Finance of the Republic of Slovenia, Budget Supervisory office, responsible for financial control and for the audit.

5. Detailed Budget

*Strictly follow the following format.*

<table>
<thead>
<tr>
<th>TF</th>
<th>Support</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment Support</td>
</tr>
<tr>
<td>Contract 1</td>
<td>twinning</td>
</tr>
<tr>
<td>Total</td>
<td></td>
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</tbody>
</table>

The twinning project will be co-financed from national resources. For the twinning part the Slovenian Government will in the framework of co-financing for instance provide office space, office support, salaries, travel tickets for the counterpart staff in the framework of the study visits in the EU countries, organization of the meetings and work of the Slovene working groups.

6. Implementation Arrangements

6.1 Implementing Agency:

Contracting shell be carried out by CFCU in the Ministry of Finance.

Ministry of Finance - CFCU
Beethovnova 11.
SI - 1000 Ljubljana

**Responsible person:** Mr. Peter Škofič, PAO
Tel.: +386 1 478 63 05
Fax: +386 1 478 62 04
E-mail: peter.skofic@mf-rs.si
6.2 Implementing and Contracting Authority and Beneficiary:

**Final beneficiary:**
Ministry of Finance, Budget Supervisory office,  
Glinška 3, 
Ljubljana, SI- 1502

**Responsible person:**  
Mr. Jurij Milatovič, Acting Director of the Budget Supervisory office of RS  
Tel.: 00386 1 4774 2  
Fax: 00386 1 4774 299  
E-mail: jurij.milatovic@mf-rs.si

**Project Manager**  
Mr. Miran Gostiša, Head of department  
Tel: 00386 1 4774 268  
E-mail: Miran.Gostisa@mf-rs.si

**Contact person:**  
Ms. Stefania Zlobec, Counselor to the Government  
Tel.: +386 1 4774 289  
Fax.: +386 1 4774 299  
E-mail: stefka.zlobec@mf-rs.si

6.3 Non-standard aspects  
Not forseen

6.4 Twining

The Twinning project is designed to be implemented as a twinning package, consisting of visit of a long-term expert and 5 short-term audit experts. The project will last 18 months.

7. Implementation Schedule

7.1 Start of project activity,  
4th quarter 2004

7.2 Project Completion  
December 2006

8. Equal Opportunity

Equal opportunities policy will be fully respected in the selection of experts.

9. Environment

Not applicable.

10. Rates of return

Not applicable.
11. **Investment criteria**  
*Not applicable.*

12. **Conditionality and sequencing**

The Budget Supervisory office staff trained by the EU audit experts, especially in drafting procedures, audit reports with the aim to be able to execute their roles independently after the conclusion of the project. The BSO staff are actively involved in the activities of EU audit experts, especially in audit procedures to be able to execute their roles independently after the conclusion of the project.

**ANNEXES TO PROJECT FICHE**

1. Logical framework matrix in standard format (compulsory)
2. Detailed implementation chart (compulsory)
3. Contracting and disbursement schedule by quarter for full duration of programme (including disbursement period) (compulsory)
### Annex 1: TF log frame

<table>
<thead>
<tr>
<th>LOGFRAME PLANNING MATRIX FOR Project</th>
<th>Programme name and number</th>
<th>Date of drafting:</th>
<th>Disbursement period expires</th>
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<tbody>
<tr>
<td>Further strengthening of PIFC</td>
<td>Contracting period expires 31/12/2006</td>
<td>May 2004</td>
<td>31/12/2006</td>
</tr>
<tr>
<td></td>
<td>Disbursement period expires 31/12/2006</td>
<td></td>
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<tr>
<td></td>
<td>Total budget: 0,750 mio €</td>
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<td>Total budget: 0,750 mio €</td>
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<tr>
<td>TF budget: 0,600 mio €</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
</table>
| • Full implementation of PIFC and audit according to Acquis communautaire. | • Existence of functioning financial control and audit (PIFC) by the end of the project. | • report of MSs short and long term experts with recommendations for improvement of audit procedures and legislation
• Monitoring Report
• project quarterly reports (reviewed by the project steering committee)
• final report on the project |
<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>- . Develop generic model for risk assessment to be adopted by budget spending centers,</td>
<td>Public internal financial control totally harmonized with Commission Regulation 438/99 and able to deal with structural funds and cohesion fund.</td>
<td>• Project report on the PIFC issued at the end of the project (final project report)</td>
<td>• the necessary human, financial and administrative resources facilitating should be insured by the Slovene authorities</td>
</tr>
<tr>
<td>- Develop generic audit trail document to be adopted and adapted by budget spending centers,</td>
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<td>• availability of the required MS short term experts for specific questions is crucial</td>
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<td>- Develop model budget spending center internal audit service manual,</td>
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<td>- Carry out audits of internal audit services of budget spending centers whether proper internal audit standards and guidelines are consistently applied.</td>
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<tr>
<td>Results</td>
<td>Objectively verifiable indicators</td>
<td>Sources of Verification</td>
<td>Assumptions</td>
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<td>------------------------------------------------------------------------</td>
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<tr>
<td>1. Strengthening of the BSO administrative capacity in its role of</td>
<td>• test audits performed</td>
<td>Final report of the</td>
<td>Support from other relevant</td>
</tr>
<tr>
<td>coordination and harmonization of PIFC to be able to execute the</td>
<td>• workshops organized</td>
<td>project Monitoring</td>
<td>institutions</td>
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<tr>
<td>increased workload and perform its tasks with best practice to</td>
<td>• model risk assessment</td>
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<td></td>
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<tr>
<td>add value to the overall performance of the systems audited and give</td>
<td>prepared and tested</td>
<td></td>
<td></td>
</tr>
<tr>
<td>proper findings and recommendations to the auditors.</td>
<td>• model audit trail prepared</td>
<td></td>
<td></td>
</tr>
<tr>
<td>tested at least two months before the end of the project</td>
<td>tested and tested</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• audit program for the audit of internal audit services of budget</td>
<td>at least two months before the</td>
<td></td>
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<tr>
<td>spending centers whether proper internal audit standards and</td>
<td>end of the project</td>
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<tr>
<td>guidelines are consistently applied.</td>
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<tr>
<td>2. Development of model for risk assessment (initial risk registers)</td>
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<tr>
<td>3. Development of model audit trail document</td>
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<tr>
<td>4. Development of model budget spending center internal audit service</td>
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<tr>
<td>manual</td>
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<tr>
<td>5. Preparation of a program for audit of internal audit services of</td>
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<tr>
<td>budget spending centers whether proper internal audit standards and</td>
<td></td>
<td></td>
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<tr>
<td>guidelines are consistently applied.</td>
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</tbody>
</table>
### Activities
1. Drafting with the BSO staff of all the documents
   - model risk assessment,
   - model audit trail,
   - model internal audit service manual,
   - model audit program in Slovenian and English language
2. Training of BSO staff to apply best procedures for financial control in line with the documents, prepared in the scope of this project and projects listed under Linked activities in the form of
3. preparation of the cited model documents in cooperation with the BSO staff
4. training of the BSO staff for trainers
5. field work in the form of joint audits (preparation and execution of audits inc. elaboration of audit reports)
6. workshops for BSO staff and state internal auditors.

### Means
1 long term audit expert, 5 short term experts

### Assumptions
Inception report Final report

BSO staff actively involved in the activities of EU experts, especially audit procedures, to be able to execute their roles independently after the conclusion of the project
<table>
<thead>
<tr>
<th>Preconditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• availability of needed individual MSs short/long term experts</td>
</tr>
<tr>
<td>• realizable intensity of the project</td>
</tr>
<tr>
<td>• satisfactory availability of the Slovene experts to co-operate in the project</td>
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</tbody>
</table>
## Annex 2: Implementation time chart

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
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<tbody>
<tr>
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<td>X X X X X X X X X X X X</td>
<td>X X X X X X X X X X X X</td>
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</table>
Annex 3: Contracting schedule (sheet 1)

Further strengthening of PIFC

CUMULATIVE CONTRACTING SCHEDULE (EUR million)

<table>
<thead>
<tr>
<th>Date</th>
<th>3/31/05</th>
<th>6/30/05</th>
<th>9/31/05</th>
<th>12/15/05</th>
<th>3/31/06</th>
<th>6/30/06</th>
<th>9/31/06</th>
<th>12/15/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twinning</td>
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<td>0,600</td>
<td>0,600</td>
<td>0,600</td>
<td>0,600</td>
<td>0,600</td>
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<tr>
<td>TOTAL</td>
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<td>0,600</td>
<td>0,600</td>
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</tbody>
</table>

NB all contracting should normally be completed within 6 – 12 months and must be completed within 24 months of signature of FM
Annex 3: Contracting schedule (sheet 2)

<table>
<thead>
<tr>
<th>Date</th>
<th>3/31/05</th>
<th>6/30/05</th>
<th>9/31/05</th>
<th>12/15/05</th>
<th>3/31/06</th>
<th>6/30/06</th>
<th>9/31/06</th>
<th>12/15/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twinning</td>
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<td>0,600</td>
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<tr>
<td>TOTAL</td>
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<td>0,480</td>
<td>0,480</td>
<td>0,480</td>
<td>0,480</td>
<td>0,600</td>
</tr>
</tbody>
</table>

NB all disbursements must be completed within 36 months of signature of the FM
### Annex 3: Contracting schedule (sheet 3)

**Further strengthening of PIFC**

<table>
<thead>
<tr>
<th>Date</th>
<th>3/31/05</th>
<th>6/30/05</th>
<th>9/31/05</th>
<th>12/15/05</th>
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<td>Disbursement</td>
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<td>0,480</td>
<td>0,480</td>
<td>0,600</td>
</tr>
</tbody>
</table>

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