

## **Standard Summary Project Fiche – IPA centralised programmes**

### **Project number 2: Support to the Development of Public Internal Financial Control (PIFC) Phase 3**

#### **1. BASIC INFORMATION**

- 1.1 CRIS Number:** [2008/020-406](#)
- 1.2 Title:** **Support to the Development of Public Internal Financial Control (PIFC) Phase 3**
- 1.3 ELARG statistical code:** 01.32
- 1.4 Location:** Republic of Serbia

#### **Implementing arrangements:**

- 1.5 Contracting Authority (EC):** EC Delegation to the Republic of Serbia
- 1.6 Implementing Agency:** EC Delegation to the Republic of Serbia
- 1.7 Beneficiary (including details of project manager)**

The Project Manager for the project is Mr Goran Cvejic, Assistant Minister Budget Inspection & Audit Ministry of Finance. The Project Manager will be responsible for the overall technical management of the project. Specific duties will include the approval of 6-monthly progress reports and he will chair the Project Steering Committee.

The Steering Committee will be established to monitor project implementation. This steering committee will meet every 3-months with the first meeting taking place early in the inception phase of the project and a subsequent meeting to approve the Inception Report. The members will include the Head of the Central Harmonisation Unit (CHU) as chairperson, a representative of the EC Delegation in Serbia, the Project Team Leader, one representative from the MoF Treasury Administration and one senior finance/audit staff from two major line ministries. SIGMA and DG Budget representatives should also be invited. The steering committee will approve the consultant reports and report on progress towards completing project implementation in line with work plans and the subsequent ToR.

A Project Management Unit will be established within the Ministry of Finance which will be responsible for supporting the Technical Assistance team in the day-to-day management of the project. This PMU will provide assistance for the liaison with other line ministries and with other departments within the Ministry of Finance. A member of the PMU will also be the Secretary of the Steering Committee.

- 1.8 Overall cost:** **2.000.000 EUR**
- 1.9 EU contribution:** **2.000.000 EUR**
- 1.10 Final date for contracting:** 3 years after the signature of the Financing Agreement
- 1.11 Final date for execution of contracts:** 5 years after the signature of the Financing Agreement

**1.12 Final date for disbursements:** 6 years after the signature of the Financing Agreement

## **2 OVERALL OBJECTIVE AND PROJECT PURPOSE**

### **2.1 Overall Objective:**

The overall objective of the project is to improve the efficiency, effectiveness and transparency in the allocation and expenditure of public funds. The project will also contribute to the continued process of public administration reform through de-centralisation of financial management and control.

### **2.2 Project purpose:**

The purpose of the project is to implement a public internal financial control system covering decentralised internal audit and financial management control arrangements within the Ministry of Finance and a minimum of ten line ministries.

By the end of the project it is expected that:

- The Central Harmonisation Unit (CHU) is a fully functional institution, working in line with EU and internationally accepted requirements for harmonisation bodies.
- Decentralised units for internal audit are established, trained, supported and working in line with internationally accepted standards for internal audit in mandatory social security organisations (MSSO's), at least ten line Ministries, City of Belgrade and City of Novi Sad on a pilot basis
- Management and relevant staff have been trained on Financial Management and Control (FMC) requirements and basic FMC structures and procedures have been introduced in participating institutions;
- Certification scheme for internal auditors has been set up;
- Comprehensive legal framework for PIFC has been developed and submitted for the Government for approval.

### **2.3 Link with AP/NPAA / EP/ SAA**

#### ***Stabilisation and Association Agreement (SAA)***

Article 92 of the SAA relates to Internal control and external audit co-operation. It states that "Cooperation between the Parties shall focus on priority areas related to the Community acquis in the fields of public internal financial control (PIFC) and external audit. The Parties shall, in particular, cooperate - through elaborating and adopting relevant regulation - with the aim of developing transparent, efficient and economic PIFC (including financial management and control and functionally independent internal audit) and independent external audit systems in Serbia, in accordance with internationally accepted standards and methodologies and EU best practices".

The project directly addresses the issue of PIFC, as set out in this fiche and, in particular, is focused on the adoption of practices that are consistent both with EU standards and with those of other appropriate international bodies including the International Organisation of Supreme Audit Institutions (INTOSAI)<sup>1</sup> and the Institute of Internal Auditors (IIA)<sup>2</sup>.

---

<sup>1</sup> See INTOSAI Guidelines for Internal Control in the Public Sector:  
<http://intosai.connexcc-hosting.net/blueline/upload/1guicspubsece.pdf>

## 2.4 Link with MIPD<sup>3</sup>

As part of the Political Requirements (Section 2.2.1) for Serbia, the MIPD identifies as a main priority and objective, “**Developing and implementing a government policy relating to the introduction of the concepts of Public Internal Financial Control**” (Section 2.2.1.1.4). This project is created particularly with the aim to achieve that goal. The principles of internal financial control of the Ministry of Finance will be incorporated by the project, through CHU support and the project will support the establishment of appropriate managing and control structure in the area of public expenditures within MSSO's, a minimum of ten line ministries and two cities.

Throughout the project, the technical assistance will provide policy recommendations to the Ministry of Finance for the continued improvement of public finance control and, in identified priority areas, will support the Ministry of Finance in the development of that policy.

The MIPD also refers to the need for “Improving budget and fiscal management” (Section 2.2.1.1.5) and while the MIPD links this to a range of tax-related actions, this will also be a result of this project through improved control and transparency of public expenditure.

Section 2.2.1.3 of the MIPD identifies the specific types of programmes to be implemented in pursuit of the priorities and objectives. These include “Civil service training in....budgeting, financial control..” This project includes a significant element of training targeted at the Ministry of Finance and the selected Line Ministries. Training focuses on internal financial control and audit.

## 2.5 Link with National Development Plan (where applicable)

Not Applicable

## 2.6 Link with national / sectoral plans

Not Applicable

## 3 DESCRIPTION OF PROJECT

### 3.1 Background and justification:

Public administration reform and governance issues remain priorities of the Serbian government. In recent years there has been a noticeable improvement of awareness and priority for the need to improve PIFC to international standards and EU expectations contained in Chapter 32 of the Acquis Communautaire.

Public institutions remain in a weakened state in part due to continuing politicisation and centralisation of authority, frequent changes in regulations and institutions through non-transparent processes, and limited strategic planning.

The Government has made changes to the Budget System law which now provides a legal basis for decentralised internal audit and financial management control arrangements throughout the public sector. It has also agreed that in 2008 it will formally establish a Central Harmonisation Unit (CHU) in the Ministry of Finance (MoF):

“This institution will essentially be a policy unit attached and directly reporting to the Minister of Finance on the status of internal control in the entire public sector,

---

<sup>2</sup> See EC IIA Position Paper on Internal Audit in Europe:  
[http://www.eciia.org/images/stories/dwn\\_pub/dp\\_05/2005\\_02\\_ECIIA\\_PosPap\\_Intl\\_Auditing\\_in\\_Europe.pdf](http://www.eciia.org/images/stories/dwn_pub/dp_05/2005_02_ECIIA_PosPap_Intl_Auditing_in_Europe.pdf)

<sup>3</sup> Multi-Annual Indicative Planning Document

responsible for redesigning, updating and maintaining the quality of the internal control systems, for harmonizing and coordinating definitions, standards and methodologies, for networking between all actors (managers, financial officers, internal auditors), for the establishment and co-ordination of sustainable training facilities, including the setting of criteria for the certification of public internal auditors and for all other actions to improve public internal control systems.”<sup>4</sup>

The Government has also entered into a formal dialogue with the EC DG Budget to finalise and agree an appropriate PIFC Policy paper for Serbia and this should be concluded in 2008.

The EU has previously provided two phases of technical assistance to increase awareness and develop improved PIFC arrangements in the public sector. The cumulative impact of this assistance has been to significantly raise awareness at all levels of the benefits to public sector service delivery that improved PIFC processes can bring. These projects have helped create a legal, tertiary, institutional environment allied to a cadre of trained personnel that can effectively lead and guide full implementation of PIFC reforms throughout the public sector using the CHU as its conduit.

The project completed the following:

- Carried out review of the Legal Framework for Internal Control
- Assessment and gap analysis PIFC reviews in 6 line Ministries and 8 IBBs.
- Preparation of a draft PIFC Policy paper, Implementation Action plan and stand alone PIFC Law.
- FMC and IA manuals conforming to IIA and INTOSAI standards prepared and distributed to key personnel throughout the Government. In addition, comprehensive FMC and IA training material packages have been finalised and also distributed to key Government personnel.
- Training programmes for FMC and IA concepts were prepared and delivered to approximately 300 personnel. These materials have been distributed in both languages.
- Through awareness raising, sensitisation, training and the dissemination of appropriate materials, all line Ministries are fully aware of the broad concepts of PIFC.
- Through the provision of 5 joint hands on audits and the production of comprehensive technical audit guidance templates, the current IA team are now carrying out their routine audits in a significantly different way than previously.
- CHU model job descriptions, CHU Terms Of References and First Year Action Plan

The above represents significant progress and there is a high level of commitment within the Ministry of Finance to continue these reforms.

The implementation and subsequent sustainability of the sound basis laid for PIFC reforms needs to be driven by a Government created institution the CHU. With the expected formation of this unit in 2008 it will need focussed technical assistance to ensure that there is continuity and mitigation of the risk of erosion of the significant gains made by this project.

Experiences in candidate and recent member states provide evidence that the CHU is pivotal to providing the impetus and support needed to embed reforms. To compensate for the lack of capacity that will be inherent in the staff of the CHU it is crucial that they are provided with the support of suitably qualified public finance management experts who have experience of CHU development as well as understanding the standards required by the EU, INTOSAI and the IIA amongst others.

---

<sup>4</sup> Source – Welcome to the World of PIFC – EC DG Budget 2006

### **3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact (where applicable)**

#### ***Project Impact***

The key area of impact for the project will be improved effectiveness and efficiency in the use of the public budget. This will be achieved through increasing the skills of those responsible for budgetary management and control and by establishing procedures which ensure a greater clarity and transparency in the decision making process.

The project will ensure that politicians and senior civil servants and the general public are aware of the reforms being introduced and of the improved use of public funds so that the public gains greater confidence in the government to utilise the budget effectively. This will, indirectly, increase the level of tax revenues.

#### ***Catalytic effect***

A key output from the project will be the preparation of a roll-out strategy for the remainder of the line ministries to establish internal control functions. The training courses and guidance materials developed under this programme will then be utilised in building the capacity of those ministries. Although this project will restrict itself to Central Government activities it may with the CHU begin to develop a strategy for roll out of the reform programme to local authorities and other publicly funded agencies and organisations

#### ***Sustainability***

Institutional sustainability will be encouraged through the mentoring, training and support given to the staff of the CHU in carrying out the internationally recognised tasks of this type of organisation. Through its ongoing roll out of implementation of standards for internal audit and internal control it will contribute to the Governments policy for a more transparent and focussed use of public funds.

The creation of decentralised internal audit teams in large line Ministries and the decentralisation of financial and other controls to line Ministries will present challenges for implementation and sustainability. The project with the CHU will work together in ensuring that appropriate institutional arrangements are established in line Ministries and they will be provided with the practical and theoretical support needed to allow them to gradually operationalise new processes as a matter of routine.

The plan to certify both public internal auditors and finance managers via a mixed scheme of theoretical training and a practical demonstration of acquired skills application should create an immediate nucleus of people who can then apply new PIFC techniques throughout the wider public sector. A certification scheme would be an ongoing activity, being continually updated for new standards and practices as these emerge. Therefore, a sustainable professional and practical training scheme will remain after project activities cease.

### **3.3 Results and measurable indicators**

Result 1 – Legal Framework for PIFC developed and submitted for approval

#### ***Indicators***

- Review of existing and drafting of the comprehensive legal framework

Result 2 - The Central Harmonisation Unit (CHU) will be operating as a fully functioning institution that meets EU and internationally accepted expectations for harmonisation bodies.

#### ***Indicators***

- Implementation of the actions under PIFC Policy Paper and its Action Plan

- PIFC annual report on implementation progress delivered to the Government.

Result 3 - Decentralised units for internal audit will have been established, trained, supported and operating in line with INTOSAI and the Institute of Internal Auditors (IIA) standards within MSSO's, ten line Ministries and two cities.

*Indicators*

- Appropriate secondary and tertiary legislation agreed and being used by line ministries, MSSO's and other budget agencies.
- Number of internal auditors trained
- Number of internal auditors certified
- Number of trainers are trained and number of persons underwent FMC training
- Minimum 1 pilot audit implemented by the internal audit unit of each participating institution

Result 4 - Minimum of ten line Ministries and MSSO's will have been trained, supported and will start working in line with the requirements of internationally accepted standards for Internal Control.

*Indicators*

- Basic FMC structures, risk assessment and internal controls introduced in participating institutions

Result 5 - A certification scheme will be developed and finalised for internal auditors. By the end of the project it is expected that practitioners will have graduated from this programme.

*Indicators*

- Established appropriate certification training schemes for internal auditors with both theoretical and practical elements.
- Certification process accredited by internationally recognised body
- Number of internal auditors graduate from certifications schemes

Result 6 - Increased awareness within politicians and civil servants regarding PIFC reform

*Indicators*

- Delivery of high level sensitisation and awareness raising events.
- Increased interest and motivation to participate in the roll-out of the reforms to remaining ministries, local administrations and other relevant agencies.

**3.4 Activities:**

Many of these activities have already been initiated through the Phase 2 support. Under this phase they will require finalisation, based on comments from the government, and implementation through the CHU as the key PIFC institutional change agent. The following should be carried out in close collaboration with the CHU:

- CHU develop a network for the adequate exchange of information on the changes needed for reform between affected stakeholders.
- Update the Action plan of PIFC Policy Paper to ensure it is consistent with current best practice and international standards.
- Support in drafting of PIFC legislation.
- Update and finalise the secondary and tertiary documentation needed to support the primary legal framework. This will include directives relating to risk management and

other methodologies, templates for audit trails, audit reports etc. Ensure that these are adopted for use by the relevant services in line ministries and other budget agencies.

- Undertake compliance and quality assurance checks on how their recommendations are being carried out and how to resolve implementation problems being encountered in line ministries and other budget agencies, towards the end of the project, when FMC systems have been set up.
- Support the CHU in preparing the Annual Report for the Government.
- The CHU takes the lead in ensuring an improvement in the quality of staff responsible for FMC and IA primarily through professional development and mentoring. The project will assist the CHU to coordinate and supervise the establishment of sustainable training arrangements and of setting practical criteria for the quality requirements of internal auditors, financial staff and all level managers.
- Compile a detailed programme and schedule for the preparation and delivery of all training activities, update and develop a common training material for the training courses and activities in internal audit and internal control, and deliver high level seminars.
- On a continuous basis, provide the staff with technical, professional and policy development support to ensure that the CHU is able to meet its operational objectives to the highest level of international standards and expectations.
- Support at least two study tours to member and/or candidate state CHUs to learn from their experiences in establishing and developing this institution. Additionally, these study tours will be used to share information on implementation problems and solutions applied to resolve these.

#### **Contracting Arrangement:**

The above activities will be carried out through one twinning or one service contract (technical assistance).

### **3.5 Conditionality and sequencing:**

The pre-condition relating to the project is that the Ministry of Finance establishes the CHU as it has agreed to do prior to the start of tendering. The CHU will need to be supported by the Ministry of Finance in terms of appropriate levels of financial and human resources and in providing political support so that the role and authority of the Unit is recognised across the public sector.

During the implementation of the project the key conditionality will be to maintain the existing political consensus which is supportive and committed to giving PIFC reforms a higher priority and as such, create the opportunity to move from concepts to realities.

The adoption of the PIFC Policy Paper by the Government, prior to the start of tendering is another pre-condition for this project.

There are no issues of sequencing since all the activities required under this fiche can be delivered through one contract. The timing for the initiation of the tendering procedure is given in Section 5.

### **3.6 Linked activities**

This is the third phase in a programme of continued support to the Ministry of Finance in relation to PIFC. The first project in this area was financed under CARDS 2002 and was implemented between February 2003 and March 2003. The project included training sessions for the Internal Audit Unit; training and study tours for a selection of line ministries “controllers” and agents involved in Public Internal Financial Control; legal advice and assessment of internal control in a selection of ministries.

The second phase of the programme was financed under CARDS 2003 and its objectives were to contribute to the reinforcement of the internal financial control environment throughout Public Administration and to contribute to the development and reinforcement of internal audit capacities. This project was implemented between April 2005 and December 2007. The project completed the following:

- Assessment and gap analysis PIFC reviews in 6 line Ministries and 8 IBBs.
- Preparation of a draft PIFC Policy paper.
- FMC and IA manuals conforming to IIA and INTOSAI standards prepared and distributed to key personnel throughout the Government. In addition, comprehensive FMC and IA training material packages have been finalised and also distributed to key Government personnel.
- Training programmes for FMC and IA concepts were prepared and delivered to approximately 300 personnel. These materials have been distributed in both languages.
- Through awareness raising, sensitisation, training and the dissemination of appropriate materials, all line Ministries are fully aware of the broad concepts of PIFC.
- Through the provision of 5 joint hands on audits and the production of comprehensive technical audit guidance templates, the current IA team are now carrying out their routine audits in a significantly different way than previously.

It will be necessary at the start of the project to review the above results and, where appropriate, to revise written documentation to reflect changes in international good practice and changes in Serbian legislation and policy.

### **3.7 Lessons learned**

Under Phase II of this programme for PIFC support, a key factor in the success of the project was ensuring that senior level civil servants were aware of and recognised the importance of the reforms being introduced. This understanding translated into support for the project and, in turn, this ensured active participation in training events and the introduction of new procedures and systems across several line ministries. It will be important that a similar approach is taken under this Phase as the programme moves further into implementation of reform.

The level of commitment by the Ministry of Finance and others to establish and develop internal audit and financial control varied over time during the second phase of the project. It is important, particularly as the programme enters the main implementation phase that this commitment is managed properly and that understanding of the principles and concepts is built up prior to agreement on action and resourcing. This will ensure ownership of decisions and contribute significantly to the sustainability of the project.

#### 4 INDICATIVE BUDGET (AMOUNTS IN EUR)

			SOURCES OF FUNDING									
			TOTAL EXP.RE	IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	%(2)	Total EUR (c)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/ Local EUR (y)	IFIs EUR (z)	EUR (d)	% (2)
Activity 1												
contract 1	x	–	2,000,000	2,000,000	100							–
.....												
TOTAL IB			2,000,000	2,000,000	100							
TOTAL INV												
<b>TOTAL PROJECT</b>			<b>2,000,000</b>	<b>2,000,000</b>	<b>100</b>							

NOTE: DO NOT MIX IB AND INV IN THE SAME ACTIVITY ROW. USE SEPARATE ROW

Amounts net of VAT

(1) In the Activity row use "X" to identify whether IB or INV

(2) Expressed in % of the **Total** Expenditure (column (a))

## 5 INDICATIVE IMPLEMENTATION SCHEDULE

<b>Contracts</b>	<b>Start of Tendering</b>	<b>Signature of contract</b>	<b>Project Completion</b>
Contract 1	T + 1Q	T + 4 Q	T + 12 Q

## 6 CROSS CUTTING ISSUES

### 6.1 Equal Opportunity

The project will be implemented in a way which provides equal opportunities for participation for those within the Ministry of Finance and those in Line Ministries. No discrimination will be made on the basis of gender and activities such as training will be organised in a way which makes them accessible for both men and women. The number of men and women participating in training events will be monitored during the project and this information will be used to identify any potential discrimination.

### 6.2 Environment

The project has no negative impact on the environment and no significant positive impact either. The project will be implemented in a way which is as environmentally friendly as possible and this includes the use of re-cycled paper and the advanced use of electronic filing rather than paper based systems.

### 6.3 Minorities

The project will be implemented in a way which does not discriminate against any individual on the grounds of their gender, ethnic origin, race or religion. Training will be organised in a way which makes events accessible for all potential participants. Information on the individuals receiving support under the project will be monitored during the project and this information will be used to identify any potential discrimination.

## ANNEXES

- 1- Log frame in Standard Format
- 2- Amounts contracted and Disbursed per Quarter over the full duration of Programme
- 3 - Institutional Framework – legal responsibilities and statutes
- 4 - Reference to laws, regulations and strategic documents:

Reference list of relevant laws and regulations

Reference to EP / SAA

Reference to MIPD

Reference to National Development Plan

Reference to national / sector investment plans

- 5 - Details per EU funded contract (\*) where applicable:

For *TA contracts*: account of tasks expected from the contractor

For *twinning covenants*: account of tasks expected from the team leader, resident twinning advisor and short term experts

For *grants schemes*: account of components of the schemes

For *investment contracts*: reference list of feasibility study as well as technical specifications and cost price schedule + section to be filled in on investment criteria (\*\*)

For *works contracts*: reference list of feasibility study for the *constructing works* part of the contract as well as a section on investment criteria (\*\*); account of services to be carried out for the *service part* of the contract

(\*) non standard aspects (in case of derogation to PRAG) also to be specified

(\*\*) section on investment criteria (applicable to all infrastructure contracts and constructing works):

Rate of return

Co financing

compliance with state aids provisions

Ownership of assets (current and after project completion)

## ANNEX I: LOGICAL FRAMEWORK MATRIX

LOGFRAME PLANNING MATRIX FOR Project Fiche		Support to the Development of Public Internal Financial Control (PIFC) Phase 3	
		Contracting period expires: 3 years after the signature of the Financing Agreement	Disbursement period expires: 6 years after the signature of the Financing Agreement
		Total budget : 2,000,000	IPA budget: : 2,000,000
<b>OVERALL OBJECTIVE</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	
To contribute to the improvement of the efficiency, effectiveness and transparency in the allocation and expenditure of public funds. The project will also contribute to the continued process of public administration reform through de-centralisation of financial management and control.	<ul style="list-style-type: none"> <li>▪ Increased tax revenue</li> <li>▪ Improved level of public services</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ministry of Finance reports</li> <li>▪ EC Progress reports</li> <li>▪ Reports of DG Audit</li> </ul>	
<b>SPECIFIC PROJECT PURPOSE</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
To implement a public internal financial control system covering decentralised internal audit and financial management control arrangements within the Ministry of Finance and a minimum of ten line ministries and other priority agencies	<ul style="list-style-type: none"> <li>▪ De-centralised units established in ten line ministries, MSSO's and 2 cities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Legal statues and documentation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Continued government commitment to public administration reform</li> </ul>
<b>RESULTS</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
<ol style="list-style-type: none"> <li>1. Legal Framework for PIFC developed and submitted for approval</li> <li>2. The Central Harmonisation Unit</li> </ol>	<ul style="list-style-type: none"> <li>▪ Review of existing and drafting of the comprehensive legal framework</li> <li>▪ Organisational development plan for the</li> </ul>	<ul style="list-style-type: none"> <li>▪ Approval of relevant quarterly report</li> <li>▪ Project facilitated surveys</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Ministry of Finance is able to champion PIFC reform within participating</li> </ul>

<p>(CHU) will be operating as a fully functioning institution that meets EU and internationally accepted expectations for harmonisation bodies.</p>	<p>CHU is approved by the Ministry of Finance</p> <ul style="list-style-type: none"> <li>▪ Audit functions within selected line ministries positively assess the role of the CHU</li> </ul>	<p>and focus groups</p>	<p>ministries</p>
<p>3. Decentralised units for internal audit will have been established, trained, supported and operating in line with INTOSAI and the Institute of Internal Auditors (IIA) standards within MSSO's, ten line Ministries and two cities.</p>	<ul style="list-style-type: none"> <li>▪ Appropriate secondary and tertiary legislation agreed and being used by line ministries, MSSO's and other budget agencies.</li> <li>▪ Number of internal auditors trained</li> <li>▪ Number of internal auditors certified</li> <li>▪ Number of trainers are trained and number of persons underwent FMC training</li> <li>▪ Minimum 1 pilot audit implemented by the internal audit unit of each participating institution</li> </ul>	<ul style="list-style-type: none"> <li>▪ Positive feedback from budgetary units within line ministries</li> </ul>	
<p>4. Minimum of ten line Ministries and MSSO's will have been trained, supported and will start working in line with the requirements of internationally accepted standards for Internal Control.</p>	<ul style="list-style-type: none"> <li>▪ Basic FMC structures, risk assessment and internal controls introduced in participating institutions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reports approved</li> <li>▪ Post-training questionnaires and focus groups</li> <li>▪ Reports and recommendations approved and introduced</li> </ul>	
<p>5. A certification scheme will be developed and finalised for internal auditors. By the end of the project it is expected that practitioners will have graduated from this programme.</p>	<ul style="list-style-type: none"> <li>▪ Established appropriate certification training schemes for internal auditors with both theoretical and practical elements.</li> <li>▪ Certification process accredited by internationally recognised body</li> <li>▪ Number of internal auditors graduate from certifications schemes</li> </ul>	<ul style="list-style-type: none"> <li>▪ Procedures approved by MoF</li> <li>▪ Accreditation certificate</li> <li>▪ 3-month participant questionnaire and focus groups</li> </ul>	
<p>6. Increased awareness within politicians and civil servants regarding</p>	<ul style="list-style-type: none"> <li>▪ Increase in ministries and other</li> </ul>	<ul style="list-style-type: none"> <li>▪ Participation in public</li> </ul>	

PIFC reform	agencies level of interest in PIFC		awareness events	
<b>ACTIVITIES</b>	<b>Means</b>	<b>Costs</b>	<b>Assumptions</b>	
<b>Activities related to component</b>				
<p>1.1 CHU develop a network for the adequate exchange of information on the changes needed for reform between affected stakeholders.</p> <p>1.2 Update the Action plan of PIFC Policy Paper to ensure it is consistent with current best practice and international standards.</p> <p>1.3 Support in drafting of PIFC legislation.</p> <p>2.1 Update and finalise the secondary and tertiary documentation needed to support the primary legal framework. This will include directives relating to risk management and other methodologies, templates for audit trails, audit reports etc. Ensure that these are adopted for use by the relevant services in line ministries and other budget agencies.</p> <p>3.1 Undertake compliance and quality assurance checks on how their recommendations are being carried out and how to resolve implementation problems being encountered in line ministries and other budget agencies, towards the end of the project, when FMC systems have been set up.</p> <p>3.2 Support the CHU in preparing the</p>	<p>1 x contract (twinning or TA)</p> <p>TOTAL</p>	<p>2,000,000</p>	<ul style="list-style-type: none"> <li>▪ Participating line ministries make staff available for training</li> <li>▪ Participating line ministries are sufficiently committed to introduce procedural changes</li> </ul>	

<p>Annual Report for the Government.</p> <p>4.1 The CHU takes the lead in ensuring an improvement in the quality of staff responsible for FMC and IA primarily through professional development and mentoring. The project will assist the CHU to coordinate and supervise the establishment of sustainable training arrangements and of setting practical criteria for the quality requirements of internal auditors, financial staff and all level managers.</p> <p>4.2 Compile a detailed programme and schedule for the preparation and delivery of all training activities, update and develop a common training material for the training courses and activities in internal audit and internal control, and deliver high level seminars.</p> <p>4.3 On a continuous basis, provide the staff with technical, professional and policy development support to ensure that the CHU is able to meet its operational objectives to the highest level of international standards and expectations.</p> <p>4.4 Support at least two study tours to member and/or candidate state CHUs to learn from their experiences in establishing and developing this institution. Additionally, these study</p>			
--	--	--	--

<p>tours will be used to share information on implementation problems and solutions applied to resolve these.</p>			
			<p>Pre-conditions:</p> <ul style="list-style-type: none"> <li>- That the Ministry of Finance establishes and provides sufficient resources to a Central Harmonisation Unit (CHU)</li> <li>- The adoption of the PIFC Policy Paper by the Government</li> </ul>

**ANNEX II: AMOUNTS (IN €) CONTRACTED AND DISBURSED BY QUARTER FOR THE PROJECT**

(IPA contribution only)

<b>Contracted</b>	QR1	QR2	QR3	QR4	QR5	QR6	QR7	QR8	QR9	QR10	QR11	QR12	<b>Total</b>
Contract 1				2,000,000									<b>2,000,000</b>
<b>Cumulated</b>				<b>2,000,000</b>									<b>2,000,000</b>
<b>Disbursed</b>													
Contract 1				1,200,000				400,000				400,000	<b>2,000,000</b>
<b>Cumulated</b>				<b>1,200,000</b>				<b>1,600,000</b>				<b>2,000,000</b>	<b>2,000,000</b>

**ANNEX III: INSTITUTIONAL FRAMEWORK – LEGAL RESPONSIBILITIES AND STATUTES**

The Ministry of Finance is in charge of implementation and monitoring of this project. The work, mandate and authorisations of the Ministry are regulated by the Law on Ministries (adopted on May 15, 2007 (Official Gazette of Republic of Serbia no. 48/07)) – i.e. Article 6. Organisational chart of the Ministry of Finance is given below.

**Minister of Finance**

**State Secretaries**

**Secretariat**

	MoF Internal Audit Unit	Minister's Cabinet		
<b>Department</b>				
Department of Economy and Public Enterprises	Department of Macroeconomic and Fiscal Analyses and Projections	Budget Inspection and Audit Department	Fiscal System Department	Property and Legal Affairs Department
Financial System Department	Customs System and Policy Department	Department of Appeals for Misdemeanor Proceedings	International Financial Relations Department	Department for Programming & Management of EU Funds and Development Assistance
Department for Extra-Departmental Legislation				
<b>Administrations within the Ministry</b>				
Tax Administration	Treasury Administration	Public Debt Administration	Customs Administration	Games of Chance Administration
Tobacco Administration	Anti-Money Laundering Administration	Free Economic Zones Administration	Foreign Exchange Inspectorate	

#### **ANNEX IV: REFERENCE TO LAWS, REGULATIONS AND STRATEGIC DOCUMENTS:**

1. Budget system Law
2. Professional Guidelines about Operations of Treasury Administration
3. Rulebook on common basis, criteria and working tasks of financial department in DBBs
4. By-Law on Budget Accounting
5. Rulebook on standard classification scheme and economic classification for budget system
6. Rulebook on preparation, formulation and submitting of closing accounts.
7. Rulebook on preparation, formulation and submitting of financial statements for budget beneficiaries and organization and compulsory social security
8. Rulebook on joint criteria and standards for setting up and functioning of the financial management and control system in the public sector
9. Rulebook on joint criteria for organising and the standards and methodological instructions for performing internal audit in the public sector

**ANNEX V: DETAILS PER EU-FUNDED CONTRACT (\*) WHERE APPLICABLE:**

Activities will be carried out through one twinning or one technical assistance service contract.

The above activities will be carried out through one technical assistance service contract for training component and one twinning contract for regulatory component. Updating and finalisation of secondary and tertiary documentation needed to support the primary legal framework. Undertake compliance and quality assurance checks on how their recommendations are being carried out and how to resolve implementation problems being encountered in line ministries and other budget agencies and provide the staff with technical, professional and policy development support to ensure that the CHU is able to meet its operational objectives to the highest level of international standards and expectations