

## SUMMARY PROJECT FICHE

### 1. Basic information

**1.1** Désirée Number: BG 00.06.01  
Twinning Code: BG/2000/IB/FI/04

**1.2** Title: **STRENGTHENING PUBLIC INTERNAL FINANCIAL CONTROL**

**1.3** Sector: Administrative capacity

**1.4** Location: Sofia, Bulgaria

### 2. Objectives

#### 2.1 Wider Objective

To introduce a sound system of public financial control in Bulgaria.

#### 2.2 Immediate Objective

To strengthen the system of public internal financial control by enhancing the capacity of the State Financial Control (SFC) of the Ministry of Finance and Internal Auditors in government spending centres, and developing the legal framework for financial control.

#### 2.3 Accession Partnership and NPAA priority

Bulgaria's Accession Partnership contains the following priorities:

- *Short-term priorities:* complete the legislative framework and strengthen internal and external financial control bodies including regional control units, in particular through use of a comprehensive information technology system and clear separation of ex-ante control and approval and internal financial control; establish functional independence for national internal controllers / auditors at central and local level including ex-ante financial control.
- *Medium-term priorities:* strengthen public financial control functions through the provision of adequate staff, training and equipment.

The NPAA contained the following priorities:

- *Short-term priorities:* introduction of effective ex ante internal control, which has to meet the requirements of EU and the EU regulations; introduction of minimum control measures on the activities of the paying agencies which will manage the pre-accession funds; drafting of a new law on public internal financial control; drafting the secondary legislation (i.e. implementing regulations).
- *Medium-term priorities:* Drafting the tertiary legislation; enhancement of administrative capacity through training of personnel; improvement of administrative structures to reflect the new model

of public internal financial control; elaboration of methodology and procedures to implement the new model of public internal financial control.

### **3. Description**

#### **3.1. Background and justification**

The public financial control function in Bulgaria is split between the National Audit Office (NAO), which is the authority for external budget control and SFC, which is the authority for the public internal control. NAO reports to the National Assembly and as a constitutional control body functions independently from the executive power.

SFC in the Ministry of Finance is the internal audit body of the executive power. Structurally SFC is situated within the Ministry of Finance but it is functionally independent.

SFC was established in 1879 and is a legal entity with a separate budget under the State Financial Control Act, 1996. It comprises a headquarters in Sofia and 28 regional offices covering all the administrative regions of the country. SFC has 1405 staff, of which 1300 are operating auditors. The State Financial Control Act guarantees the independence of auditors while exercising their duties. Most auditors are employed on permanent contracts. The SFC audits all public organisations and juridical entities constituted with state or municipal property, or whose liabilities are guaranteed with state or municipal property.

Through delegation of authority by the Minister of Finance, the State Financial Control Act permits government spending centres and other agencies to establish Internal Audit Units (IAUs) to exercise internal financial control, though the Minister of Finance remains ultimately responsible for the internal control function.

The SFC provides guidance on methodology on all financial control activities in government spending centres, while auditors in the IAUs are administratively subject to the relevant line minister. The SFC also provides guidance on methodology to its Regional Audit Offices.

The improvement and strengthening of financial control is regarded as a crucial issue for Bulgaria to progress effectively in the pre-accession period. The Commission's 1999 Regular Report on Bulgaria's progress towards accession commented that:

“As regards internal financial control, there is a need to review, complete and where necessary change the current legal and regulatory framework, including drafting appropriate secondary legislation to the organic budget law and analysing the ways and means to introduce ex-ante financial control over commitments and payments, define the set-up and prepare the necessary legal material. Furthermore, there is an urgent need to improve and develop the organisation and methodologies of the existing control bodies. This includes carrying out the review of the SFC and of sample ministerial control units, defining the outline plan for further steps to be taken, namely in the field of training, and providing training and information about EU financial control requirements”.

“Priority should be given to reviewing the legal setting of financial control, the functioning of internal audit bodies, and procedures for prevention, detection and correction of irregularities. The roles and responsibilities of internal and external control bodies should be clearly defined to avoid overlap of activities”.

In response to these concerns, the SFC has prepared a Policy Paper (attachment 1) on the future evolution of internal financial control in Bulgaria. The Policy Paper was drawn up in close

consultation with the European Commission, OECD Sigma, the IMF and Phare consultants. It was endorsed by the Minister of Finance on 18 February 2000. The principles in the Policy Paper will be reflected in a new State Financial Control Act to be adopted shortly, and detailed secondary legislation will be developed during the remainder of 2000 according to a timetable. Under the new Act, SFC's name is likely to change to Agency for Public Internal Financial Control.

The Policy Paper establishes the framework for a modern internal financial control system. This system will be established on the principles that include functional independence, harmonisation of internal financial control practices, ex ante control and internal audit (including system audits, compliance tests, performance audits, IT audits).

The focus of this project is therefore to strengthen the system of public internal financial control by enhancing the capacity of the SFC and the Internal Auditors in government spending centres, and to develop secondary and tertiary legislation, in line with the Policy Paper and the new State Financial Control Act.

The project includes a component to procure and install a wide area network (WAN) system. This is required to connect SFC headquarters with internal audit units in government spending centres and regional offices and handle a steadily increasing flow of shared information.

### **3.2 Linked activities**

Phare assistance for internal financial control commenced in June 1999 using funds allocated under the 1997 National Programme. This short initial project, which ended in March 2000, had three main goals:

- To assist the SFC in drafting the amendments to the primary legislation, namely the Law on the State Financial Control;
- To give recommendations for the changes to be made in the financial control system in order to comply with the EU requirements;
- To organise and deliver a seminar in and study tour for the SFC in February/March 1999.

From April to December 2000, further short-term assistance will be provided by OECD Sigma, funded by Phare. This project essentially provides a "bridge" to the more substantive and longer-term project under the Phare 2000 National Programme. The bridging assistance has as its main goals:

- To provide assistance for drafting the secondary legislation on the basis of the policy paper and the adopted new State Financial Control Act;
- To deliver workshop and seminars for the SFC on up-to-date topics related with the introduction of the new internal financial control procedures;
- To prepare a training programme for implementation under the Phare 2000 project described in this fiche.

Meanwhile, the Bulgarian authorities have undertaken various other steps to strengthen and modernise the overall financial management system in the public sector. These efforts include:

- IMF-supported reform programme of budget expenditures, which foresees the introduction of a single account treasury system.

- The elaboration of strategic development plan for the independent National Audit Office, with assistance from OECD Sigma and sponsored by Phare. The main objectives of the strategic plan are to help the NAO develop into a modern supreme audit institution and to define clearly its scope of responsibilities. Further assistance to NAO is foreseen under the Phare 2000 programme.

### **3.3 Results**

The four components of the project will strengthen the SFC's capacity to enforce high standards of public internal financial control in the following ways:

- Component 1: Legal framework development. Following the adoption of the new State Financial Control Act and secondary legislation to be developed during the course of 2000, this project component will result in the development and implementation of a full range of tertiary legislation, audit methodologies, manuals and guidance.
- Component 2: Developing management capacity and administrative structures. This project component will support SFC in the practical implementation of the restructuring undertaken by SFC so that its resources are deployed to install the internal auditors in the government spending centers and to optimise the organisation's effectiveness. The component will also provide improved coordination between SFC and the NAO, in order to achieve higher overall standards of public financial control.
- Component 3: Human resources development. This project component will enhance the professional standards and general competencies of management and staff at SFC headquarters, regional offices and in Internal Audit Units in government spending centres, thereby enabling them to implement effectively the new legal framework and methodologies for internal financial control.
- Component 4: Information technology. This project component will improve the effectiveness of SFC through the installation of new wide area network (WAN) systems and the provision of associated training to use the network.

### **3.4 Activities**

The project has four components. The first three components will be delivered using twinning. The fourth component will be delivered using a separate supply contract, supervised by the twinning partner.

#### Component 1: Legal framework development

Preparation and development of tertiary legislation; design and implementation of financial control procedures and methodologies; implementation of modern audit techniques (including systems audit, compliance tests, performance audit, information technologies audit); preparation of guidance manuals to enable the new approach to internal financial control to be applied and enforced.

#### Component 2: Developing management capacity and administrative structures

This component aims at the strengthening of the management capacity and administrative structures of the SFC to implement the restructuring of the organization in terms of the new functions under the SFC law. The efforts include possible improvements in the institutional relationships between SFC, its regional audit offices and Internal Audit Units in government spending centres. Assistance will be given for restructuring the administrative structures in order to produce a system that effectively delivers high standards of internal financial control, in line with the new legal framework

#### Component 3: Human resources development

Develop and implement an extensive and practically-oriented training programme for managers and staff of SFC headquarters, regional offices and Internal Audit Units, to equip them to deliver effectively the new approach to internal financial control and apply modern techniques of audit and control. The training programme will take place principally in Bulgaria and will include carefully focused overseas study trips for key personnel.

#### Component 4: Development and installation information technology

Procurement and installation of hardware and software for wide area network (WAN) system, including training personnel to operate the new system. The twinning partner will be responsible for assisting in drafting the terms of reference for the procurement of the new system, while the supply and installation of the system, and post-installation training, will be covered by a separately supply contract.

#### 4. Institutional Framework

The beneficiary of the project is SFC of the Ministry of Finance. The project leader will be Mr T Tsvetkov, Head of SFC, who will be responsible for the overall coordination of project implementation.

SFC will establish a Steering Committee in order to monitor and assist project implementation. The Steering Committee will be chaired by the Head of SFC and its members will be selected in consultation with the EU Delegation. The committee will meet regularly during the project.

SFC will provide the twinning partner with the necessary staff, equipment and other resources) to deliver the project results, including open access to SFC senior management. SFC will also ensure any necessary participation of staff from other departments.

The twinner has to foresee certain amount for translation of regulations, manuals and guidelines under component 1 and for interpretation facilities for the training under component 3.

#### 5. Detailed Budget (million euro)

	Phare Support					
	Investment Support	Institution Building	Total Phare (=INV+IB)	National Cofinancing	IFI	Total
Twinning		1.5	1.5	0	n/a	1.5
Investment contract	0.5		0.5	0	n/a	0.5
<b>Total</b>	0.5	1.5	2.0	0	n/a	2.0

#### 6. Implementation Arrangements

##### 6.1 Implementing Agency

The Implementing Agency is the Central Contracting & Finance Unit in the Ministry of Finance. Purchases of equipment are subject to the standard tendering procedure under the Phare DIS manual.

##### 6.2 Twinning

The project will be implemented through twinning. Member States interested in making a twinning proposal should contact Mr Tzvetan Tzvetkov, Head of SFC, Ministry of Finance, 2 Lege Str, Sofia 1000, Bulgaria (Tel (+3592) 88 03 91, Fax (+3592) 981 50 42).

The Member States(s) delivering the twinning will ideally provide the following expertise:

##### Pre-accession adviser

- Extensive experience in project management;
- At least 4-5 years of experience in public internal financial control;
- Good knowledge of European and international public internal financial control and audit issues and standards;
- Good knowledge of EU regulations in the financial control;
- Good interpersonal and communication skills. Capability to work in team.

The pre-accession adviser will coordinate the work of the foreign experts under the different components and be responsible for the successful implementation of the project. One local coordinator will assist the pre-accession adviser. Secretarial support and interpretation is recommended.

#### Project Leader

The Project Leader will have overall management of the inputs of the member state(s). (S)he must have good leadership skills and a broad knowledge of policies and processes in the area of internal financial control, including the control of EU funds. The Project Leader is expected to devote a minimum of 3 days per month to the project, including one visit every 3 months.

## Short-term experts

Component 1: Experts with relevant EU financial control and legal experience are required to deliver this component.

Component 2: Experts with experience of designing and implementing management and organisational change in a similar context are required to deliver this component, including human resources development experts.

Component 3: Experts who can convey in an accessible and practical manner modern audit and financial control skills are required to deliver this component. They will use a varied selection of teaching modes, including seminars, workshops, case studies and, overseas study trips.

Component 4: Experts in IT software, hardware and WAN procurement are required to design the terms of reference for the procurement and supervise the delivery of this component under the separate supply contract.

In the event that no suitable twinning proposal is forthcoming, the project will instead be implemented through conventional technical assistance.

### 6.3 Non-standard aspects

None.

### 6.4 Contracts

There will be two separate contracts. The first (a twinning covenant) will cover the twinning element (up to 1.5 million euro) and the second contract will cover the supply and installation of IT equipment (up to 0.5 million euro).

## **7. Implementation Schedule**

### 7.1 Start of tendering

Fourth quarter of year 2000

### 7.2 Start of project activity

First quarter of year 2001

### 7.3 Project Completion

Final quarter of 2003

## **8. Equal Opportunity**

Opportunities for participation in the project are open to both female and male candidates.



## **9. Conditionality and sequencing**

The project will build upon previous Phare experience in this area (see section 3.4 above). The following conditionality will apply:

- The Government will remain committed to implementing the Policy Paper on Public Internal Financial Control endorsed by the Minister of Finance in February 2000.
- The new State Financial Control Act will be adopted and associated secondary legislation drafted before the project commences.
- Projects to be implemented through twinning require the full commitment and participation of the senior management of the beneficiary institution. In addition to providing the twinning partner with adequate staff and other resources to operate effectively, the senior management must be whole-heartedly involved in the development and implementation of the policies and institutional change required to deliver the project results.

### **Annexes to Project Fiche**

1. Logical framework matrix
2. Detailed implementation chart
3. Contracting and disbursement schedule

### **Attachment**

1. Policy paper on Public Internal Financial Control.

## 1- Logframe Matrix Annex 1

<b>Internal Financial Control</b>	Project Number: BG 00.06.01		Date of Drafting: 6.01.2000
	Contract Period Expires: 31.12. 2002		Disbursement Period Expires: 31.12.2003
	Total Budget: 2.0 euro		Phare Contribution: 2.0 euro
<b>Wider Objectives</b>	<b>Indicators of Achievement</b>	<b>Sources of Information</b>	<b>Assumptions and Risks</b>
<ul style="list-style-type: none"> <li>To Introduce a sound system of public financial control in Bulgaria</li> <li></li> </ul>	<ul style="list-style-type: none"> <li>EC regulations</li> <li>The Policy Paper</li> </ul>	<ul style="list-style-type: none"> <li>EC Regular report on Bulgaria</li> <li>Synopsis</li> <li>SFC's reports</li> <li>DG Audit mission reports</li> </ul>	<ul style="list-style-type: none"> <li>Strong commitment of the government</li> <li>Logical continuation of previous achievements</li> </ul>
<b>Immediate Objectives</b>	<b>Indicators of Achievement</b>	<b>Sources of Information</b>	<b>Assumptions and Risks</b>
<ul style="list-style-type: none"> <li>-</li> <li>To strengthen the system of public internal financial control by enhancing the capacity of SFC of the MoF and Internal auditors in government spending centers, and developing the legal framework for financial control.</li> </ul>	<ul style="list-style-type: none"> <li>Functioning Internal financial control system in the SFC,</li> </ul>	<ul style="list-style-type: none"> <li>Reports of the SFC</li> <li>EC Regular report on Bulgaria</li> <li>Synopsis</li> <li>DG Audit mission reports</li> </ul>	<ul style="list-style-type: none"> <li>Continuos support of SFC for the reforms from the hierarchy</li> <li>Full commitment and participation of the senior management</li> <li>Possible lay off of personnel</li> </ul>

Outputs	Indicators of Achievement	Sources of information	Assumptions and Risks
<p><u>Component 1:</u></p> <ul style="list-style-type: none"> <li>• Development and implementation of full range of tertiary legislation, audit methodologies, audit trail, manuals and guidance.</li> </ul> <p><u>Component 2:</u></p> <ul style="list-style-type: none"> <li>• Improved structure of the SFC,</li> <li>• its Regional Audit Offices and</li> <li>• Installed internal auditor's network in government spending centres</li> </ul> <p><u>Component 3:</u></p> <ul style="list-style-type: none"> <li>• Enhanced professional standards and general competencies of staff and management.</li> </ul> <p><u>Component 4:</u></p> <ul style="list-style-type: none"> <li>• Procured hardware, cables, software, etc., and installed WAN.</li> <li>• Trained personnel to operate the system.</li> <li>•</li> </ul>	<p><u>Component 1:</u></p> <ul style="list-style-type: none"> <li>• Adopted tertiary legislation</li> <li>• methodology in place</li> <li>• manuals and instruction books in place</li> <li>• Number of staff trained</li> </ul> <p><u>Component 2:</u></p> <ul style="list-style-type: none"> <li>• Installed new structure in the SFC, its RAOs and government spending centres.</li> </ul> <p><u>Component 3:</u></p> <ul style="list-style-type: none"> <li>• Delivered training seminars, workshops and study tours</li> </ul> <p><u>Component 4:</u></p> <ul style="list-style-type: none"> <li>• Delivered hardware, software, cables, etc.</li> <li>• Installed WAN</li> <li>• Delivered training</li> <li>•</li> </ul>	<p><u>Component 1:</u></p> <ul style="list-style-type: none"> <li>• The legislative acts</li> <li>• Manuals</li> <li>• SFC instructions</li> <li>• SFC's reports</li> </ul> <p><u>Component 2:</u></p> <ul style="list-style-type: none"> <li>• New Law on State Financial Control</li> <li>• The Implementing regulations of the Law on the State Financial Control</li> </ul> <p><u>Component 3:</u></p> <ul style="list-style-type: none"> <li>• the training program</li> <li>• SFC's report on delivered training and study tours</li> </ul> <p><u>Component 4:</u></p> <ul style="list-style-type: none"> <li>• Procurement dossiers</li> <li>• Contracts, invoices</li> <li>• SFC's report</li> </ul>	<ul style="list-style-type: none"> <li>• Adopted primary and secondary legislation</li> <li>• Delays in the adoption of the primary and the secondary legislation</li> <li>• Continuity of previous achievements</li> <li>• Developed training program under Sigma bridging project</li> <li>• Possible delays in tendering and procurement</li> </ul>

Inputs	Indicators of Achievement	Sources of information	Assumptions and Risks
<p><u>From the Bulgarian side</u></p> <ul style="list-style-type: none"> <li>• . (Counterparts, Administrative and logistical support.</li> </ul> <p><u>From the twinner's side:</u></p> <p>Twinning covenant with:</p> <ul style="list-style-type: none"> <li>• Pre-accession adviser, project leader, expertise and procurement monitoring.</li> <li>• </li> <li>• <sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Twinning covenant in force</li> </ul>	<ul style="list-style-type: none"> <li>• Phare expert reports</li> <li>• SFC's reports</li> <li>• Contracts, invoices</li> </ul>	<ul style="list-style-type: none"> <li>• Delays in the start and implementation of the twinning covenant.</li> <li>• Logical continuation of previous achievements under Phare projects in the field</li> </ul>

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<sup>1</sup> Equipment and software will be contracted separately by CFCU.

## 2- Detailed implementation chart

[illegible]

**3a- Cumulative Contracting Schedule for the Project (MEUR)**

	4Q /00	1Q /01	2Q /01	3Q /01	4Q /01	1Q /02	2Q /02	3Q /02	4Q /02	1Q /03	2Q /03	3Q /03	4Q /03
Contract 1 Twinning covenant	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Contract 2 Investment			0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5

**3b Cumulative Quarterly Disbursement Schedule (MEUR)**

	4Q /00	1Q /01	2Q /01	3Q /01	4Q /01	1Q /02	2Q /02	3Q /02	4Q /02	1Q /03	2Q /03	3Q /03	4Q /03
Contract 1 Twinning covenant		0.1	0.3	0.4	0.6	0.7	0.9	1.0	1.2	1.3	1.5	1.5	1.5
Contract 2 Investment			0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5