

NEWSLETTER TWINNING MACEDONIA – February 2011 - 1

Pre-Twinning Workshop

On January 13th 2011 there was an expert kick off meeting in The Hague. This meeting marked the start of the Twinning Project "MK08/IB/FI/02 - Supporting the Process of Fiscal Decentralization through Strengthening the Capacities for Sound Financial Management and Internal Control on Local and Central Level" in the Netherlands. All experts that were, are or are to be involved in respectively the previous Twinning project, the current MATRA-project and/or this (upcoming) Twinning project, were invited. In this Twinning project the National Academy for Finance and Economics cooperates with VNG International (VNGi). Project managers and experts from VNGi were also present at this meeting.



Peter VAN DEN BERG, Budget Director / Deputy Director General of the State Budget from the Dutch Ministry of Finance, opened the meeting and gave a special welcome to our guests from Macedonia and from Brussels.

Jos NOUWT, the Dutch project leader of the Twinning project(s), made us acquainted with some cultural differences between the Dutch and Macedonian situation. He Shared his personal commitment to this job and this project.

Trajko SPASOVSKI, head of the PIFC Department and the Macedonian project leader, gave us insight into the work that has been done so far via a vivid presentation: the struggles it took and the



successes that have been reached. He also showed what he is aiming for now.



Robert GIELISSE, head of DG Budget from the European Commission, explained us the view Brussels has on the implementation of PIFC within Macedonia. He emphasized that the formal regulation might be in place but the biggest challenge is to really work accordingly in practice.

Then Joyce TEUNISSEN, RTA of the Twinning project, gave a brief overview on the activities in this project and explicitly mentioned the three pillars of this project: involvement of the (top)management, sustainability and practice³; the project should address the practical change in the real day-to-day work.



Now it was time for the Dutch experts to respond, with questions and remarks. Some of them were content related (e.g. finances of the municipalities, stimulation of the implementation of PIFC within institutions), others were process related (e.g. how to stay in touch with the project and how to maintain consistency of activities during the project lifetime).

It was agreed that it is very important to make sure the experts are up-to-date considering the status of the project and the results of activities. A newsletter will be prepared periodically to inform the experts about the latest and upcoming activities.

This newsletter is the first. The slides of the presentations from this meeting are added as Annex to this newsletter. Also a brief introduction to the project and an overview of the activities are annexed.

Bas VERBERNE, Coordinator Foreign Affairs and Training for the Dutch National Academy for Finance and Economics, closed the formal part of the meeting. He introduced Suzan OUWERKERK as project manager on behalf of the Academy and Anne VAN AMERONGEN and Martina SIEUWERTS as the Dutch back-office of the Twinning project. Then he opened the informal part: the drinks and snacks.

The Twinning Team looks back at this gathering as a successful pre-start of the project. The enthusiasm and critical constructive notes of all were highly appreciated. We thank you in advance for all your activities in this upcoming project.

We look forward to seeing you soon in Skopje. 😊

Upcoming activities

The following activities are foreseen in March:

1.3.7.1.4 Awareness session PIFC for stakeholders

As part of this activity a workshop will be organized for the Budget, Treasury and PIFC department to find out how the current processes within the Ministry of Finance function. The result will be recommendations for the Minister of Finance to mutually further improve the linked processes of these departments where they touch the work of each. It will be facilitated by Marco LAAR and Jos NOUWT.

The workshop will take place on the 8th of March and the morning of March, 9.

In a meeting in Skopje, with the presence of Trajko, Jos, Marija, Joyce, Werner and Natalija, this activity was discussed and agreed upon. Then Marco was asked for this activity and a proposed date was set. Trajko checked the availability and willingness of the heads of the departments Budget and Treasury. Trajko will prepare a formal invitation.

1.1.2 Indication on the scope of competences and tasks of the PIFC Department, the PIFC related committees as well as the scope of tasks delegated to the State Audit Office

One of the first activities Joyce TEUNISSEN will undertake is the stock taking of the involved parties within PIFC and their roles. She will do this in close cooperation with colleagues from the PIFC Department. Most of this information is already known within this department.

2.1.0 Training Needs Analysis Municipalities

One of the first activities Werner DEENEN will undertake, in cooperation with Marija and Joyce, is the development of a questionnaire for the heads and employees of the financial affairs units and internal audit units of the municipalities. We want to find out in more detail what their needs are considering the training on financial management and internal audit. It will help the trainers to be able to make a tailor made training as much as possible for this specific audience.

1.1.1.4 Analysis of the current situation regarding successes and weaknesses by performing in depth research at all levels of the institutions (audit style)

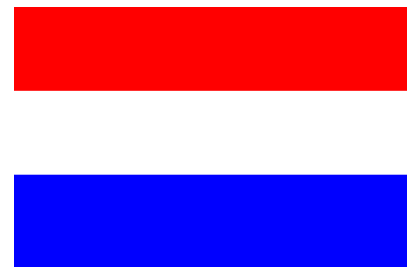
This activity is important to get input for the strategy to be prepared in the beginning of this Twinning-project. Some might be aware of the PIFC concept, some not. What makes the difference? Should they be treated differently in the further steps of implementation? In this analysis questions will be asked to employees and managers from different levels and different departments within 9 institutions, to find out the story behind the figures. The results per institution will be treated anonymous. This activity will result in a report with general conclusions about the current situation that can have and are likely to have its influences on the implementation strategy.

This analysis will be performed by Manfred VAN KESTEREN, Eppe BEIMERS and Werner DEENEN together with colleagues from the PIFC Department. We expect the experts to come to Skopje for this activity in the week of 21st – 25th of March and 11th – 15th of April. Arjan VOS will join the team in the second week of this activity.

Postponed are the activities **1.1.1.1**, **1.1.1.2** and **1.1.1.3**.

Names and numbers of the Twinning Team

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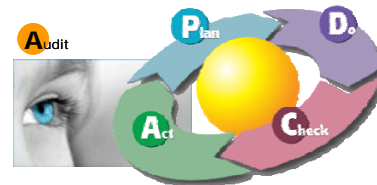


Strengthening Sound Financial Management and Control Systems

Supporting the Process of Fiscal Decentralisation through Strengthening the Capacities for Sound Financial Management and Internal Financial Control on Local and Central Level
MK2008/IB/FI/02

The concept of Public Internal Financial Control (PIFC) is developed by the European Commission in order to provide a structured and operational model that will assist national governments in redesigning their internal control environment and in particular to improve their control system in the public sector in line with international standards and EU best practices.

PIFC covers financial management and control, internal audit and their harmonization.



The process of strengthening the system of PIFC according the requirements of the Acquis Communautaire on building modern systems of internal control in the public sector in the Republic of Macedonia is being implemented through the development and application of the principles of decentralized responsibility of management (managerial accountability) and the establishment of functionally independent internal audit. The objective of this process is building a system that will ensure reasonable assurance that public funds are used for the intended purpose and in accordance with the principles of sound financial management: transparency, economy, effectiveness and efficiency.

The legal framework of PIFC is governed by the Public Internal Financial Control Law and secondary regulations for financial management and control and internal audit. The new PIFC Law (see <http://finance.gov.mk/node/972>) was adopted in July 2009. According to the new PIFC law all bodies at the level of central administration, and all municipalities, need to establish Internal Audit (IA) Units/functions and Financial Affairs Units (FAU). In practice PIFC is more a change in organizational culture than in structure. It supposes an environment based on trust. Well organized, unique procedures and control systems, checks and balances based on risk management can help to create a modern and efficient organizational model for the government.

Twinning Objectives

The overall objective of the Twinning is to contribute to a strengthened central and local administrative capacity to appropriately implement the decentralization process by strengthening sound financial management and control systems.

More in detail the objectives are:

- On central level
 - Further developed detailed strategy for development of PIFC systems including financial management and control systems and functionally independent internal audit units
 - Developed and elaborated Action Plan/Road Map for the implementation of the Strategy, with specific milestones and the most urgent pilot activities are implemented
 - Strengthened administrative capacities for PIFC
 - Strengthened administrative capacities for internal audit
 - Improved coordination between the actors at all levels
 - Developed and implemented comprehensive training plan

- On local level
 - Strengthened capacities of the structure responsible for establishing and running FMC in municipalities
 - Established documented procedures for financial management and control systems in the institutions at local level
 - Developed and implemented comprehensive training plan/curricula covering – inter alia – awareness raising activities for senior management on the implications of PIFC, tasks related to setting up and running FMC systems, and setting up internal audit units and how internal audit functions
 - Improved financial management and control practices
 - FMC and IA units established and functioning according to the law
 - Enhanced inter-municipal cooperation in the area of IA and in FMC developed

Pillars

This Twinning has three pillars, explicitly chosen in good dialogue within the Twinning team. Every activity of this project will pay special attention to:

- *Management*
how to get and maintain their commitment and involvement of the management
- *Sustainability*
co-operation with Macedonian co-trainers (from the PIFC-department and from one of the involved institutions)
- *Practice, practice, practice*
share examples, lessons learnt, exercise with the trained (theoretical) subjects in practice and focus on the implementation (from paper to practice)



Target group

In the former Twinning project on PIFC (2007-2009) and the MATRA project twenty five central institutions were already involved. Now 65 new institutions will be involved, on central and on local level. The staff of the additional twenty five central institutions and forty municipalities will be trained at various levels: State Secretaries, directors, heads and staff of financial affair units, heads and staff of internal audit units.

The project runs from February 2011, has a budget of EUR 1,34 million and lasts 24 months.

List of additional 25 Institutions at central level

State Office of Industrial Property	Intelligence Agency	Civil Aviation Agency
Directorate for Personal Data Protection	State Commission for Prevention of Corruption	Bureau for Development of Education
Crises Management Centre	State Election Commission	National Agency for European Education Programme and Mobility
Commodity Reserves Agency	Secretariat for European Affairs	Youth and Sport Agency
State Attorney	Secretariat for Implementation of Framework Agreement	Emigration Agency
Hydro Meteorological Directorate	Directorate for Execution of Sanctions	State Archives
Agency for Promoting the Development of the Agriculture	Directorate for Financial Police	Bureau for Regional Development
Agency for Financial Support of	Agency for Foreign Investments	The Ombudsman

Agriculture and Rural Development		
The President		

List of 40 Municipalities

Municipality of Bitola	Municipality of Delcevo	Municipality of Kumanovo	Municipality of Sveti Nikole	Municipality of Gazi Baba
Municipality of Bogovinje	Municipality of Ilinden	Municipality of Lipkovo	Municipality of Struga	Municipality of Gjorce Petrov
Municipality of Valandovo	Municipality of Jagunovce	Municipality of Makedonski Brod	Municipality of Strumica	Municipality of Karposh
Municipality of Veles	Municipality of Kavadarci	Municipality of Negotino	Municipality of Tearce	Municipality of Kisela Voda
Municipality of Vinica	Municipality of Kicevo	Municipality of Ohrid	Municipality of Tetovo	Municipality of Saraj
Municipality of Gevgelija	Municipality of Kocani	Municipality of Prilep	Municipality of Stip	Municipality of Centar
Municipality of Gostivar	Municipality of Kratovo	Municipality of Radovis	Municipality of Aerodrom	Municipality of Cair
Municipality of Debar	Municipality of Kriva Palanka	Municipality of Resen	Municipality of Butel	City of Skopje

List of 25 Pilot Institutions from the first Twinning project and the MATRA project

Ministry of Finance	Pension and Disability Insurance Fund	Ministry of Economy
Customs Office	Parliament	Ministry of Local Self-government
Public Revenue Office	General Secretariat of the Government	Ministry of Information Society
Ministry of Culture	Ministry of Defense	Health Insurance Fund
Ministry of Education and Science	Ministry of Interior	Agency for National Roads
Ministry of Transport and Communications	Ministry of Foreign Affairs	Employment Agency
Ministry of Agriculture, Forestry and Water Economy	Ministry of Justice	State Statistical Office
Ministry of Labor and Social Policy	Ministry of Health	Agency for Real Estate and Cadastre
Ministry of Environment and Physical Planning		

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Editor: the Twinning Team

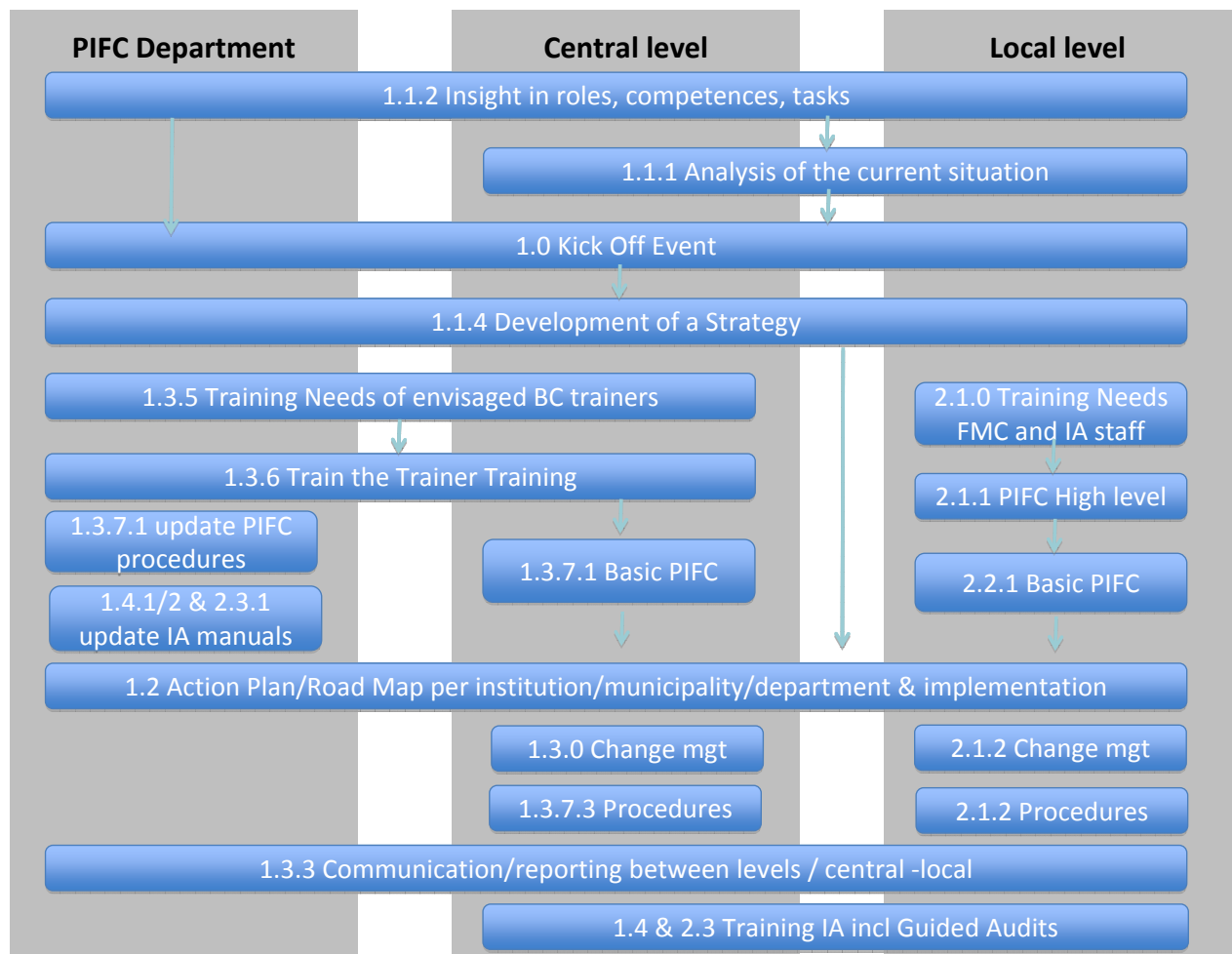
Twinning PIFC Macedonia – Summary of the Activities

Insight -> Strategy

This project starts with activities that help to get insight into the current situation of the implementation of PIFC, within the Ministry of Finance and within the involved institutions and municipalities in the Twinning. This will be done via interviews, workshops and an audit-like in-depth analysis (activities 1.1.1 and 1.1.2). These first activities result in a general insight that is needed to develop the strategy for (further) implementation of PIFC in Macedonia (activity 1.1.4).

Sustainability

In total about 40 Macedonian colleagues from the PIFC department and from the involved institutions will be trained to be a trainer on the PIFC-subjects (activities 1.3.5, 1.3.6). They will be the co-trainers of the Dutch experts that are responsible for the activities.



Basic knowledge of PIFC (focus on Financial Management) -> Action Plan

In Macedonia not every institution or municipality has to take the same steps/road to implement PIFC, to strengthen the capacities for sound financial management and internal control. Therefore after the strategy is set the next step is facilitating the preparation of an action plan per institution (activity 1.2).

In order to make sure the involved managers of the institutions and municipalities are capable to prepare this action plan themselves or to steer such a process within their institutions, they will be trained in the basic principles of PIFC (activities 1.3.7.1, 2.1.1 and 2.2.1).

Change management -> implementation of procedures, communication

One of the three pillars of this Twinning is practice, practice, practice. To bring PIFC from

paper to practice, knowledge of change management is needed or (almost) a prerequisite. Therefore a training of change management is foreseen for the both levels: central and local (activities 1.3.0 and 2.1.2).

Implementation of PIFC will ask for new, streamlined procedures within each institution.

Training is foreseen in developing such procedures (activities 1.3.7.3 and 2.1.2). Change management will help to bring these procedures to practice.

Change management will contribute in implementing the communication and reporting model that will be developed in dialogue with the Ministry of Finance, the Ministry of Local Self Government and the municipalities (activity 1.3.3). The model is about how to make sure these two Ministries and all municipalities are aware of the central and local situation considering the implementation of PIFC.

Internal Audit -> Insight

In this project auditors on central and local level will be trained (activities 1.4 and 2.3). One of the activities is the guided audit, where Macedonian auditors perform an audit within a small team, guided by Dutch and Macedonian audit experts. These audits may give an insight on (part of) the implementation of PIFC and may show the involved managers the added value of audits.