

Standard Summary Project Fiche – IPA centralised programmes

Project number 35: Further support for implementation of DIS

1 BASIC INFORMATION

- 1.1 CRIS Number:** 2008/020-406
- 1.2 Title:** Further support for implementation of DIS
- 1.3 ELARG statistical code:** 03.32
- 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 main beneficiaries of the project shall be: the NIPAC and the NIPAC Secretariat, the National Authorising officer and the NAO staff, including the National Fund, the Competent Accrediting Officer and his/her staff and the institutions and bodies involved in the implementation of the Decentralised Implementation System in Serbia.

As the project is implemented under a centralised system, there will be no Senior Programme Officer appointed in the Serbian Administration.

Yet, the National Authorising Officer (NAO) will be the main project partner and a Steering Committee will be established to ensure the supervision of the project in close cooperation with the EC Delegation.

The Steering Committee shall be chaired by the NAO and include as a minimum: representatives of: the EC Delegation, the National IPA Coordinator (NIPAC), the Competent Accrediting Officer, the Public Internal Financial Control authorities (e.g. the Central Harmonising Unit - CHU).

Additional members / representatives might be agreed upon ad-hoc. The NAO shall ensure the organisation of the Steering Committee regular meetings (minimum one meeting every three months), the documentation of meetings (agenda, minutes) and the follow-up to the Steering Committee decisions.

Financing:

- 1.8 Overall cost:** 3.450.000 EUR
- 1.9 EU contribution:** 2.450.000 EUR
- 1.10 Final date for contracting:** 3 years after signature of the Financing Agreement
- 1.11 Final date for execution of contracts:** 5 years after signature of 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:

To support the Government of Serbia in developing its administrative and technical capacities in relation to the management of the Instrument for the Pre-Accession (IPA) under a Decentralised Implementation System (DIS) in order to strengthen the Serbian absorption capacities.

2.2 Project purpose:

- To assist the key players involved in the management of IPA components to actually implement the Decentralised Implementation System and demonstrate absorption capacities,
- To prepare the Serbian Government to manage the IPA components which would be made available to Serbia once the candidate country status is obtained (i.e. IPA III Regional Development, IPA IV Human resources). [It is assumed that IPA V Rural Development (IPARD) would be the subject of a specific project fiche]
- To prepare and implement the DIS roadmaps for IPA III and IPA IV and implement the related stages of accreditation, i.e.:
 - Stage 0 – Establishment of the Management and Control System
 - Stage 1 – Gap Assessment shall be carried out of the remits of this Project Fiche
 - Stage 2 – DIS Preparation (“Gap plugging”)
 - Stage 3 – Compliance Assessment
 - Stage 4 – National Accreditation and submission of the DIS application

2.3 Link with AP / NPAA / EP / SAA

One of the main objectives of the Instrument for pre-accession is the progressive alignment of the beneficiary countries with the standards and policies of the EU. Pre-accession Assistance under the IPA is provided in accordance with the general policy framework for pre-accession defined by the European and Accession partnership and taking into account the reports and strategy paper comprised in the enlargement package of the EC. It must also be mentioned that the IPA sets the ground for Structural and Cohesion Funds. The IPA shall help Serbia facing the challenges of the European integration, to implement the reforms to fulfil EU requirements and make progress in the Stabilisation and Association Process, focusing on the priorities identified in the Accession Partnership and European Partnerships.

Under Article 114 (Public Administration) of the SAA, Serbia must ensure the development of an efficient and accountable public administration, notably to support rule of law implementation, the proper functioning of the state institutions for the benefit of the entire population of Serbia as a whole and the smooth development of the relations between the EU and Serbia.

Horizontal issues to be dealt with in the context of setting and implementing a DIS for IPA components are directly linked to developing the public administration as well as implementing sound financial management systems and public financial control systems under the applicable international standards. Thus, while supporting the implementation and evolution of DIS in Serbia, the EC provides for support in building and enhancing capacities of the public administration at central and decentralised levels. This is of utmost importance while considering the numerous stakeholders, settings and requirements imposed by the IPA regulations.

2.4 Link with MIPD¹

It is recommended in the MIPD [§ 2.2.3.3] that programmes to be implemented in pursuit of the pre-accession Assistance Strategy for the Period 2007-2009 shall include “Technical assistance and capacity building activities to successfully implement Decentralised Implementation System.”

As mentioned in the MIPD [§1.3 Overview of past and on-going EC assistance] “*preparation for the Decentralised Implementation System (DIS)*” should begin as soon as possible. The “Pre-accession Assistance Strategy for the Period 2007-2009” reflected in § 2.1 Strategic Choices of the

¹ Multi-Annual Indicative Planning Document

MIPD reinforces the need for support to be “provided to put in place a Decentralised Implementation System to manage EC funds in the future.”

In accordance with the MIPD [Executive Summary], the IPA Component I will focus on “on the fulfilment of the Copenhagen political criteria and deals with the following sectors: democratic institutions, public administration reform, decentralisation and local government, budget and fiscal management, rule of law, reform of the judiciary, fight against corruption, reform of the police, human rights and protection of minorities, antidiscrimination, civil society, media.”

For 2007-2009, the main areas of intervention for IPA Component I are broadly grouped under three key areas: Political Requirements, Socio-economic Requirements and European Standards. “Strengthening the European integration structures (including line ministries and the parliaments), as well as corresponding structures/mechanisms for the verification of the compatibility of government policies and draft legislation with EU acquis and standards), **especially institutions dealing with Decentralised Implementation System** and improve cooperation among them.” Is part of the main priorities and objectives of the area “European Standards” [See MIPD § 2.2.3 European Standards - 2.2.3.1 Main priorities and objectives].

2.5 Link with National Development Plan (where applicable) n/a

2.6 Link with national / sectoral plans

In accordance with the document “Needs Assessment of the Republic of Serbia for the period 2007-2009”, programming, coordination and monitoring the implementation of international development assistance is one of the highest priorities. The implementation of a DIS for IPA shall have direct effects on all the stages of implementation of the project cycle since it serves to improve the systems and procedures from programming up to evaluation.

2.7 Key stakeholders

The key players of the DIS are defined in the IPA Implementing regulation² and reflected in the Annex to the Framework agreement signed between the EC and the Serbian government in November 2007 as follows:

- National IPA Coordinator [NIPAC],
- Competent Accrediting Officer [CAO],
- National Authorising Officer [NAO],
- National Fund [NF],
- Operating structure(s) by IPA component or programme [OS],
- Programme authorising officers [PAO]
- Senior programme officers [SPO]
- Audit Authority [AA]
- Strategic Coordinator [SCO] for the regional development component and the human resources development component.

3 DESCRIPTION OF PROJECT

3.1 Background and justification:

Countries candidate to accession receive from the EU so called “pre-accession” funds to support the development of their capacities to adopt the “acquis communautaire”. The four methods of management of EU funds (i.e. centralised³, decentralised⁴ management [=DIS], shared⁵

² Article 21 and Article 75 of Commission Regulation (EC) No 718/2007 of 12 June 2007 implementing Council Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance (IPA)

³ Article 53a of Council Regulation (EC, EURATOM) No 1995/2006 of 13 December 2006

⁴ Article 53c of Council Regulation (EC, EURATOM) No 1995/2006 of 13 December 2006

⁵ Article 53b of Council Regulation (EC, EURATOM) No 1995/2006 of 13 December 2006

management and joint management⁶ with international organisations) and more generally the implementation of the budget of the EU are defined in articles 53-57 of the Financial Regulation⁷.

The EC has established in July 2006 the Instrument for Pre-Accession Assistance [referred to as IPA]. The IPA replaces the 2000-2006 pre-accession financial instruments (PHARE, ISPA, SAPARD, Turkey pre-accession instrument) as well as the financial instrument for the Western Balkans: CARDS. IPA consists of five components: IPA I - Institution Building and Transition Assistance [TAIB], IPA II - Cross-Border Cooperation, IPA III - Regional Development, IPA IV - Human Resources Development and IPA V - Rural Development [IPARD].

Annexes of the Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA) divide the beneficiary countries into two categories: candidate countries⁸ [CC] which are Croatia, Turkey and the former Yugoslav Republic of Macedonia, and potential candidate countries⁹ [PCC] which are Albania, Bosnia and Herzegovina, Montenegro and Serbia¹⁰. IPA I and IPA II apply to both potential candidate and candidate countries while components III, IV and V apply only to candidate countries.

Centralised system: Serbia has benefited for years of EU assistance through the instrument CARDS. The management of CARDS has been implemented through an indirect centralised system: the European Agency for reconstruction (EAR) acting as a Contracting Authority on behalf of the EC. In 2007, the EC Delegation in Belgrade initiated its deconcentration and the IPA National Programme 2007 has been implemented under a centralised system: the EC Delegation acting as Contracting Authority.

The Deputy Prime Minister has been appointed NIPAC. The role of NIPAC Secretariat has been assigned to the Sector for Programming, Management of EU funds and Development Assistance in the Ministry of Finance, which includes the Development and Aid Coordination Unit (DACU).

The NIPAC has been the main interlocutor of the EC in relation to Programming and for the implementation of IPA National Programme 2007. Under the Decentralised system, the NIPAC must interact with other DIS key players defined in the IPA Implementing regulation¹¹ and in the Annex to the Framework agreement, i.e.:

- Competent Accrediting Officer [CAO],
- National Authorising Officer [NAO],
- National Fund [NF],
- Operating structure(s) by IPA component or programme [OS],
- Programme authorising officers [PAO]
- Senior programme officers [SPO]
- Audit Authority [AA]
- Strategic Coordinator [SCO] for the regional development component and the human resources development component.

Note: the CAO, NAO, PAO and SPOs are individuals. The NF, OS, SCO are institutions.

Decentralisation: in accordance with the IPA Implementing Regulations, “decentralised management of funds should be applied, where possible with a view to enhancing ownership of the management of assistance by the beneficiary countries¹²”. The EU regulations related to IPA were released at the same time as the set of new regulation for Structural / Cohesion Funds which profoundly modifies the rules of the EC in direct relation with systems of control of the related funds. The approach of the EU may be expressed as follows:

⁶ Article 53d of Council Regulation (EC, EURATOM) No 1995/2006 of 13 December 2006

⁷ Council Regulation No 1605/200 subsequently amended by the Council Regulation 1995/2006

⁸ Annex I of Council Regulation No 1085/2006

⁹ Annex II of Council Regulation No 1085/2006

¹⁰ Including Kosovo as defined in UNSCR 1244

¹¹ Article 21 and Article 75 of Commission Regulation (EC) No 718/2007 of 12 June 2007 implementing Council Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance (IPA)

¹² Commission Regulation (EC) No 718/2007 of 12 June 2007 implementing Council Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance (IPA) Whereas (12)

- Candidate countries and potential candidate countries must demonstrate through a “DIS accreditation exercise to obtain the conferral of management powers” their capacities to manage pre-accession funds,
- Member States must demonstrate through a “Compliance Audit” their capacities to manage Structural and Cohesion funds.

The purpose of the DIS accreditation exercise is to determine whether:

- the bodies involved in the management of IPA in Serbia have designed proper systems and procedures in order to fulfil their respective responsibilities
- that the systems they have set up:
 - fulfil the accreditation criteria listed in the Annex of the IPA Implementing Regulation¹²,
 - comply with the relevant articles of the Financial Regulation⁷,
 - are robust enough for the CAO and the NAO to grant their respective accreditation,
 - are robust enough for the EC to grant the conferral for management under a decentralised system

Before conferring the decentralised management of IPA funds to Serbia under DIS, the EC needs to gain [from the NAO and the CAO] evidence on the existence, relevance and proper operation in accordance with the rules of sound financial management of all entities / bodies / structures which would be involved in the management of IPA in Serbia.

It means that:

- The NAO and the National Fund must obtain an accreditation from the CAO [based on an audit referred to as a Compliance audit] to be allowed to manage all IPA components,
- Operating Structures [and the NIPAC for IPA component I] must obtain an accreditation from the NAO [based on an audit referred to as a Compliance audit] to be allowed to manage the IPA Components they are assigned,
- The NAO and the CAO, on the basis of the results of the Compliance audits referred to above must submit to the EC [separately for each IPA component] a request to confer on Serbia the management of aid provided under IPA on a decentralised basis. Their request(s) must be supported by an “Accreditation package”.

DIS Roadmaps: the type and level of decentralisation are different depending on the IPA Components:

- **IPA I** - Institution Building and Transition Assistance [TAIB] and **IPA II** - Cross-Border Cooperation can be first implemented under a centralised system and then be decentralised **with ex-ante** control of the EC and progressively move to decentralisation **without ex-ante** control of the EC
- **IPA III** - Regional Development and **IPA IV** - Human Resources Development are accessible only to candidate countries accredited to manage funds in a decentralised manner **with ex-ante** control of the EC **prior** to progressively moving to decentralisation **without ex-ante** control of the EC
- **IPA V** - Rural Development [IPARD] is accessible only to candidate countries accredited to manage funds from the very beginning in a decentralised manner **without ex-ante** control of the EC.

The decentralisation exercise for IPA V being very specific, it is not part of the scope of the present Project Fiche.

Managing funds under a decentralised implementation system implies to have obtained from the EC “a conferral of management” further to national accreditation exercises to be implemented through DIS roadmaps:

- A roadmap for DIS with ex-ante control of the EC
- A roadmap for DIS without ex-ante control of the EC.

In November 2007 the IPA Framework Agreement was signed between the EC and Serbia laying down (amongst other) the provisions concerning:

- the establishment of the structures and authorities needed for management and any other relevant specific bodies;
- the common responsibilities of the aforementioned structures, authorities and bodies,
- control requirements and conditions for the conferral of management powers by the Commission (including the national accreditations by the CAO and the NAO).

In connection with the implementation of the IPA National Programme 2007, Serbia has defined a roadmap to achieve DIS with ex-ante control for IPA I and IPA II. The process has been supported under the project “Support to the implementation of the management of EU funds under a Decentralised Implementation System in the Republic of Serbia” through the following stages:

- Stage 0 – Establishment of the Management and Control System
- Stage 1 – Gap Assessment shall be carried out of the remits of this Project Fiche
- Stage 2 – DIS Preparation (“Gap plugging”)
- Stage 3 – Compliance Assessment
- Stage 4 – National Accreditation and submission of the DIS application with the intention of obtaining from the EC the conferral for management under DIS with ex-ante control for **IPA I and IPA II** in Serbia. In accordance with the EC requirements:
 - Serbia must define an additional roadmap to obtain the conferral for management under DIS without ex-ante control for IPA I and IPA II,
 - The EC shall monitor the implementation of this roadmap¹³ and take due account of the results achieved in this context, in particular in the provision of assistance and in the negotiation process.

IPA III and IPA IV: Serbia expects to ultimately obtain the Candidate country status. This status would make the country eligible to assistance under IPA components:

- III - Regional Development [Transport, Environment, Competitiveness]
- IV - Human resources development and
- V - Rural development

Although accreditation to DIS is not a pre-requisite for obtaining the candidate country status or membership, accreditation to DIS with ex-ante control is mandatory prior to the signature of financing agreements for the components III and IV and without ex-ante control for component V.

This project should therefore be seen under the light of the respective and recurrent accreditation processes that Serbia has to go through and which started with the submission preparation of DIS for IPA I and II. It is also justified by the needs for strategising the absorption of funds which is a significant challenge. The administrative capacity of many Serbian institutions is not yet strong enough to enable them to adopt a strategic approach to identifying their institution building and investment priorities and preparing well-designed and clearly articulated projects to help them meet these needs. This is particularly the case where a project addresses problems that span the responsibilities of more than one institution or sector. Also, preparing investment projects has always presented a particular challenge. Investment projects often require detailed and reliable data, in-depth feasibility studies, systems design, impact analyses and other documentation.

While a series of institutional building actions were undertaken under CARDS the capacities of Serbian line ministries and state agencies remain relatively weak to meet the demands of EU funding. The capacity for identifying and preparing projects according to EU standards is low. Line Ministries and other Government Institutions involved in the IPA programming process are facing problems with the inadequate composition of documentation related to the preparation, implementation and monitoring of IPA programmes. Projects tend to be prepared without a proper feasibility (cost benefit) assessment, environmental impact assessment and with limited strategic positioning.

This project will enhance the ownership of the EU programming and managing process and increase the ability of Serbian administration to meet the standards of required by the EU.

¹³ See Art. 16 of the Framework Agreement

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

Strengthening the DIS has an impact at all stages of the project cycle management. In accordance with the MIFF, Serbia's IPA Programme allocation for the years 2007 to 2009 inclusive is approx 190 million a year. The multi-annual indicative financial framework¹⁴ which presents the Commission's intentions for the allocation of funds is elaborated on the basis of a set of objectives and transparent criteria, including needs assessment, absorption capacity, respect of conditionalities and capacity of management.

Impact on coordination and programming: the absorption capacity of the Serbian administration will be increased in order to allow maximum benefit of the future assistance provided. By nature, the DIS implies the building up of an architecture based on layers of controls, lines of reporting and flow of information which is very demanding in terms of communication and coordination. It should generate a synergy among the key players and more generally within the government to ensure a maximum absorption of funds for the benefit of the country.

Impact on technical implementation and monitoring of EU funded programs: the Implementation phase is the core topic for decentralisation especially in relation to procedures for tendering, contracting and payment. Strengthening the DIS is all about developing management capacities by making the relevant and qualified staff available in sufficient number at the right level of the decentralised system to perform the activities in accordance with the most rigorous and sound management systems. The implementation of the DIS would therefore reinforce the best practices and in fact the various administrations involved.

Impact on the PIFC: the PIFC rules applicable to IPA funds are in principle not different from the rules applicable to national resources. Thus, in order to demonstrate its ability to implement internal controls, internal audit and external audit in the context of IPA Serbia has to implement the national PIFC systems under the applicable international standards. Ex-ante controls at the level of the users of the EU funds and ex-post controls to be implemented by the national audit authorities will be positively affected by the routines and procedures which would be implemented in the context of the DIS.

Public Administration Reform: the process of EU accession requires from the very beginning the existence of a reliable system of public administration which would be capable of accepting and conveying to internal participants numerous and complex requirements for harmonisation with the EU rules.

3.3 Results and measurable indicators

Results

1. Capacity of key players involved in the management of IPA components to actually implement the Decentralised Implementation System raised.
2. DIS roadmap(s) for IPA III and IV approved by the EC
3. Management and Control System for IPA III and IV fully defined
4. Gap Assessment Report for IPA III and IV prepared under the applicable standards and timely available
5. All Gaps for IPA III and IV plugged
6. Compliance audit report prepared under the applicable standards and timely available

¹⁴ Article 5 of Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA)

7. Requirements of the EC in relation to the Management Information Systems and exchange of data with the EC for the whole project cycle, i.e. Programming, Implementation (including financial management, reporting and accounting), Monitoring, Evaluation and Audit for all components of IPA developed

Measurable indicators for reviewing progress include:

- Level of implementation of the DIS roadmap(s)
- % of institutions which obtain the DIS accreditation

3. 4. Activities:

In principle, further to the implementation of the projects:

- IPA 2007 "Support to the implementation of the management of EU funds under a Decentralised Implementation System in the Republic of Serbia"
- "Supporting the process of establishment and effective functioning of the Decentralised Implementation System (DIS) of EU funds in the Republic of Serbia" (Norway bilateral support)

It is expected that by the time this project is started

- the DIS institutions required for IPA I and IPA II are established,
- the related legal framework is defined,
- the NAO and the CAO are appointed and have been made aware of their responsibilities and assigned tasks
- Stage 0 – Establishment of the Management and Control System + Stage 1 – Gap Assessment + Stage 2 – DIS Preparation ("Gap plugging") + Stage 3 – Compliance Assessment for DIS with ex-ante control for IPA I and II have been implemented to some extent.

Correspondingly, the activities to be carried out under this Project Fiche are defined as follows:

- **Activity 3.4.1:** Capacity building for the whole project cycle – propose and implement training programmes covering the Programming, Implementation, Monitoring, Evaluation and Audit, as well as training of staff in the use of Management Information System (MIS), if one has been established and operational - for all the institutions involved in DIS implementation up to the bottom level of decentralisation.
 - Ensure that the training activities are evaluated by the beneficiaries and training programmes adjusted accordingly
 - Ensure training programmes include the "Train the trainer" component
 - Ensure the training programmes include the training of Serbian Internal Auditors in relation to the role they must play in the context of IPA
- **Activity 3.4.2:** Formalise the DIS roadmap(s) for IPA III and IV in accordance with the government DIS Strategy and Action Plan
- **Activity 3.4.3:** Stage 0 – Establishment of the Management and Control System for IPA III and IV
 - Support the implementation of the Strategy and Action Plan by providing guidance [taking into account lessons learned from the most recent candidate countries] and support to the persons/ institutions assigned tasks and activities and directly handling activities assigned to external assistance,
 - Provide support in continuing the building up [i.e. re-formulation, refinement, adjustments of the regulations as needed and relevant] and implementation of the legal basis,
 - Provide support in continuing the building up of institutions, i.e. description of functions, organigrammes, job descriptions, etc...
 - Define and describe the control environment [ethics, human resources development, irregularities, lines of reporting, delegation, risk assessment and management]

- Define and describe the control activities in relation to budgeting, procurement, quality control, financial management and payments, channelling of co-financing, technical management, publicity, operational monitoring, monitoring at programme level, accounting, reconciliation, reporting, management information systems, documents management, etc...
- **Activity 3.4.4:** Stage 1 – Gap Assessment for IPA III and IV
 - Carry out:
 - On behalf of the CAO an independent audit / assessment of the NAO and NF in relation to their compliance with the EC requirements for accreditation for DIS with ex-ante control for IPA III and IV
 - On behalf of the NAO an independent audit / assessment of the relevant Operating structures to their compliance with the EC requirements for accreditation for DIS with ex-ante control for IPA III and IV
 - Draw up a report (Gap Assessment Report) based on the audit work, and taking account any relevant information referred to, which will clearly identify for each target institution and procedure the elements of non-compliance, and a recommendation (with timetable) on the actions to be taken. The report should include a table identifying all the internal control requirements and specifying the responsible services. The Gap Assessment Report shall be submitted to the CAO and the NAO and would be the subject of discussions with the EC.
- **Activity 3.4.5:** Stage 2 – DIS Preparation (“Gap plugging”) for IPA III and IV
 - Based on the Gap Assessment Report as discussed with the EC support the key players in implementing and following-up of any corrective measure which might be required to comply with the EU requirements, based on and/or could be expressed by auditors during the DIS preparation.
 - Set-up a “joint team” approach involving both the key players and any technical assistance to ensure the preparation of manuals of procedures, guidelines, check lists, etc of the key players [based on the standardisation of procedures all over the system and creating clear responsibilities and contact and crossover points between the institutions],

Note: the sets of manuals should include: descriptions of the organisation structures and organigrammes, lists of activities to be implemented over the project cycle, detailed delegation of responsibilities and authorities, control and quality assurance policies, project cycle flow-charts, communication flows and relationship diagrams, detailed instructions and guidelines for all the activities and responsibilities, audit trails providing for detailed descriptions of the step-by-step procedure or activity being carried out, the person(s) responsible for the activity, documented evidence of the supervision exercised, and the location/filing of the associated documentation, checklists and supervisory procedures (four eyes principle), standard formats.
 - Transfer the knowledge base to the key players and their related staff through formal training sessions and on-the-job training, and convey to the key players staff the understanding of: requirements of the IPA regulations, COSO approach, practices, systems, procedures, etc to be developed / improved, IPA accreditation process, tasks assigned in the Action Plan
 - Explain to the key players staff the scope of the procedures and introduce the standard forms and templates,
 - Share experience through “real life” practical cases deriving from other countries and simulation of the procedures designed and described in the manuals of procedures.
 - Support the preparation and finalisation of the accreditation packages.
- **Activity 3.4.6:** Stage 3 – Compliance Audit for DIS with ex-ante control for IPA III and IV
 - Perform a System Audit under International Audit Standards to provide:

- the CAO with an opinion on the preparedness of the National Fund and NAO to manage IPA III and IV under a decentralised implementation system with ex-ante control of the EC,
 - the NAO with an opinion on the preparedness of the Operating Structures to IPA III and IV under a decentralised implementation system with ex-ante control of the EC,
 - Draw up a report (Compliance Assessment Report or Compliance Audit Report - CAR) setting out the findings and conclusions of the audit work and giving an audit opinion which provides positive assurance that the requirements are met. The CAR may give a positive overall opinion whilst still reporting weaknesses if the auditors consider the weaknesses can be rectified over a period of time following the start of DIS implementation without creating undue risk to the regularity, legality, efficiency and effectiveness of the implementation.
The CAR shall be submitted to the CAO and the NAO and would be the subject of discussions with the EC.
- **Activity 3.4.7:** Support the implementation of corrective measures further to the Compliance Audit until the NAO and CAO are in a position to submit to the EC a request for the conferral of management under DIS with ex-ante control for IPA III and IV.

Activities related to Result 7 (co-financing provided for development of MIS):

- Technical implementation of the relevant arrangements for development of a new MIS component and establishment of interfaces with existing systems (including ISDACON, FMIS, etc...),

Contracting Arrangement:

In accordance with the EC requirements^{15 16}:

- Clear segregation shall be established between operational activities and audit activities (e.g. auditors are not entitled to audit activities they have been implementing).

Thus, **a minimum of three** distinct contracts shall be considered for this project:

- Contract 1 - One service contract to support capacity building, stage 0 of the DIS Roadmap and gap plugging activities in relation to IPA III and IV
- Contract 2 - One service contract for auditors to implement gap assessment
- Contract 3 - One service contract for auditors to perform compliance audit

3.5 Conditionality and sequencing:

- The related legal framework is defined,
- The NAO and the CAO and the man DIS other key players have been appointed
- In relation to IPA III and IV, Serbia has obtained the candidate country status

3.6 Linked activities

The following projects shall be closely coordinated with the present project in order to avoid overlapping since the respective activities – although they might seem to be similar – are actually complementary because they are not implemented at the same time and do not provide for the same type of expertise in terms of technical assistance.

Links to other IPA programmes

¹⁵ See DIS Roadmap – EC Working document

¹⁶ Article 166 of IPA Implementing Regulation

IPA 2007 project: "Support to the implementation of the management of EU funds under a Decentralised Implementation System in the Republic of Serbia" to be implemented from mid 2008 to end of 2009. The project mainly serves to define and set up DIS for IPA I and II at the earliest stages. Its purpose is:

- To assist the key players involved in the management of EU funds under a Decentralised Implementation System along the DIS accreditation process and provide them with guidance, taking into account lessons learned from other candidate countries,
- To support the various key players involved in the management of EU funds under a Decentralised Implementation System in :
 - o gaining the ownership over the actions and activities they are assigned in the strategy and action plan and to support them in implementing the related tasks,
 - o strengthening their management and implementation capacities by developing and operating sound financial management systems, and ultimately,
 - o effectively carrying out their functions and responsibilities in full compliance with the EC requirements and accreditation criteria [See Annex III – Accreditation criteria].
- To provide support to the Serbian Government in the following stages 0, 2, 3 and 4 of the roadmap to DIS accreditation [IPA I and II].

Links with CARDS programmes (ongoing and foreseen)

IPA Programming and Project Preparation Facility: support the Serbian administration in submitting to the EC project proposals under high standards of quality and handling properly the IPA programming and project preparation challenges. The purposes of the project are:

- To support the Serbian Administration during the Programming phase for IPA I – TAIB and IPA II – CBC especially in relation to the preparation of Project Fiches and all related annexes (e.g. feasibility studies, implementation plans, etc...)
- Increase ownership over the IPA programming and strengthen the capacity of public administration and beneficiaries at central and local level to prepare adequate programmes and projects.

Links to other programmes

The project "Supporting the process of establishment and effective functioning of the Decentralised Implementation System (DIS) of EU funds in the Republic of Serbia" financed by the Norwegian Government and to be implemented from April 2008 to April 2009 mainly serves to establish a complete legislative framework for DIS. This project provides for around 7 man x month of international expertise with advisory rather than operational capacities. It shall support capacity building of the key positions/institutions by:

1. Providing advice and support the process of changes of the basic legislation that would regulate the founding and functioning of institutions under DIS (based on the identified needs for legislative changes through a DIS Strategy and Action Plan)
2. Supporting the NIPAC, CAO and NAO (and their respective staff) in establishing their role and implementing /upgrading the DIS Strategy and Action Plan
3. Building capacities of relevant institutions and operational structures in the area of procurement, contracting and audit of EU funds by improving / upgrading relevant manuals of procedures, guidelines and templates,
4. Raising the level of awareness and understanding of relevant individuals and institutions on IPA funds management under DIS and preparing the grounds for the formal establishment of structures necessary for IPA.

3.7 Lessons learned

Systems of management and level of decentralisation: over the last years, the level of decentralisation expected from candidate countries by the EC has been evolving: in view of the future Structural / Cohesion funds, the DIS must be taken up to the bottom line of final beneficiaries (e.g. municipalities, local bodies, etc...) .

It must also be noted that most of the new member states have experienced difficulties in implementing the regulations issued in December 2006 in relation to Structural / Cohesion funds. Problems encountered in these countries while switching from Extended DIS [EDIS] to

demonstrating through a “Compliance Audit” their capacities to manage Structural and Cohesion funds shall be carefully considered.

Experience gained in other countries, especially after the adoption of the new EU financial regulation in 2002, should be carefully taken into account especially the main findings of the IPA verification audits performed by the Commission services in Turkey, Croatia and Macedonia.

Beneficiary country ownership and leadership: the recommendations of the Evaluation of the Assistance to Balkan Countries under CARDS Regulation 2666/2000 report identified the need to increase beneficiary ownership and support recipient institutions in Serbia to “(...) find their own way to fill the gaps towards European approximation and integration (...) with the aim of building a learning process in the recipient institutions and not just providing advice and guidelines on the *acquis* (...)”. There should be specific and diversified actions to support partners’ capacity to run consultations, draft their own visions and strategic documents, prepare projects, manage, train and motivate staff.”.

Project Cycle Management: The efficient use of EU co-funding in a country is determined by the quality of its strategic programming. The lessons of structural funding and pre-accession funding (Phare, ISPA, and SAPARD) highlight the importance of building the programming and management capabilities of administrations. This capacity building involves overall programming design, strategic and financial management, project development, project delivery as well as monitoring and evaluation.

Project pipeline: all new EU Member State and candidate countries had or have problems in developing a project pipeline capable of ensuring a steady flow of high quality projects to absorb pre-accession and post-accession support, especially when new type of assistance, such as IPA, occurs. Serbia will also need to invest significant effort to develop an IPA project pipeline.

Integration into EU policies and procedures: the latest Enlargement process has demonstrated that devolution (de-concentration, progressive de-centralisation) towards Commission delegations and national administrations of beneficiary countries of existing pre-accession instruments has been an efficient way to assist beneficiary countries on their way to accession by progressively integrating them in EU policies and by teaching them to manage EU financial aid in autonomous way as integral part of preparations for their future participation in structural funds and rural development funds after accession.

4 INDICATIVE BUDGET (AMOUNTS IN €)

			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 1.1	x		2.000.000	2.000.000	100							-
Activity 2												
contract 2.1	x		210.000	210.000	100							-
Activity 3												
contract 3.1	x		240.000	240.000	100							-
Activity 4												
contract 4.1	x		1,000,000			1,000,000	100	1,000,000				
TOTAL IB			3.450.000	2.450.000	71	1,000,000	29	1,000,000				
TOTAL INV												
TOTAL PROJECT			3.450.000	2.450.000	71	1,000,000	29	1,000,000				

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

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1	T+1Q	T+2Q	T+4Q
Contract 2	T+4Q	T+5Q	T+9Q
Contract 3	T+7Q	T+8Q	T+11Q

NOTE: It is important that the gap plugging phase is still ongoing after the compliance audit reports is submitted, so that the gap pluggers could support implementation of the corrective measures, if needed.

6 CROSS CUTTING ISSUES

Cross-cutting issues (i.e. Equal Opportunity, Environment and Minorities) are relevant for all projects to be implemented under DIS. As part of this project, systems and procedures to be developed for implementation of IPA programmes under the DIS would take into consideration all cross-cutting issues and ensure that training and awareness raising events put a particular emphasis on these issues.

ANNEX I: LOGICAL FRAMEWORK MATRIX

LOGFRAME PLANNING MATRIX FOR Project Fiche		Further support for implementation of DIS	
		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: 3.45 million EUR	IPA budget: 2.45 million EUR
OVERALL OBJECTIVE	Objectively verifiable indicators	Sources of Verification	
<ul style="list-style-type: none"> - To support the Government of Serbia in developing its administrative and technical capacities in relation to the management of the Instrument for the Pre-Accession (IPA) under a Decentralised Implementation System (DIS) in order to strengthen the Serbian absorption capacities. 	<ul style="list-style-type: none"> • % of institutions for which the conferral of management under DIS is obtained from the EC 	<ul style="list-style-type: none"> ▪ Audit reports ▪ EC decisions on conferral of management 	
SPECIFIC PROJECT PURPOSE	Objectively verifiable indicators	Sources of Verification	Assumptions
<ul style="list-style-type: none"> - To assist the key players involved in the management of IPA components to actually implement the Decentralised Implementation System and demonstrate absorption capacities, - To prepare the Serbian Government to manage the IPA components which would be made available to Serbia once the candidate country status is obtained (i.e. IPA III Regional Development, IPA IV Human resources). 	<ul style="list-style-type: none"> ▪ Percentage of auditors recommendations / corrective actions implemented ▪ % of training actions satisfactorily implemented ▪ Number of trainers prepared through the “train-the-trainers” component ▪ Level of rejection of procurement documentation / transactions submitted to the EC ▪ Level of implementation of the DIS roadmap(s) [e.g. % of actions timely implemented] ▪ Level of implementation of the DIS roadmap(s) for IPA III and IV [e.g. % of actions timely implemented] 	<ul style="list-style-type: none"> ▪ Audit reports ▪ Monitoring reports ▪ Evaluation reports ▪ Training reports / training evaluation ▪ Commission Progress Report ▪ Procurement Plans 	<ul style="list-style-type: none"> ▪ Stability in the political and administrative situation of the Serbian Government. ▪ Relevant decision makers are appointed and attach high enough importance to IPA and provide enough resources, including qualified human resources, to support the implementation of the DIS ▪ Staff is made available to benefit of the capacity building activities and to implement the DIS ▪ DIS roadmaps are approved / acknowledged by the DIS key

<p>- To prepare and implement the DIS roadmaps for IPA III and IPA IV and implement the related stages of accreditation, i.e.:</p> <ul style="list-style-type: none"> • Stage 0 – Establishment of the Management and Control System • Stage 1 – Gap Assessment shall be carried out of the remits of this Project Fiche • Stage 2 – DIS Preparation (“Gap plugging”) • Stage 3 – Compliance Assessment • Stage 4 – National Accreditation and submission of the DIS application 	<ul style="list-style-type: none"> ▪ % of the gaps identified during the Gap assessment for IPA III and IV which are plugged 		
RESULTS	Objectively verifiable indicators	Sources of Verification	Assumptions

<ol style="list-style-type: none"> 1. Capacity of key players involved in the management of IPA components to actually implement the Decentralised Implementation System raised. 2. DIS roadmap(s) for IPA III and IV approved by the EC 3. Management and Control System for IPA III and IV fully defined 4. Gap Assessment Report for IPA III and IV prepared under the applicable standards and timely available 5. All Gaps for IPA III and IV plugged 6. Compliance audit report prepared under the applicable standards and timely available 7. Requirements of the EC in relation to the Management Information Systems and exchange of data with the EC for the whole project cycle, i.e. Programming, Implementation (including financial management, reporting and accounting), Monitoring, Evaluation and Audit for all components of IPA developed 	<ul style="list-style-type: none"> ▪ Level of implementation of the DIS roadmap(s) ▪ % of institutions which obtain the DIS accreditation 	<ul style="list-style-type: none"> ▪ Audit reports / Gap assessment report / Compliance audit report ▪ Monitoring reports ▪ Commission Progress Report 	<ul style="list-style-type: none"> ▪ Auditors fully certified to perform audits under international standards are available to perform the compliance audits.
ACTIVITIES	Means	Costs	Assumptions

<p>Activity 1: Formalise the DIS roadmap(s) for IPA III and IV in accordance with the government DIS Strategy and Action Plan</p>	<p>- Contract 1 - One service contract to support capacity building and gap plugging activities in relation to IPA III and IV</p>	<p>2.0 million</p>	<ul style="list-style-type: none"> • The NAO takes the leading role and his / her authority is acknowledge by the key players who will provide all relevant documentation and support in the preparation of the requests for compliance audits • Auditors fully certified to perform audits under international standards are available to perform the compliance audits.
<p>Activity 2: Implement Stage 0 – Establishment of the Management and Control System for IPA III and IV</p>			
<p>Activity 3: Implement Stage 1 – Gap Assessment for IPA III and IV</p>	<p>- One service contract for auditors to implement gap assessment</p>	<p>0.21 million</p>	
<p>Activity 4: Implement Stage 2 – DIS Preparation (“Gap plugging”) for IPA III and IV</p>	<p>- Contract 3 - One service contract for auditors to perform compliance audit</p>	<p>0.24 million</p>	
<p>Activity 5: Stage 3 – Compliance Assessment for DIS with ex-ante control for IPA III and IV</p>	<p>- Contract 4 – national contribution</p>	<p>1.0 million</p>	
<p>Activity 6: Support the implementation of corrective measures further to the Compliance Audit</p>			
<p>Activity 7: Technical implementation of the relevant arrangements for development of a new MIS component and establishment of interfaces with existing systems (including ISDACON, FMIS, etc...),</p>			

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

(IPA contribution only)

Contracted	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Total
Contract 1.1			2,000,000									2,000,000
Contract 1.2						210,000						210,000
Contract 1.3							240,000					240,000
Cumulated			2,000,000			2,210,000	2,450,000					2,450,000

Disbursed												
Contract 1.1			200,000		450,000		450,000		450,000		450,000	2,000,000
Contract 1.2						160,000		50,000				210,000
Contract 1.3							180,000			60,000		240,000
Cumulated			200,000	200,000	650,000	810,000	1,440,000	1,490,000	1,940,000	2,000,000	2,450,000	2,450,000

ANNEX III

Description of Institutional Framework

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
Independent executives	Independent Inspector of Internal Control	Coordinator of Public Administration Reforms		
		Departments		
Tax Administration	Public Debt Administration	Treasury Administration	Customs Administration	
Tobacco Administration	Administration for Money Laundering Prevention	Gaming Administration	Foreign Currency Inspection	Free Zones Administration
Macro-economic and Fiscal Analysis Department	Budget Inspection and Audit Department	Fiscal System Department	Department for Property related Legal Affairs	Finance System Department
Customs System and Policy Department	Chamber of Appeals for Infractions Procedures	Department for International Financial Relations	Project Management Department	Public Procurement System Group

ANNEX IV Reference to laws, regulations and strategic documents:

Reference list of relevant laws and regulations

General:

- Constitution of the Republic of Serbia
- Law for the Implementation of the Constitution of the Republic of Serbia
- National Strategy for Serbia and Montenegro's Accession to the European Union
- Action Plan for the Implementation of the European Partnership
- Strategy for Development of the State Administration
- European Partnership
- SAA

Finance:

- Public Procurement Law
- Law on Accounting and Auditing
- Law on State Audit Institution
- Law on Public Debt

The following documents must be taken into account when carrying out activities under the present Terms of Reference. This list is not exhaustive and updates as well as additional documents might be considered relevant. The Consultant is required to be acquainted with this documentation before the expiry of the Inception period.

IPA

- o Council Regulation (EC) No **1085/2006** of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA)
- o Commission Regulation (EC) No **718/2007** of 12 June 2007 implementing Council Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance (IPA)
- o **Framework Agreement**
- o **Financing Agreements models**
- o **DIS Roadmap**, as proposed by EC

EU Financial regulation

- o Council Regulation (EC, EURATOM) No **1995/2006** of 13 December 2006 **amending** Regulation (EC, Euratom) No **1605/2002** on the Financial Regulation applicable to the general budget of the European Communities
- o Council Regulation (EC, Euratom) No **1605/2002** of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities
- o Commission Regulation (EC, Euratom) No **2342/2002** of 23 December 2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities
- o Commission Regulation (EC, EURATOM) No **478/2007** of 23 April 2007 amending Regulation (EC, Euratom) No 2342/2002 laying down detailed rules for the implementation

- of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities
- Commission Regulation (EC, EURATOM) No **1248/2006** of 7 August 2006 amending Regulation (EC, Euratom) No 2342/2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities
- Commission Regulation (EC, EURATOM) No **1261/2005** of 20 July 2005 amending Regulation (EC, Euratom) No 2342/2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities

Structural and Cohesion funds

- Regulation (EC) No **1080/2006** OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 5 July 2006 on the European Regional Development Fund and **repealing** Regulation (EC) No **1783/1999**
- Regulation (EC) No **1081/2006** of the European Parliament and of the Council of 5 July 2006 on the European Social Fund and **repealing** Regulation (EC) No **1784/1999**
- Regulation (EC) No **1082/2006** of the European Parliament and of the Council of 5 July 2006 on a European grouping of territorial cooperation (EGTC)
- Council Regulation (EC) No **1083/2006** of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and **repealing** Regulation (EC) No **1260/1999**
- Council Regulation (EC) No **1084/2006** of 11 July 2006 establishing a Cohesion Fund and repealing Regulation (EC) No 1164/94
- Commission Regulation (EC) No **1828/2006** of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund

Irregularities and OLAF

- Council Regulation (EC, Euratom) No **2988/95** of 18 December 1995 on the protection of the European Communities financial interests Commission Regulation (EC) No **1848/2006** of 14 December 2006 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the common agricultural policy and the organisation of an information system in this field and **repealing** Council Regulation (EEC) No **595/91**
- Commission Regulation (EC) No **2035/2005** of 12 December 2005 amending Regulation (EC) No 1681/94 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the structural policies and the organisation of an information system in this field
- Commission Regulation (EC) No **2168/2005** of 23 December 2005 amending Regulation (EC) No 1831/94 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the Cohesion Fund and the organisation of an information system in this field
- Council Regulation (Euratom, EC) No **2185/96** of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities
- Working document - Requirement to notify irregularities: practical arrangements. 19° CoCoLaF 11/04/2002
- Interinstitutional Agreement of 25 May 1999 between the European Parliament, the Council of the European Union and the Commission of the European Communities concerning internal investigations by the European Anti-fraud Office (OLAF)
- Regulation (EC) No **1073/1999** of the European Parliament and of the Council of 25 May 1999 concerning investigations conducted by the European Anti-Fraud Office (OLAF)

- Council Regulation (EURATOM) No **1074/1999** of 25 May 1999 concerning investigations conducted by the European Anti-Fraud Office (OLAF)
- Commission Decision of 28 April 1999 establishing the European Anti-fraud Office (OLAF) (notified under document number SEC(1999) 802) (1999/352/EC, ECSC, Euratom)

EU Guidelines and Manuals

- IPA Programming Guide
- Practical Guide to Contract procedures for EC external actions [PRAG]
- Framework contracts procedures
- Twinning Manuals
- EU Visibility Guidelines for external actions
- DG Regio guides and publications on Cohesion Policy 2007-13 [http://ec.europa.eu/regional_policy/sources/docoffic/working/sf2000_en.htm]
- Project Cycle Management Guidelines
- Guidance provided by the EC on Compliance audits (pre-accession funds and structural funds).

ANNEX V

Details per EU funded contract (*) where applicable:

The contractor (PIU), will be selected in accordance with the rules and procedures of the Practical Guide to Contract Procedures Financed by the General Budget of the EC in the Context of External Actions – “PRAG”

In accordance with the EC requirements^{17 18}:

- Clear segregation shall be established between operational activities and audit activities (e.g. auditors are not entitled to audit activities they have been implementing).

Thus, a minimum of three distinct contracts shall be considered for this project:

- One contract for auditors to implement gap assessments and compliance audits
- One contract to support other activities in relation to IPA III and IV (gap plugging)
- One contract for auditors to perform compliance audit

¹⁷ See DIS Roadmap – EC Working document

¹⁸ Article 166 of IPA Implementing Regulation