

Project Fiche – IPA National programmes / Component I

1 IDENTIFICATION

Project Title	Strengthening of external auditing capacities
CRIS Decision number	2013 / 024-935
Project no.	03
MIPD Sector Code	Public Administration Reform
ELARG Statistical code	01.32 - Financial control
DAC Sector code	15111 - Public finance management
Total cost (VAT excluded) ¹	EUR 2 100 000
EU contribution	EUR 2 000 000
Management mode	Decentralised
Implementing Agency	<p>The Central Finance and Contracting Unit (CFCU) within the Ministry of Finance will be the contracting authority and will be responsible for all administrative and procedural aspects of the tendering process, contracting matters and financial management, including payment of project activities. The Head of the CFCU will act as Programme Authorising Officer (PAO) of the project.</p> <p>Ms. Anila Boshnjaku (Tanku) General Director of the CFCU/ Ministry of Finance Email: atanku@minfin.gov.al Tel: 00355 4 245 1180 Address: Blvd. “Deshmoret e Kombit”, No. 3, Tirana</p>
Implementation management	<p>High State Control / Supreme Audit Institution Mr. Robert Gjini General Director tel. office +355 4 2271 454; mob. + 355 694020531; E-mail: rgjini@klsh.org.al</p> <p>Mr. Fatos Çoçoli, Director of the Department for Research, Development and IT Office Tel.: +355 2228 485; mob. + 355 686046352 E-mail: fcocoli@klsh.org.al Boulevard “Dëshmorët e Kombit” No.3, Tirana Website: www.klsh.org.al</p>
Implementing modality	Stand-alone project

¹ The total project cost should be net of VAT and/or of other taxes. Should this not be the case, clearly indicate the amount of VAT and the reasons why it is considered eligible.

Project implementation type	One twinning contract
Zone benefiting from the action(s)	Albania

2 RATIONALE

2.1 PROJECT CONTEXT: ISSUES TO BE TACKLED AND NEEDS ADDRESSED

The Albanian institutions are undertaking a programme of reforms in order to ensure the functioning of the free market economy. In this regard, auditing is one of main elements. The main institution responsible for this issue is the **High State Control (HSC) / Supreme Audit Institution**. Its activity is foreseen by the Constitution of the Republic of Albania, Articles 162-165. By Constitution, HSC is independent from the executive. It is a member of the International Organization of Supreme Audit Institutions (INTOSAI) since 1984. Its operation is based on a special law No.8270 dated 23.12.1997, amended by the law No. 8599 dated 01.06.2000. During the last decade, some efforts have been made to reform the HSC institution even though, the assistance provided from the State Budget has been limited and did not address fundamental issues in audit development.

Actually, there is a need for enforcement of administrative capacities to conduct professional audits and efficiently fight and prevent fraud and corruption. Staff audit capacity is weak and not in accordance with updated INTOSAI standards and the EU best practices.

This project aims to the consolidation of a modern HSC, able to inform the Albanian Parliament and the public regarding the accountability of government and other public entities for the management of State resources in an effective, economic and efficient manner and also promote awareness throughout the public sector in compliance with EU best practices and updated internationally recognized standards of INTOSAI. Through this project it is expected the increase of audit performance through strengthening of the institutional capacities of HSC, the enhancement of the audit capacities, by developing and implementing modern audit methodologies, developing and qualifying human resources and by using advanced auditing methods and techniques, improvement of the audit reports, methodology and also improvement of schemes for tracking HSC recommendations.

2.2 LINK WITH MIPD AND NATIONAL SECTOR STRATEGIES

The **MIPD 2011-2013** recommends that Albania has to further strengthen the application of the principles of sound financial management and implement co-ordinated and effective national policies for the prevention of corruption². Strengthened institutional capacity of HSC and increased HSC audit performance contribute to a more efficient prevention of corruption in the country. Furthermore, according to the MIPD, Albania should improve policy co-ordination and planning, better align the policy framework and multi-annual budgeting with the integration agenda, strengthen internal audit functions, inspection services and the Supreme Audit Institute.³ More professional HSC audit reports and recommendations will contribute to make economic and fiscal policies more accountable and strengthen financial control; as with specific regard to EU integration, the MIPD 2011-2013 confirms the need to

² MIPD Albania, 2011-2013, Chapter 3.2.3., Sector Objectives for EU support over next three years, p. 18-19

³ MIPD Albania, 2011-2013, Chapter 3.2.3., Sector Objectives for EU support over next three years, p. 18

continue support to European integration structures, contribute to strengthening financial control.

The **National Strategy for Development and Integration 2007-2013 (NSDI)** includes a set of operating principles to ensure that government policy, planning and implementation takes place in a coherent, efficient and integrated manner, which is directly connected with the financial management and control system⁴. A crucial part of the control system is represented by the operation of external supreme audit institution of the country, the HSC. Improving audit performance of HSC means improving country's financial control system. Furthermore, the NSDI aims at improving public financial management in line with international standards, including the areas of: macro-economic forecasting, multi-annual budget programming, fiscal discipline, the efficiency and effectiveness of public expenditure, the costing of policies, the planning of public financial investments, the transparency, efficiency and financial autonomy of local government units, the quality of reporting and the transparency of the execution of the budget, as well as the fight against illegal transactions⁵.

A sectoral strategy closely related to HSC is the Public Finance Sector Strategy 2007-2013, which clearly recognises the importance for Albania of moving closer to international standards and the best practices in PIFC / FMC applied by EU member states. Thereby, improving the efficiency and transparency of the use of taxpayers' money, as well as strengthening the accountability of the state administration are receiving special attention. In this context, the implementation of the new law on Financial Management and Control will demand a significant change in the management of public policies and institutions, and require strong financial and institutional support, if it is to deliver the desired objectives. The role of HSC in supporting PIFC and FMC practices is important.

2.3 LINK WITH ACCESSION PARTNERSHIP (AP) / EUROPEAN PARTNERSHIP (EP) / STABILISATION AND ASSOCIATION AGREEMENT (SAA) / ANNUAL PROGRESS REPORT

Article 90 of the **Association and Stabilization Agreement** provides that "the Cooperation between the Parties with focus in priority areas concerning the EU Acquis in the field of public internal financial control (PIFC) and external audit. The Parties cooperate especially to develop an efficient system of PFIC and external audit systems in Albania, in compliance with standards and methodologies accepted by the international community as well as the best EU practices". Improving and enhancing HSC audit capacities contribute directly to efficient external audit systems in the country.

Article 111 provides that "Cooperation between the Parties shall aim at ensuring the development of an efficient and responsible Public Administration in Albania, notably to support the implementation of the rule of law, the proper functioning of state institutions for the benefit of the population as a whole and development relations between the EU and Albania. Cooperation in this area will mainly focus on institution building, including development and implementation of transparent and impartial recruitment, human resource management, career development in public service, continuing training and promotion of ethics in public administration and electronic government. Cooperation includes both the central and local administration."

⁴ NSDI 2007-2013, *Modernisation of Administration*, p. 39

⁵ NSDI 2007-2013, *Modernisation of Administration*, p. 40

The **EC Progress Report 2012** on Albania⁶ indicates that: “There has been progress in the area of external audit. A new Chairman of the Supreme State Audit Institution (SAI/HSC) was appointed by Parliament in December 2011. After some years of standstill, the draft amendments to the Law on the SAI to bring it fully in line with the standards of the International Organisation of Supreme Audit Institutions (INTOSAI) have been prepared and have been submitted to the adoption procedure. The SAI conducts all the main types of audits but inspection-type regularity/compliance audits still make up the vast majority of its audits (around 90% in 2011). Training of SAI auditors during 2011 has been limited. Whereas there is evidence of greater acceptance of SAI’s recommendations by auditors, the efficiency of the parliamentary follow-up to SAI’s audit reports has to be improved“. The conclusion of the Progress Report is that there is need for “alignment of external audit to INTOSAI standards”.

2.4 PROBLEM ANALYSIS

Some reforms have been undertaken by the Albanian Government on auditing but more efforts are needed especially in improving and implementing the legal framework.

A revision of the relevant legislation is needed. The amendments of HSC law, prepared with the assistance of EC DG Budget and SIGMA, clearly define objectives, scope, mission, the rights and responsibilities of HSC. In November 2012, legal amendments were discussed in a series of meetings with members of Parliament; furthermore roundtables have been held with well-known legal experts, academicians, pedagogues from the Faculties of Jurisprudence and Economics of the State University of Tirana, financial experts, chartered accountants, civil society associations and media. The amendments are key indicators to a rapid development and elimination of present backwardness of HSC, bringing the institution closer to INTOSAI standards. The implementation of new amendments requires assistance from EU member countries with specialized experts in external supreme public audit. After these discussions HSC has sent to the Parliament the draft amendments in late November 2012. The new law is expecting to be approved within 2013.

On the other side, HSC is preparing its Strategic Development Plan for the period 2013-2016, aiming to deepening the fight against corruption and modernization of audit work in full alignment with INTOSAI standards. These strategic objectives need to be fully addressed and the support of IPA 2013 twinning project is seen as fundamental tool for their achievement.

More specifically, the implementation of the new law and the Strategic Development Plan 2013-2016 will increase the performance on auditing, especially facing the actual problems such as:

- General lack of capacity for implementing the new legislative structure resulting from the adoption of amendments to the existing HSC law;
- Insufficient quality of audits;
- Inadequate audit procedures;
- Lack of using contemporary methods and techniques in auditing;
- Lack of credibility of auditing function and unsatisfactory level of public trust to this function;
- Insufficient knowledge on anti-fraud and anti-corruption audit;
- Lack of competent trainers; high auditing administrative cost;

⁶ *EC Progress Report 2012 on Albania, p. 66*

- Lack of specialized IT audits and insufficient level of auditing knowledge on budget management system and accounting.

The project will aim to improve HSC institutional capacity through:

- Building effective organizational schemes;
- Increase the level of staff qualification, by assessing training needs for auditors;
- Designing and implementing training programs to update their knowledge on auditing, public finance, accounting, law and other relevant knowledge needed to complete the audit process finalized with certification and better classification of HSC auditors;
- Selection of auditees based on risk assessment and level of exposure to corruption and fraud.

It will also improve the quality of auditing through:

- Establishment of effective procedures and mechanisms that ensure implementation of updated INTOSAI standards for quality assurance and quality control and develop updated audit methodologies in relation to financial, compliance and performance audit, improvement of audit methods and techniques, based on risk assessment;
- Strengthening the anticorruption role of HSC through developing anti-fraud and anti-corruption (integrity) auditing and using more intensively IT in audit process;
- Establishment of efficient public access to information aiming to increase awareness on HSC activities, audit findings and recommendations.

2.5 LINKED ACTIVITIES AND DONOR COORDINATION

This project is complementary with the assistance given so far by the “**Phare**” Program (focused in technical assistance and support for the auditing process in the areas of strategic planning, human resources and information technology), by the **CARDS** 2003 (assistance in human resource management) and **IPA 2007** (institutional reform and auditing practices, legal reform and communication). The project will build especially on the experience gained from the last-mentioned IPA 2007 twinning project. The approach through financial audit and performance pilot audits will continue and intensify in the upcoming IPA project, as well as financial and performance manuals will be updated.

It is also complementary with the **IPA 2012 project on Public Internal Financial Control Project**, which aims to implement a modern system of Financial Management and Control (FMC) and financial inspection in main public institutions of Albania. In order to foster the collaboration for the implementation of this project a Cooperation Agreement between HSC and Ministry of Finance, based on the INTOSAI Standard ISSAI 9150: "On the Coordination and cooperation between Supreme Audit Institutions and the Internal Auditors in the Public Sector" has been signed on 8th of May 2012. The activities anticipated in the Agreement for 2013 will increase the synergy created between the two institutions in public audit area..

A very important support comes from **SIGMA** with its yearly progress assessment missions for HSC and the implementation of a “bridging activities” program in the second half of 2012 and during 2013 until HSC starts benefiting from IPA 2013 project. During July-October 2012, SIGMA experts trained over 80 auditors from HSC (or around 65 percent of its audit staff) in performance audit and financial audit, while an expert from the national Portuguese Audit Authority presented how EU funds and projects are audited in Portugal.

2.6 LESSONS LEARNED

The lessons learnt from previous projects are as follows:

- Lack of sufficiently focus on the actual needs. Therefore adequate emphasis will be placed on a needs analysis before the actual training and TA assignments;
- Lack of producing a lasting, sustainable impact. For this, when preparing those measures, more emphasis will be placed in identifying target audiences, establish a good co-operation with partner organizations targeted by these activities, and also on tailoring the outputs of those measures – e.g. guidelines, training materials – to the specific needs of the target audience;
- Another lesson from earlier projects was that institution building measures must be continuous, and spread evenly over time. Apart from emphasizing this aspect in the implementation of IPA projects, the HSC is also intensifying its co-operation with peer institutions – such as the National Audit Office of Poland and the Court of Audit of Slovenia, the Court of Accounts of Turkey and the National State Audit Institution of Croatia, and donors, to ensure that institution building is better planned;
- Poor cooperation between key stakeholders.

3 DESCRIPTION

3.1 OVERALL OBJECTIVE OF THE PROJECT

Overall objective of this project is to contribute to the effective, efficient, transparent and accountable use of public funds

3.2 SPECIFIC OBJECTIVE(S) OF THE PROJECT

Specific objective of this project is to improve external auditing capacities according to EU and INTOSAI standards.

3.3 RESULTS

Component 1: Improvement of Legislative framework for audits

- Result 1.1: Improved/revised legal framework and new sub legal acts drafted as required by the legislation in force;
- Result 1.2: Prepared guidelines for the implementation of the new legal framework from auditing bodies and improved schemes for tracking recommendations, including improvements in laws and required regulations;
- Result 1.3: Enhanced awareness of stakeholders and public on the auditing.

Component 2: Development of audit methodologies

- Result 2.1: Developed manual of anti-corruption audit;
- Result 2.2: Improved manual of financial audit and respective methodology;
- Result 2.3: Improved manual of performance audit and respective methodology, reflecting the priority of HSC Strategic Development Plan 2013-2016 (which is under preparation with support from SIGMA and seeks for substantial increase in number and quality of HSC performance audits;
- Result 2.4: IT in audit process developed;

- Result 2.5: Increased qualitative control on audits.

Component 3: Strengthening of HSC institutional capacity

- Result 3.1 Structure, functions and methodology of HSC developed and improved.

3.4 MAIN ACTIVITIES

This project will be implemented through a **twinning contract (contract 1.1)** and will be focused on:

Component 1 *Improvement of the legislative framework*

Activity related to result 1.1:

- Develop the operational scheme to implement the amended Law and draft the by-laws (AI-SAI Chairman's orders, decrees, guidelines necessary for the implementation of AI-SAI Law amendments, such as the decree on the procedures of the certification of the AI-SAI auditors as "Certified State Auditor", on the curricula needed and the tests for becoming a Certified State Auditor, on Approving Procedures and Training Program for issuance of the financial statements opinion, etc.).

Activity related to result 1.2:

- Draft guidelines for the institutionalization of relations with Parliament referred to EU good practices and determine the measures for its implementation;
- Draft a manual on schemes for tracking HSC recommendations based on EU good practices;
- Improve the structure of the reports submitted to the Parliament and the Commission on Economy and Finance by preparing reporting models based on EU good practices and training the auditors who prepare such reports.

Activity related to result 1.3:

- Determination of the steps and measures to achieve transparency of audits and increase public confidence in the institution;
- Design and development of a modern communications strategy;
- Establishment of schemes for online communication with public.

Component 2 *Development of audit methodologies:*

Activities related to result 2.1:

- Development of specific methodologies for anti-fraud and anti-corruption (integrity) audit, based on latest international standards and audit approaches (such as, for example the Into-Saint program, programs and methodologies developed by HSC peers such as the National Supreme Audit Office of Poland, the Court of Audit of Slovenia, the State Audit Institution of Croatia, etc.);
- Study visits to gain from the extensive experience of peers (the SAI of Poland, the SAI of Slovenia, the SAI of Croatia, etc.) in fighting corruption;
- Development of a manual to prepare referrals on cases of corruption and fraud detected during audits.

Activities related to result 2.2:

- Review and update the financial audit manual;

- Conduct pilot financial audit.

Activities related to result 2.3:

- Review and update the performance audit manual;
- Conduct joint audits (such as for example, the proposed joint environmental audit of Mediterranean Coast of Slovenia, Croatia, Montenegro and Albania, etc.).

Activities related to result 2.4:

- Development of IT audit manual;
- Conduct pilot IT audit.

Activities related to result 2.5:

- Development of methodology of audit risk assessment;
- Development of methodologies for quality assurance and quality control;
- Development of methodology for the assessment of internal control system;
- Development of a guide for assessing the internal audit activity and the use of the work of internal auditors;
- Development of reporting models and methodological requirements for writing audit reports.

Component 3: *Strengthening of HSC institutional capacity:*

Activities related to result 3.1:

- Development of functional responsibilities of each HSC organizational unit, job descriptions for each position, establishing lines of authority and responsibility by updating the internal regulation of the institution;
- Development of sector departments strategies to be reflected in the strategic development plan 2013-2016 for the entire institution;
- Drafting of the document that governs the policies and standards for personnel recruitment;
- Establishment and implementation of a system to evaluate employee performance, audit staff in particular;
- Implementing schemes for managing and documenting the time of the audit work.

3.5 ASSESSMENT OF PROJECT IMPACT, CATALYTIC EFFECT AND CROSS BORDER IMPACT (WHERE APPLICABLE)

- Anti-Fraud and anti-corruption methodology development and qualification of auditors for the referral of criminal prosecution will directly affect the growth of anti-corruption role of HSC in accordance with INTOSAI standards;
- Implementing the amendments to the HSC organic law through legal and regulatory acts will direct the whole SAI activity to INTOSAI auditing standards;
- Implementation of the project will turn HSC into an audit institution with an effective functioning scheme which will facilitate administrative procedures and sanction authority and responsibilities of all staff in achieving the objectives;
- Developing adequate rules and procedures for the management of the audit staff will directly reflect the quality of audit and effective use of resources;

- Production of the policy document to promote recruitment, career development and compensation, as well as its implementation in the SAI activity will mobilize all staff to accomplish the mission;
- The audit work based on adequate management schemes will ensure a more efficient use of audit resources;
- Administrative costs are expected to fall and fraud detection to increase as a result of the use of methods and techniques based on system audit and risk assessment;
- Enabling audit staff for a more intensive use of information technology and audit computing instruments will significantly increase audit efficiency and reduce administrative costs;
- Improving the structure of audit reports and the methodology for their writing will enable auditors to formulate their opinions more clearly and establish the necessary skills. On the other hand it will facilitate users to understand the audit report messages and increase the implementation rate of HSC recommendations;
- Implementing project activities dealing with HSC cooperation with other institutions will significantly increase the effectiveness of the institution, public confidence and produce the catalytic effect to the other institutions;
- Improving relations with Parliament by increasing the presence of HSC and its structuring reports will increase the level of understanding of the reports and will engage Parliament for stronger action to implement HSC recommendations;
- Producing a guide for assessing the public internal control system will have a direct impact on enhancing the skills of auditors to make appropriate recommendations to improve the system which in turn will prevent mismanagement of public resources and create the catalytic effect with internal auditors and PIFC structures;
- Production of updated manuals of financial and performance audit and production of the manual of IT audit, as well as the development of methodologies for auditing will direct the activities of HSC in accordance with INTOSAI standards and with most advanced and best practices of EU, affecting the quality of HSC recommendations and increasing the performance of the auditees;
- Improving tracking schemes for HSC recommendations, including improvements of necessary legislative acts will create more opportunities for a far more efficient implementation rate of the recommendations;
- Pilot activities envisaged in the project will enhance the ability of auditors to implement in practice the internationally recognized auditing standards.

3.6 SUSTAINABILITY

The key elements to ensure project results' sustainability are:

- Full commitment of HSC staff to ensure viability and continuity of the project;
- State Budget funding ensured for HSC's continued institution building and maintaining achieved structures, capacities and newly trained staff ;
- The Project in the course of implementation will increase HSC independent action to further pursue its reforming path based on own (already built) capacities;
- Intense cooperation with peers (other SAI-s in the region and in entire continent) will create synergy and accentuate the impact of project's deliverables;
- Efficient cooperation with the Central Harmonization Unit of Internal Audit will secure and further highlight project results in terms of cooperation and joint activities with internal auditors, in parallel with bringing reduction in audit costs;

- Efficient cooperation with Line Ministries (in special focus, with the Ministry of Finance) to ensure intensive fight and prevention against corruption and fraud;
- Efficient cooperation with civil society associations and engaged individuals to ensure transparency and accountability of public entities will positively position HSC versus other donors, such as the World Bank, bilateral donor programs, etc.;
- Efficient cooperation with professional accounting organizations in the country, such as the National Council of Accountants and the Institute of Chartered Accountants (IEKA), based on INTOSAI and IFAC (International Federation of Accountants) standards will enable HSC to produce financial audits at high quality and gain in image and integrity versus future partners and donors.

3.7 ASSUMPTIONS AND PRE-CONDITIONS

- Co-financing by the Albanian government ensured;
- Timely approval of HSC law amendments by Parliament;
- HSC allocates the sufficient institutional and human resources to co-operate with project experts;
- Good co-operation with stakeholders;
- Political forces set to support integration process in the country and the progress of public administration reform;
- Government fully dedicated to accelerate public finances reform;
- HSC highly motivated and completely focused in implementing institutions' new strategic approaches and reforms.

4. IMPLEMENTATION ISSUES

The project will be implemented through one twinning contract under decentralized mode. The CFCU will launch the twinning procedure, merging under joint co-financing the IPA contribution (EUR 2 million) and the national contribution (EUR 100 000). Assistance under the IPA project preparation facility (PPF) may be required for the preparation of the twinning fiche (to be agreed with the EU Delegation).

The department responsible for the preparation and the implementation of this project at the HSC will be the Department of Research, Development and IT, in cooperation with the Directorate of Human Resources and Methodology and the Directorate of Legal Issues and Quality Assurance. There are 13 managers and specialists altogether in the above-mentioned three units of HSC that will work full-time or part-time for the implementation of the project.

4.1 INDICATIVE BUDGET

Indicative Project budget (amounts in EUR)

PROJECT TITLE			SOURCES OF FUNDING									
			TOTAL EXPENDITURE	IPA CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
	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)
Activities 1,2,3												
Contract 1.1	x			2.000.000	95%	100.000	5 %	100.000				
TOTAL IB				2.000.000	95%	100.000	5 %	100.000				
TOTAL INV												
TOTAL PROJECT			2.100.000	2.000.000	95%	100.000	5 %	100.000				

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

Amounts net of VAT

- (1) In the Activity row, use "X" to identify whether IB or INV
- (2) Expressed in % of the **Total** Expenditure (column (a))

4.2 INDICATIVE IMPLEMENTATION SCHEDULE (PERIODS BROKEN DOWN BY QUARTER)

Contracts	Start of Tendering/ Call for proposals	Signature of contract	Project Completion
Contract 1.1	Q 4 2013	Q 3 2014	Q1 2016

4.2.1 *Equal Opportunities and non discrimination*

The beneficiary institution is an equal opportunity employer. In all human resource development measures, equal access will be ensured for men and women.

The project will involve all HSC audit staff in training and participation in workshops, pilot audits and other activities. In equal opportunities for participation priority will be given to female auditors.

4.2.2 *Environment and climate change*

The project has no discernible effect on the environment. Yet, improvement of audit methodology will result in more qualitative HSC performance audits related to environmental issue and in more direct and efficient recommendations.

Paperless office and IT-compatible procedures will be intensively developed in the project..

The introduction of new IT systems, communication channels and the change of methods will sensibly reduce paper consumption and energy consumption in HSC.

4.2.3 *Minorities and vulnerable groups*

The HSC will maintain non-discriminatory recruitment, HR management and promotion regimes.

4.2.4 *Civil Society/Stakeholders involvement*

HSC key **stakeholders** are the members of the Parliament of Albania (in particular the members of the Parliamentary Commission on Economy and Finance), the central institutions, the other independent central institutions like the Albanian Authority of Competition, the Albanian High Inspectorate of Declaration and Audit of Assets, the Office of the General Attorney, the academic units (in particular the State University of Tirana) and the public, represented by civil society organizations that fight corruption. HSC has organized formal and informal meetings with members of the Parliamentary Commission of Economy and Finance and with representatives of key civil society associations, with whom it has established cooperation agreements to increase transparency, to fight against and to prevent corruption and fraud. HSC has also offered and engaged over the last months in cooperation agreements with the Albanian High Inspectorate of Declaration and Audit of Assets, the Albanian Authority of Competition and the Office of General Attorney. With the latter, in July 2012, HSC organized a joint seminar with prosecutors and external auditors to discuss ways to improve the quality of HSC referrals against fraud and corruption.

HSC is in the process of concluding agreements with professional accounting organizations in the country, such as the National Council of Accountants and the Institute of Chartered

Accountants (IEKA), with the aim of retrieving high level local expertise for its financial audits and the fight against fraud and corruption.

In April 2012, HSC signed cooperation agreements with six of the most active associations of civil society to fight corruption and seek to increase the transparency of public institutions of the country, namely the Transparency International in Albania, the Civil Alternative Movement, the Centre for Transparency and Free Information, the Institute for Contemporary Studies, the Institute for Democracy and Mediation and the European Movement in Albania. According to the agreements, HSC and these associations will cooperate and prepare joint projects/programs to fight corruption and ensure more transparency in the use of public funds.

HSC has already consulted the above-mentioned civil society units in the course of preparing the project fiche and has assured their interest in cooperating for the production of different project deliverables, such as the manual on anti-fraud and anti-corruption audit and the preparation of HSC external communication strategy.

The interest to cooperate is high also among professional associations such as the IEKA and the National Council of Accountants and HSC has also assured their support in the project implementation.

ANNEXES

Documents to be annexed to the Project fiche

- 1. Log frame**
- 2. Description of Institutional Framework**
- 3. Reference list of relevant laws and regulations only where relevant**
- 4. Details per EU funded contract:**
- 5. Project visibility activities**

ANNEX 1: LOGICAL FRAMEWORK MATRIX IN STANDARD FORMAT

LOGFRAME PLANNING MATRIX FOR Project Fiche	Project title and number	Enforcement of auditing capacities/ 6	
	Contracting period expires no later than three years from the date of conclusion of Financial Agreement	Execution period expires within a maximum of two years from the end date of contracting	
	Total budget	€ 2,1 Mln	
	IPA budget:	€ 2 Mln	
Overall objective	Objectively verifiable indicators (OVI)	Sources of Verification	
Contribute to the effective, efficient, transparent and accountable use of public funds	<ul style="list-style-type: none"> • Number of referrals increased • Number of cases of corruption and irregularities decreased. 	<ul style="list-style-type: none"> • Official statistics by Governmental Institutions; • World Bank reports; • OECD reports; • Sigma reports • EU progress report 	
Specific objective	Objectively verifiable indicators (OVI)	Sources of Verification	Assumptions
Improve auditing capacities according EU and INTOSAI standards	<ul style="list-style-type: none"> • Number of referrals increased • Number of cases of corruption and irregularities decreased. 	<ul style="list-style-type: none"> • Official statistics by Governmental Institutions; • World Bank, reports; • OECD reports; • SIGMA reports; • EU progress report 	<ul style="list-style-type: none"> • Government fully dedicated to accelerate public finances reform; • HSC fully dedicated to modernize its audit activity and fight corruption
Results	Objectively verifiable indicators (OVI)	Sources of Verification	Assumptions
<p><i>Component 1: Improvement of Legislative framework for audits</i></p> <ul style="list-style-type: none"> • Result 1.1: Improved/ revised legal framework and new sub legal acts drafted as required by the legislation in force; • Result 1.2: Prepared guidelines for the implementation of the new legal framework from auditing bodies and improved schemes for tracking recommendations, including improvements in laws and required regulations; • Result 1.3: Enhanced awareness of stakeholders and public on the auditing. <p><i>Component 2: Development of audit methodologies</i></p> <ul style="list-style-type: none"> • Result 2.1: Developed manual of anti-corruption audit; • Result 2.2: Improved manual of financial audit and respective methodology; • Result 2.3: Improved manual of performance 	<ul style="list-style-type: none"> • Number of guidelines prepared for implementing the new legislation; • An assessment of the legal framework vis-à-vis EU models. • An assessment of the legal framework vis-à-vis the INTOSAI declarations. • Recognised (or tailored) qualification scheme in place). Staff appraisal system which is consistent across the office, based on objective criteria and which motivates and rewards good performers. • Separate core groups of staff with the skills required to undertake financial and performance audits to international auditing standards (30 and 12 staff respectively); • 10 staff members across` Audit departments able to undertake Computer-assisted audit techniques, with at least 2 competent to train others; 	<ul style="list-style-type: none"> • Monitoring report by EU Delegation • Final Audit Reports • Annual HSC reports to Parliament • Programme quarterly reports • Feedback from audit report users • SIGMA reports 	<ul style="list-style-type: none"> • Availability of staff for co-operation with the advisers and the trainings • HSC staff highly motivated and completely focused in implementing institutions' new strategic approaches and reforms. • Readiness to implement recommendations / results of project

<p>audit and respective methodology, reflecting the priority of HSC Strategic Development Plan 2013-2016 (which is under preparation with support from SIGMA and seeks for substantial increase in number and quality of HSC performance audits;</p> <ul style="list-style-type: none"> • Result 2.4: IT in audit process developed , • Result 2.5: Increased qualitative control on audits. <p><i>Component 3: Strengthening of HSC institutional capacity</i></p> <ul style="list-style-type: none"> • Result 3.1 Structure , functions and methodology of HSC developed and improved 	<ul style="list-style-type: none"> • HSC undertakes audits covering a broad range of topics and institutions and provides the Parliament with quality reports and advice ; • Audit staff members aware of their role and responsibilities with respect to fraud and corruption; • Overall strategy and internal guidance on the role of SAI in the fight against fraud and corruption; • Feedback from Parliament’s Commission on Economy and Finance members and audited bodies on presentation and usefulness of audits 		
Activities to achieve results	Means / contracts	Costs	Assumptions
<p>Contract 1.1:</p> <p>Component 1 <i>Improvement of the legislative framework</i></p> <p><i>Activity related to result 1.1;</i></p> <ul style="list-style-type: none"> • Develop the operational scheme to implement the amended Law and draft the by-laws (AI-SAI Chairman’s orders, decrees, guidelines necessary for the implementation of AI-SAI Law amendments, such as the decree on the procedures of the certification of the AI-SAI auditors as “Certified State Auditor”, on the curricula needed and the tests for becoming a Certified State Auditor, on Approving Procedures and Training Program for issuance of the financial statements opinion, etc.); <p><i>Activity related to result 1.2:</i></p> <ul style="list-style-type: none"> • Draft a guide for the institutionalization of relations with Parliament referred to EU good practices and determine the measures for its implementation; • Draft a manual on schemes for tracking HSC recommendations based on EU good practices; • Improve the structure of the reports submitted to the Parliament and the Commission on Economy and Finance by preparing reporting models based on EU good practices and training the auditors who prepare such reports; 	<ul style="list-style-type: none"> • Twinning contract • Service contract (Co-financing) 	<ul style="list-style-type: none"> • 2 mln Euro • 100.000 Euro 	<ul style="list-style-type: none"> • Timely approval of HSC law amendments by Parliament • Good co-operation with stakeholders.

<p><i>Activity related to result 1.3:</i></p> <ul style="list-style-type: none"> • Determination of the steps and measures to achieve transparency of audits and increase public confidence in the institution • Design and development of a modern communications strategy; • Establishment of schemes for online communication with public. <p>Component 2 Development of audit methodologies:</p> <p><i>Activities related to result 2.1</i></p> <ul style="list-style-type: none"> • Development of specific methodologies for anti-fraud and anti-corruption (integrity) audit, based on latest international standards and audit approaches (such as, for example the Into-Saint program, programs and methodologies developed by HSC peers such as the National Supreme Audit Office of Poland, the Court of Audit of Slovenia, the State Audit Institution of Croatia, etc.); • Study visits to gain from the extensive experience of peers (the SAI of Poland, the SAI of Slovenia, the SAI of Croatia, etc.) in fighting corruption • Development of a manual to prepare referrals on cases of corruption and fraud detected during audits; <p><i>Activities related to result 2.2</i></p> <ul style="list-style-type: none"> • Review and update the financial audit manual; • Conduct pilot financial audit; <p><i>Activities related to result 2.3</i></p> <ul style="list-style-type: none"> • Review and update the performance audit manual; • Conduct joint audits (such as for example, the proposed joint environmental audit of Mediterranean Coast of Slovenia, Croatia, Montenegro and Albania, etc.); <p><i>Activities related to result 2.4</i></p> <ul style="list-style-type: none"> • Development of IT audit manual; • Conduct pilot IT audit; <p><i>Activities related to result 2.5</i></p>			
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<ul style="list-style-type: none"> • Development of methodology of audit risk assessment; • Development of methodologies for quality assurance and quality control; • Development of methodology for the assessment of internal control system; • Development of a guide for assessing the internal audit activity and the use of the work of internal auditors; • Development of reporting models and methodological requirements for writing audit reports. <p>Component 3: Strengthening of HSC institutional capacity:</p> <p><i>Activities related to result 3.1</i></p> <ul style="list-style-type: none"> • Development of functional responsibilities of each HSC organizational unit, job descriptions for each position, establishing lines of authority and responsibility by updating the internal regulation of the institution; • Development of sector departments strategies to be reflected in the strategic development plan 2013-2016 for the entire institution; • Drafting of the document that governs the policies and standards for personnel recruitment; • Establishment and implementation of a system to evaluate employee performance, audit staff in particular; • Implementing schemes for managing and documenting the time of the audit work. 			
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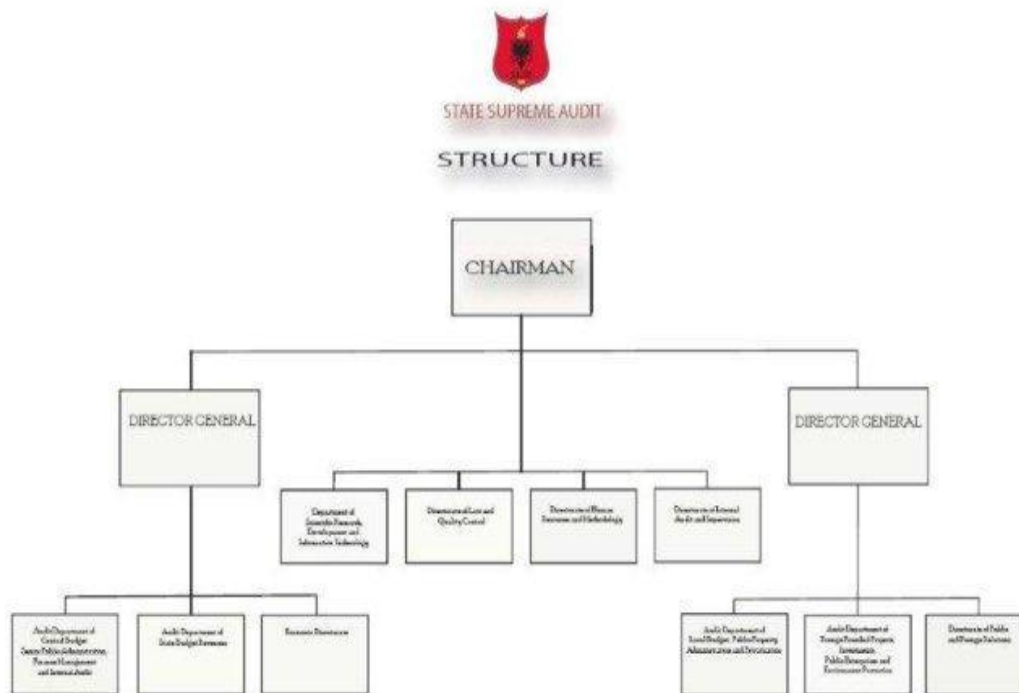
2. Description of Institutional Framework

The Project will be managed for technical and contracting aspects by the Department of Research, Development and IT (composed of 5 specialists and two managers) of HSC and will be closely supervised by the General Director and the Chairman of HSC. The main contact points in the HSC are: Mr. Robert Gjini, general director and the director of the Department of Research, Development and IT. The HSC will establish a monitoring committee composed of:

A Project Advisory Committee, PAC will be established to oversee the management of the project. It will be chaired by HSC and will include other institutions such as: Ministry of Finance, Ministry of European Integration, the EU Delegation, representatives from the project and representatives from other selected stakeholders on a non-permanent (non-voting) basis. The representatives of the HSC in the PAC will be: general director of HSC (chairman), director of HSC Law and Quality Assurance Directorate, director of HSC Methodology and Human Resources Directorate, director of HSC Training Unit and three most experienced senior HSC auditors.

The PAC will meet on a quarterly basis during the project lifetime. Additional PAC meetings will be held, if required. The first meeting of the PAC will take place immediately after the inception phase.

The structure of the HSC is presented in the chart below:



3. Reference list of relevant laws and regulations only where relevant

1. HSC organic Law No.8270 dated 23.12.1997, amended by the law No. 8599 dated 01.06.2000;
2. Lima Declaration of 1977, considered as the Constitution of Supreme Audit Institutions;
3. Mexico Declaration on SAI independence;
4. INTOSAI Standards 3000 and 3100 on Performance Audit.

4. Details per EU funded contract:

Profile and tasks of the Project Leader (PL):

This project requires a Project Leader, PL, who will be responsible for the overall coordination of the project activities. The project leader is expected to closely work with the resident twinning advisor and the short-term experts as well as with the counterpart of the beneficiary institution.

- Closely work with the resident twinning advisor and the short term experts;
- Executing administrative issues (i.e. signing reports etc.);
- Advising on the future plans and reporting to the relevant authorities on the progress of the project.

Profile and tasks of the Resident Twinning Advisor (RTA):

This project requires a Resident Twinning Advisor, RTA.

The RTA will work on a day-to-day basis in the HSC and support the co-ordination of different actions:

- Design a work plan for the implementation of project;
- Assist in the preparation of all strategic project documents and training manuals, quarterly monitoring reports and final project report etc;
- Ensure the day-to-day management of the project working on the daily basis with the HSC staff to implement the project;
- To ensure that all activities are implemented in a professional way;
- To plan and organise study visits, training activities;
- To provide detailed reports on the impact of the programme.

Profile and tasks of the short-term experts:

The PL and the RTA will be assisted by international and/or national short-term experts. The short-term experts shall assist the PL and the RTA in delivering the activities within the project.

5. Project visibility activities

The EC rules for the visibility will be implemented according the EU visibility requirements.