



ANNEX C1bis: Twinning Light Fiche

**Project title:** Support to development of an effective internal control and audit environment in Indirect Taxation Authority of BiH

**Beneficiary administration:** Indirect Taxation Authority of Bosnia and Herzegovina (ITA)

**Twining Reference:** BA 16 IPA FI 01 19 TWL

**Publication notice reference:** EuropeAid/164-550/DD/ACT/BA

**EU funded project**

***TWINNING TOOL***

## 1. Basic Information

1.1 Programme: National Programme for Bosnia and Herzegovina IPA 2016– Direct Management Mode – Decision number: 2016/039-653

For British applicants: Please be aware that eligibility criteria must be complied with for the entire duration of the grant. If the United Kingdom withdraws from the EU during the grant period without concluding an agreement with the EU ensuring in particular that British applicants continue to be eligible, you will cease to receive EU funding (while continuing, where possible, to participate) or be required to leave the project on the basis of Article 12.2 of the General Conditions<sup>1</sup> to the grant agreement.

1.2 Twinning Sector: Customs and Taxation.....

1.3 EU funded budget: Maximum of EUR 250.000,00

## 2. Objectives

2.1 Overall Objective(s):

Support to Internal Audit Department of the Indirect Taxation Authority of Bosnia and Herzegovina in performing internal audit function in accordance with International and European standards.

2.2 Specific objective:

Establish internal audit that will assist the institution in achieving its goals, by assuring systematic and disciplinary approach to the evaluation, and improvement of efficiency in risk management, control and governance processes. The internal audit shall also contribute to fight against corruption.

2.3 The elements targeted in strategic documents i.e. National Development Plan/Cooperation agreement/Association Agreement/Sector reform strategy and related Action Plans

Bosnia and Herzegovina is a potential candidate country for the EU membership. The Stabilisation and Association Agreement (SAA) entered into force in June 2015. Application for membership was submitted in February 2016.

Obligation of Bosnia and Herzegovina in the field of internal audit has been established under Article 90 of the SAA between the European Communities and their Member States and Bosnia and Herzegovina, in the part entitled “Audit and financial control cooperation” (“Official Gazette of BiH - International Treaties”, issue 10/08).

Article 111 of the **Stabilisation and Association Agreement (SAA)** concluded between BiH and the EU in June 2008, stipulates cooperation of Parties to the Agreement in improving development of effective and responsible public administration. In the most part, the cooperation will be directed towards development of institutions, encompassing all levels of public administration in Bosnia and Herzegovina. Article 97 stipulates establishment of cooperation in the area of customs duties in order to align the customs duties system of BiH with the EU system, as well as customs laws of BiH with the EU *acquis*. Article 98 stipulates establishment of cooperation in the area of taxation, including measures of further tax system

reforms with the aim of ensuring more efficient tax revenues collection and combating tax fraud.

### **3. Description**

#### **3.1 Background and justification:**

In accordance with the Law on internal audit in institutions of BiH, Central Harmonisation Unit (CHU) of the Ministry of Finance and Treasury was established, and it has an obligation to set and develop the system of internal financial control in the BiH institutions and, as a special segment of this system, to set the system and structure of internal audit in BiH institutions.

Internal audit function in the institutions of BiH is clearly defined and instituted in the Law on internal audit in institutions of BiH and in universal and consistent methodology of work for internal auditors, which also includes internal audit standards that are harmonised with international internal audit standards.

Internal audit system in the institutions of BiH foresees introduction of PIFC concept in the area of financial management and control and internal audit, and assurance of developing management accountability.

Through objective and independent assessment of the financial management and control system, internal audit provides assistance to managers in identifying certain weakness and inconsistencies, which were not identified in performing every day activities, and in carrying out timely measures to solve those weaknesses.

In Standards of internal audit in institutions of BiH (“Official Gazette of BiH” issue 98/14) it is determined that the institution ensures performing internal audit as independent, objective assurance and consulting activities created in order to add value and improve institution’s business activities.

Guidelines for carrying out risk management process in the institutions of BiH (“Official Gazette of BiH” issue 29/15) emphasise the importance of internal audit that should provide support to governing structure in the risk management process, by means of assessing the efficiency and effectiveness of risk management process, especially the efficiency of control mechanisms, while performing audits.

The Parliament of Bosnia and Herzegovina, in 2003, adopted the Law on Indirect Taxation System and thus ensured the legal basis for establishing the Indirect Taxation Authority (ITA), the biggest state level institution with over 2 500 employees. The Indirect Taxation Authority is an autonomous administrative organisation responsible for its activities, through its Governing Board, to the Council of Ministers of Bosnia and Herzegovina. Its jurisdiction is in the area of indirect taxes (customs, value added tax, road tolls and excises).

Internal Audit Department performs the internal audit function in the Administration in line with the International standards for internal audit professional practice. Together with understanding the methodology for carrying out internal audit function, internal auditors must also have the knowledge relating to specific business processes that are carried out in the institution, governing processes, risk management processes and development of internal control system, in order to be able to provide quality recommendations that will contribute to the improvement of business processes functioning in the Administration and achievement of its goals.

Performing the internal audit function is very complex, having in mind that the Administration is very complex institution collecting the gross of country's public revenue and it has 215 organisational units spread across BiH, 5 levels of governance, a large number of intertwined business processes carried out in organisational units. Namely, internal auditors review all the systems and business processes performed in the Administration, and in order to contribute to improvement of institution's business it is necessary to possess knowledge on all areas they audit.

In order to have knowledge on all areas they audit, internal auditors must constantly educate, as foreseen by Standards and legislation regulating this area. Since internal audit is just coming to life in Bosnia and Herzegovina, internal auditors do not have significant sources of good practice within the country. In BiH, there is a possibility to attend trainings where one mainly receives theoretical knowledge on internal audit area, lacking specific practical examples relating to its functioning. Specific practical knowledge and best practices of EU can be gained through twinning projects.

### 3.2 Ongoing reforms:

One of ten integrated guidelines, **Europe 2020** is ensuring quality and sustainability of public finance. In this regard, in their Document on Enlargement Strategy for 2013-2014, the European Commission announced the new approach to further enlargement policy with emphasis on economy (economic governance, competency and growth) with the aim of enabling better coordination and convergence of economic and fiscal policies between candidate countries and potential candidate countries and the EU. It is intended for the countries in the process of enlargement to connect more with the new system of economic governance in the EU based on the European Semester, through annual presentation of national economic reforms programmes and public financial management action plans.

**In the BiH Reform Agenda 2015-2018**, measures are envisaged for improvement of collection of tax revenues, including improvement of exchange of information between tax administrations and introduction of e-Services for VAT. Likewise, BiH should support increase of excise duties on tobacco and alcohol representing direct revenues of the Health Insurance Fund. It is stated that implementation of the new Law on Customs Policy will be ensured, thus simplifying customs processing and decrease the number of administrative requests, resulting in facilitation of trade. In addition, it is envisaged for the renewed Public Administration Reform Strategy to be prepared, under which the Public Financial Management Reform Strategy represents one of the main pillars of the Public Administration Reform Strategy.

### 3.3 Linked activities:

During previous years, internal auditors gained specific knowledge from EU countries' practice only through twinning projects. Twinning light project "Improving capacity of the Internal Audit Department of the Indirect Taxation Authority" was implemented during 2017/2018. Workshops in the project were very intense and for the same reason very efficient. Within this project we exchanged experiences with Member State experts coming from various countries (Austria, Poland, Bulgaria, Slovenia, and Lithuania) allowing the possibility to compare and select best practice for implementation in BiH. Through this project, total capacities of Internal Audit Department were improved, i.e. management of the internal audit improved knowledge in respect of managing, planning, monitoring and reporting at the level

of internal audit unit, and knowledge of the whole Internal Audit Department in respect of business processes functioning.

During the implementation of project and through carrying out audits, it was determined that internal auditors still have significant need to improve their knowledge on various areas. It is necessary to improve knowledge on financial management and control, management of business processes based on results, project management, fight against corruption and fraud, internal auditors' skills.

The EU has supported the development of PIFC in BiH through several projects. The ongoing project "Improving Public Internal Financial Control in Bosnia and Herzegovina" (IPA 2015) is expected to take on board further enhancement, update and harmonisation as needed of the legal framework (primary and secondary legislation), policies and PIFC strategies down to the level of cantons and local governments, in order to comply with internationally recognised principles and standards. The Action also supports at an operational level the Central Harmonisation Units (CHUs) with their monitoring and reporting functions and procedures, including the preparation of consolidated reports. The Action will develop the system of external quality control of IA. More specifically, capacity building on financial management and control (FMC) and internal audit (IA) are two core activities, as well as pilot audits as a main tool for on-the-job training.

#### 3.4 List of applicable *Union acquis*/standards:

n/a

#### 3.5 Components and results per component

Result 1: Improved financial management and control system, standardisation of processes and better process management in the ITA;

Result 2: Improved results based business processes management;

Result 3: Improved of project management skills of IA staff;

Result 4: Increased knowledge on preventive activities in the area of fight against corruption and fraud;

Result 5: Enhanced internal auditors' skills;

Result 6: External assessment of Administration's internal audit quality carried out;

#### 3.6 Expected activities:

##### Activities related to Result 1:

Act.1.1. To deliver presentation on Business Processes Map at the ITA level containing the schematic presentation of relations between key, management and support business processes;

Act.1.2. To assist in preparation Risk Register at the ITA level in line with the Business Processes Map at the ITA level.

Act.1.3. Study visit in one of the MS.

Activities related to Result 2:

Act. 2.1. To assist in drafting of Operational Activity Plan for establishing performance management in the ITA;

(Internal Audit Department will use audit assignments and recommendations so that the management acts in line with drafted Operational Activity Plan, to properly establish performance management in all business processes of the ITA)

Act.2.2. Study visit in one of the MS.

Activities related to Result 3:

Act. 3.1. To assist in drafting Rulebook for the project procedures to be used for project management in the ITA and for internal audits of projects;

Activities related to Result 4:

Act. 4.1. To assist in drafting of Operational Activity Plan for system approach to corruption prevention in the ITA focusing on preventive measures and activities;

(Internal Audit Department will use audit assignments and recommendations so that the management acts in line with drafted Operational Activity Plan, to properly and systematically approach corruption prevention in the ITA).

Activities related to Result 5:

Act. 5.1. Workshops aimed at improvement and enhancement of internal auditor's skills in line with requirements of Standard 1230 of the International Standards for the Professional Practice of Internal Auditing:

- Planning and management of audit projects,
- Critical thinking
- Collecting and analysing complex data
- Assessment of information and systems and making logical conclusions, presentation of findings and recommendations
- Interpersonal skills necessary for effective cooperation with others

Activities related to Result 6:

Act. 6.1. To assist in preparation of report on conducted external assessment of quality of internal audit in the ITA by a certified external quality assessment expert, in line with requirements of Standard 1312 of the International Standards for the Professional Practice of Internal Auditing.

3.7 Means/input from the EU Member State Partner Administration:

The project will be implemented in the form of a Twinning Light Contract between the Delegation of the EU to BiH representing the beneficiary country and EU member State.

The implementation of the project requires a MS Twinning Light Project Leader (MS PL) with responsibility for the overall coordination of project activities. In addition, short-term experts will be engaged for specific activities. It is essential that the team have sufficiently broad expertise to cover all the areas included in the project description, which also requires thorough understanding of the functioning of the Beneficiary Institution.

The interested Member State institution shall include in its proposal the CVs of the designated Project Leader and short term experts proposed to play key role in the implementation of the project.

#### Profile and tasks of the Project Leader

The Member States Project Leader will conceive, supervise and co-ordinate the overall thrust of the project, lead project activities, and ensure attainment of the projected output. The MS project leader is expected to ensure that all the support from the management and staff on the MS side is available for the project. The MS project leader will act as the counterpart of the Beneficiary Country Project Leader and will ensure in close co-operation the overall steering and co-ordination of the project also through the Project Steering Committee. The MS Project Leader is fully responsible for co-ordination of the work of the experts.

The proposed MS Project Leader must be a public servant of an EU MS institution. The MS Project Leader should be a senior civil servant or equivalent staff from the respective MS Customs and or Taxation institution.

#### Qualifications and skills

- Proven contractual relation to public administration or mandated body, as defined under Twinning manual 5.3.2.
- University degree;
- Previous experience in Twinning Projects;
- Fluent written and spoken English.

#### General professional experience

- At least 8 years of general professional experience in the area of customs and/or taxation gained within an EU MS Customs and/or Taxation Administration;

#### Specific professional experience

- At least 3 years of experience in a managerial position within an EU MS Customs and/or Taxation Administration;

#### Tasks:

1. Conceive, supervise and coordinate the overall preparation of the project;
2. Coordinate and monitor the overall implementation of the project;
3. Ensure coordination of the work of the short term experts;
4. Liaise with the Project Leader from the Beneficiary Institution;
5. Co-chair, with the Beneficiary Country Project Leader, the project implementation at the Steering Committee meetings;
6. Execute administrative issues (i.e. signing quarterly reports, Operative side letters, addenda, etc.)

## Profile and tasks of other short-term experts (STEs)

The pool of MS experts to support the MS Project Leader should indicatively comprise at least three short-term experts (STE) playing leading role in the implementation of project activities as listed above, under point 3.6. They should be proposed by indicating the area they cover.

Their profile should cover the following expertise:

All MS experts have to have university degree and fluency in English language.

### *Short term expert 1 (STE 1)*

- Minimum 3 years of experience on managerial position in internal audit department, preferably in customs and/or tax administration of an EU MS;
- Fluency in written and spoken English language

### *Short term expert 2 (STE 2)*

- Minimum 3 years of experience from working as internal auditor in internal audit department, preferably in customs and/or tax administration of an EU MS;
- Fluency in written and spoken English language

### *Short term expert 3 (STE 3)*

- Certified expert for quality assessment working in internal audit department, preferably in customs and/or tax administration of an EU MS;
- Fluency in written and spoken English language

Short term expertise, in addition to the expertise listed above, is required for the areas of, but not limited to: financial management and control, customs, taxes, business processes management, project management, and fight against corruption.

All short term experts included in project implementation must have at least 3 years relevant professional experience in the area of the activities they are nominated for.

## **4. Budget**

The project will be implemented through a Twinning Light Contract of which the maximum EU contribution will be EUR 250,000.

## **5. Implementation Arrangements**

5.1 The Delegation of the EU to Bosnia and Herzegovina is the implementing agency responsible for all procedural aspects of the tendering, contracting, payments, accounting and overall supervision of the implementation of the project.

Contact point:

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## 5.2 Institutional framework

Beneficiary administration is Indirect Taxation Authority of Bosnia and Herzegovina, Internal Audit Department, Bana Lazarevica street, Banja Luka.

## 5.3 Counterparts in Beneficiary Administration

### 5.3.1. Contact person:

Ms. Jasna Pavić, Expert Adviser in Communication and Cooperation Dept.  
Indirect Taxation Authority of BiH  
Bana Lazarevica bb, 78000 Banja Luka  
Tel: + 387 51 335 143, Fax: + 387 51 335 258  
e-mail: [jasna.pavic@uino.gov.ba](mailto:jasna.pavic@uino.gov.ba)

### 5.3.2. PL counterpart:

Ms. Munevera Dedic, Head of Internal Audit department of the ITA  
Indirect Taxation Authority of BiH  
Bana Lazarevica bb, 78000 Banja Luka

## 5.4. Steering Committee

Preparation of the start-up report covering the first two months of the contract is anticipated after two months of the project implementation (submitted during the third month), and a final report. (Templates are as for standard Twinning). These reports in English will be presented in electronic version and in hard copies with signatures of both, MS and BC Project Leaders. For the purpose of efficient project coordination, a Steering Committee (SC) will be established at the beginning of the project. The SC will comprise of the Project Leaders, relevant representatives of the ITA BiH and representative of the EUD.

The SC will take the necessary decisions related to project implementation and will be the forum to discuss any matters that may arise. Extraordinary SC meetings can be convoked in case of exceptional needs.

The SC meetings are called and chaired by both Project Leaders.

## 5.5. Reporting

The Member State PL shall submit as a minimum to the Contracting Authority a start-up report covering the first two months of implementation of the Twinning Light contract (submitted during the third month) and a final report.

Reports must be endorsed and countersigned by the Beneficiary administration, which may make additional comments. Report templates are those applicable for standard Twinning projects. Reports must be submitted as indicated under section 5.5 of this Twinning Manual.

## 6. Duration of the project

Duration of the execution period is: eight (8) months (implementation period) + three (3) months.

## **7. Sustainability**

The action represents continuation of assistance provided in the previous period through IPA projects in the area of strengthening ITA capacities, as well as continuation of efforts of ITA aimed at further alignment of BiH legislation with the EU acquis in the area of taxes, customs duties, excise duties and road tolls.

Knowledge gained in this action will enable internal auditors to carry out internal audit function in line with International standards for internal audit professional practice, which in the end will result in quality recommendations. These recommendations will assist the institution in achieving its objectives by improving risk management, controls and governance processes.

## **8. Crosscutting issues (*equal opportunity, environment, climate etc...*)**

### **GENDER MAINSTREAMING**

It is expected that gender equity will be fully observed in the drafting legislative framework and regulations. Regarding all capacity building activities, these will be available and accessible equally to men and women. Envisaged training(s) will be equally available to men and women. Gender sensitive language will be maintained throughout the entire project cycle. All analyses and drafting legislation will be conducted using gender-sensitive methodologies, and gender will be mainstreamed in all activities and deliverables related to the implementation of this Action. In general, gender perspective will be maintained ensuring that the results of the project impact positively on gender equality as well. Gender sensitive language will be maintained throughout the entire project cycle.

### **EQUAL OPPORTUNITIES**

Based on the fundamental principles of promoting equality and combating discrimination, participation in the Action will be guaranteed on the basis of equal access regardless of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation.

The principles of equal opportunities are duly taken into account throughout the project cycle and the Action will promote an environment that is conducive and enabling to gender equality, ensuring equal participation of women and men in all Action activities, as well as taking into account promotion and participation of people with disabilities.

### **MINORITIES AND VULNERABLE GROUPS**

Bosnia and Herzegovina is committed to a policy of social inclusion of minority and marginalised social groups, notably Roma, persons with disabilities, young persons, internally displaced persons, and women. During implementation of activities anticipated in the Action, full respect of minorities and vulnerable groups will be ensured. Thus, during the implementation of the Action, there shall be no direct or indirect discrimination against any person based on gender, age, marital status, language, sexual orientation, political affiliation or conviction, ethnic origin, religion, social origin or any other status.

## **ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)**

Civil society organisations have been consulted throughout the design of the interventions foreseen in the PAR Sector Planning Document (2015-2017) including sub-sector Public Financial management, which is supposed to represent the basis for the Action development.

When it comes to the implementation of this specific Action, all envisaged activities will be open to cooperation and setting of synergies with CSOs and other interested non-stakeholders.

## **ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)**

The Action aims at strengthening public finance management in order to ensure efficient, transparent and responsible public administration in BiH. As such, the Action is environment and climate change-neutral.

The Action and the activities deriving from the Action will not have any negative impact on the environment nor jeopardise environment, health and security in the future. The activities deriving from this Action will be delivered in the most environmentally friendly possible way.

### **9. Conditionality and sequencing**

Conditionality: N/A

Sequencing:

Key milestones will be:

1. Approval of the Twinning Light Project Fiche;
2. Completion of the selection of the twinning partner;
3. Signature of the Twinning Light Contract;
4. Establishment of the Steering Committee;
5. Commencement of the implementation of the Twinning;
6. End of the implementation period;
7. Submission of the final report.

### **10. Indicators for performance measurement**

In line with Annex I – Logical framework

### **11. Facilities available**

The Beneficiary of the Project will make available the meeting rooms and facilities for training, seminars and workshops.

## **ANNEXES TO PROJECT FICHE**

1. Logical framework matrix as per Annex C1b (compulsory)

	Description	Indicators (with relevant baseline and target data)	Sources of verification	Risks	Assumptions (external to project)
<b>Overall Objective</b>	Support to Internal Audit Department of the Indirect Taxation Authority of Bosnia and Herzegovina in performing internal audit function in accordance with International and European standards.	Compliance with International standards:	BIH CHU Annual Report (Central Harmonisation Unit)		Necessary government support for the overall performing internal audit function in accordance with International standards.
<b>Specific (Project) Objective(s)</b>	Establish internal audit that will assist the institution in achieving its goals, by assuring systematic and disciplinary approach to the evaluation, and improvement of efficiency in risk management, control and governance processes.		ITA Annual report		
<b>Mandatory results / outputs by components</b>	<p>Result 1: Improved financial management and control system, standardisation of processes and better process management;</p> <p>Result 2: Improved results based business processes management;</p> <p>Result 3: Improved of project management skills of IA staff;</p> <p>Result 4: Increased knowledge on preventive activities in the area of fight against corruption and fraud;</p> <p>Result 5: Enhanced internal auditors' skills;</p> <p>Result 6: External assessment of Administration's internal audit quality carried out;</p>	<p>Uniform and proper performance of institution ensured;</p> <p>- Better quality of services provided to users;</p> <p>- Increased the level of process standardization (ISO 9001);</p> <p>- Increased level of responsibility and transparency in work;</p> <p>- Ensured audit trail for each business process;</p>	ITA Annual Report		Adequate commitment from the ITA management
<b>Activities</b>	<p>Activities related to Result 1:</p> <p>Act.1.1. Presentation on Business Processes Map at the ITA level;</p> <p>Act.1.2. Assist in preparation Risk Register at the ITA level in line with the Business Processes Map;</p> <p>Act.1.3. Study visit;</p>				

	<b>Description</b>	<b>Indicators (with relevant baseline and target data)</b>	<b>Sources verification of</b>	<b>Risks</b>	<b>Assumptions (external to project)</b>
<b>Activities</b>	<p>Activities related to Result 2:</p> <p>Act. 2.1. Drafting Operational Activity Plan for establishing performance management in the ITA;</p> <p>Act.2.2. Study visit</p> <p>Activities related to Result 3:</p> <p>Act. 3.1. Drafting Rulebook for the project procedures to be used for project management in the ITA and for internal audits of projects;</p> <p>Activities related to Result 4:</p> <p>Act. 4.1. Drafting of Operational Activity Plan for system approach to corruption prevention in the ITA;</p> <p>Act. 5.1. Improvement and enhancement internal auditor's skills in line with requirements of Standard 1230</p> <p>Activities related to Result 6:</p> <p>Act. 6.1. Preparation of report on conducted external assessment of quality of internal audit in the ITA.</p>				