

ATTACHMENT 3 to the PEM PAL Secretariat Annual Report for 2010

PEM PAL ACTIVITIES IN 2010

I. Budget Community of Practice

1. Georgian Delegation's Study Tour to Dublin, Ireland (February 2010)

In December 2009, the Government of Georgia adopted a new Budget Code to simplify and improve the budget system and consolidate regulating legislation. Considering that Georgia is an active member of the PEM PAL network, the decision was made to use these relations and arrange a study tour in a country that has a well developed Capital Budget System.

The study visit with all the presentations, personal meetings and discussions provided the participants with extensive information on developing a capital budget from inception through appraisal and selection and onward to implementation steps serving the needs of governmental officials. The study tour was attended by six Georgian officials.

2. Study visit of Bosnian officials to Slovenia (July 2010)

The objective of the study visit was to discuss processes and procedures of budget planning cycle in an EU member country, and to discuss reform options in the following areas: budget calendar and related legislation, key institutions and related coordination mechanism, MoF organization scheme, macro-economic and fiscal policy, defining government priorities and strategic planning and linkages to decisions on budget allocations, preparation of the budget documentation, importance of the PFM in the context of EU integration, measuring and evaluation of the government's programs, IT systems to support budget preparation and financial reporting.

3. 2010 Annual Meeting in Budva, Montenegro (September 2010)

Budget officials from Europe and Central Asia met in Budva, Montenegro, to discuss budgeting reform priorities and prepare an action plan of their activities for 2011 and 2012. They identified four main topics to be discussed among peers in the next couple of years: fiscal rules, medium-term budgeting, capital and program/performance budgeting.

The participants stressed the importance of learning from the experience of others. Despite diverse geography and specific backgrounds, the reform paths face similar obstacles and challenges. Discussing PEFA review in 2009, for example, helped identify weaknesses and design indicators. As in the past, the future dialogue should also involve external experts from international organizations (WB, IMF, OECD) and bilateral donors (InWent). Face-to-face meetings proved to be more efficient than Video Conferences.

Among the challenges, lack of clarity in legislation, weaknesses in institutional set up, unclear division of responsibilities among institutions and inadequate human capital development are the most important ones. Lack of clear objectives and benefits, for example, can result in line ministries' reluctance in accepting responsibility. Most important for every reform is political commitment, and the sense of responsibility for keeping the overall budget on a sustainable footing. Too often these elements are missing. Last but not least, training and capacity development need to be strengthened.

II. Internal Audit Community of Practice

1. 2010 Annual workshop in Yalta, Ukraine (May 2010)

From May 26-28, 2010, over 40 internal audit professionals from 15 countries in Europe and Central Asia (ECA) region held the 7th PEM PAL IA CoP workshop in Yalta, Ukraine.

The objective of the workshop was to explore relations between inspection, internal and external audit.

Participants exchanged views on and experience with harmonization of training and certification (T&C) in internal audit. As part of capacity building effort, harmonization was seen important for enhancing

professionalism and motivation, and keeping the best staff in the public sector. But lack of financing, insufficient commitment and ownership, as well as difficulties with getting the right trainers often hamper the process. Several proposals to deal with these obstacles were made, such as involving universities, using PEM PAL conclusions to make the case for a change, training the managers, etc..

How does the role of internal audit differ from that of inspection? was another important question discussed in the workshop. Participants maintained that it is essential to separate the roles of inspectors and internal auditors, but also to establish good relations among them. In principle, inspection is an investigatory activity, and internal audit is a service to line management with a more strategic and systematic view. In practice, their roles are often overlapping, or are misunderstood. For a smooth transition from inspection to internal audit, getting the pre-conditions right is essential, such as adequate regulation, clear concept, political commitment and ownership, training to understand a complex terminology, as well as trust in the system.

Participants also talked about cooperation between internal and external audit, and the lessons learned in enhancing the role of internal audit in the public sector. Questions on how to promote professional development, avoid duplications, use findings of internal auditors, etc. were at the center of the discussion.

2. Internal Audit Manual (IA Manual) workshop in Bled, Slovenia (October 14-15, 2010)

The objective of the workshop was to create a common understanding on IA Manual – special attention was drawn to IPPF standards, IA Manual objectives, Capability maturity model and IPPF chapters, current status and overview of IA Manuals in PEM PAL countries and their view on IA Manuals.

During the workshop the IA CoP members discussed good practices for IA Manuals, created an IA Manual working group and developed an action plan for further steps.

3. Training and Certification (T&C) workshop in Bled, Slovenia (October 18-19, 2010)

The objectives of this workshop included a continuous development of the community as a dynamic learning partnership between its members and setting the way forward: Integration of Konrad report (2008), results IIA Body of Knowledge (BoK) for internal auditors and Internal Audit Capability Model as common professional platform for internal auditors. The main focus was put on making the connection of BoK with T&C and placing BoK in the T&C system for internal auditors (current examples from PEM PAL countries).

4. Study visit of Ukrainian officials to Croatia (November 2010)

The Ukrainian Central Harmonization Unit visited their Croatian peers to discuss organization of training for future managers and internal auditors as well as other aspects of implementation of PIFC. The Ukrainian delegation consisted of 6 members. The program of the study visit included the following areas: internal financial control system, acquired experiences, legal and organizational framework; accession process under the Chapter 32 of the EU acquis; system of financial management and control and training of responsible persons; IA in the public sector, the status of development, results, methodology, training and certification of internal auditors; PIFC system in the fight against corruption; and, system of budgetary control.

Based on the information and solutions presented, the Ukrainian delegation expects to be able to prepare and adopt a strategy for training, certification and professional development of internal auditors and the persons responsible for financial management and control, and establish a centre for vocational training.

III. Treasury Community of Practice

1. T CoP Executive Committee meeting through videoconference (February 2010)

The main objective of the meeting was to develop a Plan of activities for 2010 and discuss organization and contents of T CoP workshop to be organized in the first half of 2010. As work in small groups was identified as a preferred format for discussions by most of TCOP members, the Executive Committee opted

for organizing in May 2010 a workshop in Moldova for a group of member countries interested in the use of IT in Treasury operations.

2. 2010 Annual meeting on the use of information technologies in treasury operations in Chisinau, Moldova (May 2010)

The fourth annual meeting of PEM PAL Treasury Community of Practice was hosted by the Ministry of Finance of the Republic of Moldova and held in Chisinau, Moldova, on May 18 – 20, 2010. The meeting was attended by 37 representatives of the Ministries of Finance and Treasuries of 14 countries and was devoted to the discussion of issues related to the use of information technologies in treasury operations. Special attention was devoted to the use of electronic payment systems and digital signature application for treasury operations.

The main objective of the meeting was to offer the participants an opportunity to exchange experiences in applying information technologies for treasury operation, learn from the best practices and discuss risks and potential mistakes to be avoided in the process of implementation of treasury modernization reforms. The agenda of the meeting combined presentations from countries with different level of IT application and different models of using digital signature. The approach proved to be successful for achieving the workshop objectives, having generated an active exchange of experiences and views. During the two workshop days, more than 100 questions were raised by the participants. This demonstrates a great interest of the T COP members to use the information technologies in treasury operations. In view of this, an IT thematic group within the T COP has been created to continue communication and sharing of experiences in this area.

3. TCoP Leadership Group meeting through video conference (July 22, 2010)

The main objective of the meeting was to discuss TCoP Activity Plan for 2010-2012 (with a focus on the preparation of the TCoP events scheduled for fall 2010). TCoP leadership group also addressed issues related to the TCoP members participation to the all PEM PAL CoPs meeting, planned for January 2011.

4. Implementation of the integrated budget classification and chart of accounts (BC & CoA) workshop in Dushanbe, Tajikistan (October 2010)

This workshop was the first PEM PAL event ever held in one of Central Asian countries. It generated a lot of interest in the region. Representatives of 6 countries, including Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan and Ukraine, discussed the implementation of the integrated budget classification and chart of accounts (BC and CoA) and how to align them with international standards. In order to assess the existing situation in the BC and CoA area, each country was asked to prepare a case study for presentation and discussion, following the recommended format and structure.

Participants agreed that a unified CoA is essential for the development of a modern PFM. Advantages and disadvantages of a flexible approach (BC and CoA remain distinct, but linked with the overall coding structure) and a rigid approach (BC becomes part of the CoA with fixed linkages) were discussed. Another conclusion from the workshop was that the so called »big bang approach« in the area of BC and CoA reform has more advantages than partial implementation with pilot projects, but countries should be well prepared to reduce the risks and pursue the big-bang approach. Participants agreed that learning the rules is a necessary prerequisite to develop and implement integrated BC and CoA, although specific practices cannot be directly translated from one country to another.

IV. Joint Leadership Group meeting

On June 14, 2010 all three CoP Executive Committee members of PEM PAL network held a joint meeting which took place in Bled, Slovenia. Two of three Executive Committee (Leadership Groups) were represented, namely T CoP and IA CoP with the World Bank and CEF staff.

The aim of this event was joint CoP discussion on the preparation for the Steering Committee and plenary meeting in January 2011 as well as PEM PAL strategy for the next 24 months.

V. Steering Committee meetings

1. Steering Committee meeting through VC on March 18, 2010

The SC discussed the funding outlook for 2010 and beyond, which improved considerably with a new donor, the Russian Federation, joining the PEM PAL network. The SC also discussed and approved work plans and budgets for 2010 of all three COPs. Decision was taken to organize a plenary meeting in January 2011. Also discussed were various topics, like the use of wiki, translation of PIFC book, membership sustainability, selection of the Community Facilitator, Rules of Operation, and the Secretariat Report for 2009.

2. Steering Committee meeting in Ljubljana, June 15, 2010

On June 15, 2010, members the Steering Committee met with two of three CoPs leadership groups (see above) at a face to face meeting held at the Center of Excellence in Finance.

Following the conclusions adopted at the leadership meeting the day earlier, the discussion largely focused on the strategic planning of the activities across all three CoPs within the next 24 months. Updates of work plans and budgets for each CoP were also presented. Special attention was devoted to a discussion on organization of the Plenary meeting 2011 and status of the community facilitator.

3. Steering Committee meeting through VC, October 20, 2010

The SC discussed organizational matters related to the 2011 Zagreb Plenary meeting to be held in January 2011 in Zagreb, Croatia: concept notes, topics, schedule of activities, moderation/facilitation seminar, linkages to other WB supported initiatives. A community facilitator was selected and introduced to the SC. Also, the Guidelines for the study visits and events were approved. COPs action plans for IA COP and B COP were also discussed. The SC members asked that performance indicators be included into the Secretariat report for 2010.

4. Steering Committee meeting through Adobe, December 15, 2010

The SC discussed organization of the PEM PAL 2011 Plenary meeting, approved changes to the Rules of Operation, updated B COP budget. The newly appointed community facilitator reported on her first steps.