

**CONFERENCE ON ACCESSION
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- BULGARIA -**

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Chapter 28 – Financial Control

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**SUPPLEMENTARY INFORMATION
TO DOCUMENT CONF-BG 4/01 AND CONF-BG 82/01
ON CHAPTER 28 – FINANCIAL CONTROL**

Bulgaria wishes to refer to document CONF-BG 4/01 (Negotiating Position on Chapter 28 “Financial Control”) and document CONF-82/01 (Supplementary Information to Negotiating Position) and to provide supplementary information on the adoption and implementation of the *acquis*.

I. PUBLIC INTERNAL FINANCIAL CONTROL

On the commitment for the establishment of Internal Audit Units in the budget spending centres by the end of June 2002

According to the Public Internal Financial Control Act the internal audit of the public spending centres is performed by the Public Internal Financial Control Agency (PIFCA) following the principle of a centralised approach. The internal auditors are employees of the PIFCA and perform internal audit being delegated to the administration of the spending centre or by performing specific financial control tasks. By the end of June 2002 internal auditors have been delegated to 12 Ministries. At the beginning of August a new Ministry of Youth and Sports was established. Preparatory work for the delegation of auditors to the Ministry of Interior, the Ministry of Defence, the Ministry of Energy and Energy Resources and the Ministry of Youth and Sports is being carried out at the moment and till the end of September internal auditors shall be delegated in these 4 Ministries, thus completing the process of delegation of internal auditors to all the 16 Ministries in Bulgaria. Internal auditors have been delegated to all the 27 municipalities, which have the status of district centres.

The delegated internal auditors perform their functions on the basis of working plans.

On the progress of the adoption of the Public Internal Financial Control /PIFC/ instructions and manuals

The following manuals and instructions have been elaborated and adopted by the Director of the PIFC Agency:

1. Manual on the Control over Public Procurement Procedures;
2. Instruction on the Activities of the Delegated Internal Auditors;

3. Instruction on the Common Rules for the Performance of the Internal Audit;
4. Instruction on the Preventive Control.

Those manuals and instructions have been distributed to all regional directorates of the Agency and the auditors will be trained in line with them.

The following documents are being drafted and will be adopted according to the respective schedule:

- Ordinance on the certification procedures – by the end of October 2002;
- Ordinance on the risk assessment procedures – by the end of December 2002;
- Audit trails and templates of documentation for EU funds audit – by the end 2002;
- Internal Audit Charter – by the end of November 2002;
- Code of Conduct for Internal Auditors - by the end of December 2002;
- Auditing Standards – by the end of December 2002.

On the further development of PIFC legislation

Following consultations with DG "Budget" of the European Commission in January and April 2002, the PIFCA elaborated a draft Act on the amendments to the PIFC Act. The amendments to the Act are based on the updated Policy Paper in the field of public internal financial control. The draft Act was adopted by the Council of Ministers on the 22 August 2002. It is foreseen that the Draft Act will be adopted by the National Assembly by early October. The first reading in the National Assembly is scheduled for 17 September 2002.

The main amendments in the Draft Act are as follows:

- Ensuring the functional independence of the PIFC Agency's Director, through setting up 4-year mandate for the position.
- Establishing in the spending centres a new position - financial controller, who will perform the ex-ante control function within the budget spending centres (at the moment this function is being performed by the chief accountant). This will bring about the further strengthening of the financial management and control systems.
- Abolishing the practice to partially finance the budget of PIFC Agency by funds, coming from identified and recovered amounts for the damages caused to the budget, by repealing the relevant Articles of the PIFC Act.

The PIFC Agency drafted and signed administrative agreements with the following institutions:

- National Audit Office – signed on 3 July 2002
- "National Police" Directorate of the Ministry of Interior – signed on 11 July 2002
- Privatization Agency – signed on 15 July 2002
- Post-privatization Control Agency – signed on 18 July 2002
- Bureau of Financial Investigation Agency – signed on 19 July 2002
- General Tax Directorate – signed on 26 July 2002
- State Receivables Agency – signed on 1 August 2002
- Public Prosecutor's Office – signed on 1 August 2002
- Customs Agency – signed on 30 August 2002

Other measures aimed at strengthening the public internal financial control in Bulgaria

By virtue of Council of Ministers' Decision a Council for Public Internal Financial Control matters under the Council of Ministers was established in Bulgaria on 24 July 2002. The Council comprises of ministers, the President of the National Audit Office (NAO) and the Director of PIFCA. The functions of the Council include the elaboration of the PIFC Strategy, monitoring and co-ordination of the control units within the executive power, updating of the PIFC Policy Paper, endorsement of action plans, etc. On the first meeting of the Council on 25 July 2002 the Policy Paper on the PIFC in Bulgaria was adopted.

Independent evaluation of the Public Internal Financial Control

The Minister of Finance of Bulgaria requested from SIGMA (common initiative of the OECD and the EU) to carry out an independent review and evaluation of the current system of public finance management and control in Bulgaria. The first stage of the review was carried out in April 2002. The final Report was sent at the end of May 2002. The Peer Review recommendations have been taken into consideration in the updated PIFC Policy Paper, endorsed by the Council for Public Internal Financial Control matters under the Council of Ministers of the Republic of Bulgaria. The second stage of the Peer Review will be carried out during the second half of 2003.

On the audit of the pre-accession funds and the future EU funds

The first certification audit of SAPARD program was carried out and a certificate was issued according to the MAFA (Multi-Annual Financing Agreement) provisions and the international auditing standards. Regarding ISPA funds PIFCA performs internal audit through delegated internal auditors. The internal audits of the Implementing Agencies, spending ISPA funds, are being carried out in compliance with the plan. Delegated internal auditors audit the National Fund Directorate under the Ministry of Finance, which is the single treasury body regarding the EU pre-accession instruments.

On the protection of the EU financial interests

On 17 and 18 January 2002, the Director General of OLAF was on an expert visit in Bulgaria and held a series of meetings with representatives of all competent institutions. During his visit the Director General met the Minister of Interior who declared the commitment of the Bulgarian authorities for more active co-operation with OLAF expressing willingness to intensify the process of establishing a National Contact Point for co-operation with OLAF. This commitment has been confirmed in a letter from the Minister of Interior sent after the meeting.

Bulgaria intends to establish a national structure for operative co-ordination of anti-fraud efforts located at the Ministry of the Interior, which is of key importance for the implementation of further closer and more effective practical co-operation with OLAF. A procedure for establishment of the Contact Point within the Ministry of Interior has started and will be finished till the end of 2002. It is foreseen that the new structure will commence its effective activities by the end of the first half of 2003. That structure should initiate and co-ordinate all national-level actions contributing to the protection of the financial interests of the European Community. At the same time it will maintain

co-operation with OLAF as well as with the competent authorities of the Member States, other countries and international organisations, including requests or financial inspections. With that regard, OLAF has sent a framework legal instrument containing the basic general principles of an efficiently working structure for co-ordination of anti-fraud efforts. On the basis of that instrument, Bulgaria will be able to develop the necessary legislation for the new structure, and contact point will be created with OLAF's expert support.

Currently, an interdepartmental Task Force is in a process of formation with a view to identifying by the end of September 2002 the necessary legal changes that need to take place in order to establish and practically put into operation the new Ministry of the Interior structure as well as the needs accompanying its institutional and administrative building. It is anticipated that the new legislation will be drafted and adopted by the end of 2002. Work on the practical setting up of the new structure will begin within the same timeframe anticipating that it will become operating effectively by the end of the first half of 2003.

II. EXTERNAL AUDIT

On the harmonization of the legislation:

The new NAO Act was adopted in December 2001. It set the legislative framework for external audit in Bulgaria in compliance with the international auditing principles and standards and the good European practices.

On the elaboration of secondary legislation

For the implementation of the NAO Act secondary legislation has been elaborated and adopted by the NAO:

- Agreements for cooperation between: the NAO and PIFCA, the NAO and the Prosecutor's Office of the Republic of Bulgaria, the NAO and the Tax Administration, the NAO and the State Receivables Agency, the NAO and the Customs Administration, and the NAO and the Financial Investigation Bureau Agency have been approved pursuant to Art. 7 of the NAO Act. Those agreements were signed in July 2002.
- Regulations on performance of limited audit of the quarterly statements on the execution of the budgetary and extra-budgetary accounts and funds of the first level budget spending centres have been developed and adopted by the NAO with the aim to increase the role of the current control of the budget execution.

Rules on Financial Management and Control of the National Audit Office will be adopted by the end of October 2002 in compliance with the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities and Commission Regulation No 3418/93 laying down detailed rules for the implementation of certain provisions of the Financial Regulation of 21 December 1977.

On the improvement of the follow-up of the NAO's audit reports procedures by Parliament

The new NAO Act regulates the main issues concerning the relationship between the NAO and the Parliament, including the follow-up of the recommendations given in the audit reports. The responsibility for the implementation of NAO's recommendations given in connection with the performed audits has been enhanced (Art. 42,46,47 and 49 of the NAO Act). In order to elaborate those legislative provisions, Rules for interaction with the Parliament, the follow-up parliamentary control of NAO's audit reports and follow-up of the implementation of its recommendations have been adopted. These rules include procedures for discussion and consideration of NAO's audit reports in order to exercise parliamentary control on the actions of the public funds spenders, as well as to take the respective measures and hold liable the organizations, that have committed substantial deviations from the rules throughout the process of management and use of public funds. They are to be agreed with the Parliament by the end of October 2002.

On the elaboration of National External Audit Standards

The following auditing standards have been adopted and promulgated in the State Gazette Nr. 63/28.06.2002:

- General Standard on the Audit Activity of the NAO;
- Standard on the Planning of Audit Activities and Audit Tasks;
- Standard on the Financial Audit;
- Standard on the Performance Audit;
- Standard on Audit Evidences;
- Standard on Audit Sampling;
- Standard on the Materiality and the Audit Risk;
- Standard on the Analysis Procedures;
- Standard on the Working Papers;
- Reporting standard.

The Standard on the Audit of EU Funds and Programmes has been developed and will be adopted by the end of October 2002.

The Code of Ethics has been adopted and will be published in the NAO Official Bulletin by the end of October 2002. The main issues of the developed standards on:

- Quality Assurance;
- Internal Control Evaluation and Tests (checks) of Control, and
- Using the Results of Other Auditors and Experts' Work

have been included in the promulgated General Standard on the Audit Activity of the NAO. They will be supplemented in the Guidelines on Implementation of the General Standard, which will be adopted and published in the NAO Official Bulletin by the end of December 2002.

To supplement the auditing standards, according to the commitments made, the elaboration of the Audit manual continues. It will contain detailed guidelines on the implementation of the auditing standards. It is envisaged that the manual will be finalised by the end of September 2003 under the twinning project in cooperation with UK NAO and supported by the Netherlands Court of Audit.

On the extension of NAO's authority with respect to the audit of EU Funds:

The NAO Act extends the scope of the NAO auditing authorities, including the right to audit the use of EU funds and programmes and their managing by the respective bodies and end beneficiaries, as well as the spending of funds received from other international organizations. The Act envisages the possibility for NAO to conduct joint audits of the use of EU funds and programmes with the European Court of Auditors, as well as joint audits with other Supreme Audit Institutions of the implementation of international agreements, contracts, conventions and other acts (Art.8, Para 2).

In compliance with the EC recommendations for the improvement of the control measures on the proper use of EU funds, the NAO will adopt by the end of October 2002 a standard on the audit of EU funds and programmes. This standard will be elaborated with the support of UK NAO experts through testing under pilot audits in the framework of the twinning project.

In order to meet the requirements for auditing of PHARE, ISPA and SAPARD, the NAO continues the intensive training of the NAO and its Regional Offices auditors through their participation in pilot audits.

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The Bulgarian Government proposes the negotiations on this chapter to be provisionally closed on the basis of the existing *acquis*.

Should new elements of the *acquis* necessitate it, Bulgaria recognizes the possibility of opening additional negotiations on this chapter before the end of the Intergovernmental Conference.
