

BULGARIAN NATIONAL AUDIT OFFICE

Enhancing Stakeholder Confidence: Auditing Management Integrity, Accountability and “Tone at the Top”

In 1992 COSO published Internal Control-Integrated Framework thus providing management with a thorough guidance on development of sound control environment, direction for enhancing risk management, establishment of adequate control activities, setting up appropriate communication and monitoring systems, and improvement of organisational performance.

This framework was unfamiliar to the public sector managers in Bulgaria at the beginning of the new century. The pre-accession process led to dramatic changes in management models, approaches and practices in public sector. In 2006 the Financial Management and Control in the Public Sector Act and the Public Sector Internal Audit Act were adopted and enforced as part of the financial management reform in public sector. The heads of the public sector organisations are responsible for the execution of financial management and control in all structures, programmes, activities and processes managed by them in compliance with the principles of legality, sound financial management and transparency. The managers at all levels in the organisations are responsible to and have the obligation to report to the higher level manager for their activities with regard to the financial management and control in the structures and units they manage. Establishment and proper execution of the internal audit function is also a part of their duties. They shall set up a system for monitoring the financial management and control for the purposes of assessing its adequate operation and ensure its timely updating whenever conditions change. The heads of the organisations have to provide the Minister of Finance with information on the operation, adequacy, efficiency and effectiveness of the financial management and control systems in the organisations.

The Minister of Finance is obliged to prepare and submit to the Council of Ministers a consolidated annual report on the internal control in the public sector by 31 May every year. This report includes the annual report on the condition of the financial management and control in the public sector and the annual report on the condition of the internal audit. After the consolidated report is approved by the Council of Ministers, it is submitted to the National Assembly and the National Audit Office.

The National Audit Office submits to the National Assembly its report on the condition of financial management and control and internal audit and its opinions on the reports presented by the Minister of Finance by 30 June each year. This report summarises findings and assessments included in the audit reports issued concerning the reported period.

The internal control system and the internal audit are subject to scrutinizing at different stages of the audit process. Consideration on the integrity of the high level officials and the philosophy and style in decision making is given when assessing risks during the strategic and annual planning process. When planning the audit tasks auditors, in compliance with the ISSAIs, make an observation and collect reliable and sufficient information on the condition of the control environment. As part of the audit planning an assessment of control environment and internal audit function execution is carried out. Specialised questionnaires are designed as part of the working papers templates in BNAO Audit Manual. Auditors shall make an assessment on the following issues:

- Does the audited entity formally adopt a Code of Ethics that is applicable to all employees, top management included? Are there procedures that assure the proper and consistent implementation of the Code? Are there procedures for determining and reporting unethical behaviour?
- Does management apply sound human resources policy concerning proper selection, education and training of the personnel? Is the policy consistently implemented?
- Do the high level officials have proper attitude concerning functioning of the control system and the internal audit and the principals of the good governance?
- Are there established adequate order and procedures for interaction of the high level and operational level management?
- Is there an adequate organisational structure assuring proper separation of duties? Is there suitable division of functions between units in the audited entity? Are the organisational structure and the units functions reviewed on regular basis? Are there established proper horizontal and vertical reporting lines?
- Are expedient rules for delegation of powers set up for assuring uninterrupted performance of the organisation activities?

The adequate and effective enforcement of the above mentioned laws - the Financial Management and Control in the Public Sector Act and the Public Sector Internal Audit Act, imposes several challenges found out during the audits carried out by the BNAO:

1. The top level managers have insufficient knowledge on the scope and the burden of the managerial responsibilities as defined by the law. Some of them are professional politicians (ministers and heads of government agencies). Very often they delegate their duties related to the financial management and control systems functioning to other officials, for example to the Secretary General, who is a public servant and is responsible for the functioning of the respective public administration. As result heads of organisations to some extent are severed from the decision making in this area.
2. The internal audit units in some public entities, especially in municipal administrations, hardly achieve administrative capacity due to insufficiency of well trained staff.
3. The neglecting of some components of the control environment by the management and/or internal auditors.

Because of their character the management integrity, philosophy and accountability are often regarded as abstract or immaterial. For example, a Code of Ethics is adopted in almost all public sector organizations, but monitoring procedures for its implementation are rarely established.

Internal auditors focus their work on risk evaluating and controls functioning, but this aspects of the control environment often stay away of their priorities. It is easy to explain by the self-limitation in scope of internal auditors' independence.

4. There is no proper understanding (misunderstanding) in respect to the good governance principles.

The programme budgeting was introduced in Bulgaria in 2004. The program budgeting establishes long-term planning objectives and translates programmes into budget. The process was introduced gradually starting at few pilot ministries (MOEW, MLSP and MTITC) and is being applied at present by all budget spenders. In compliance with the Budget Law the ministries, Council of ministers and agencies, defined in a list are obliged to present to the Ministry of Finance budget reflecting policies and programmes and to publish it on their internet sites, including the report for the budget implementation. There is a need to improve the programme budgeting process and the role of the NAO is to give recommendations to assist the budget spenders towards better quality of the programming documents and completeness of the reports for their implementation and thus enhancing process of accountability in public sector in Bulgaria.