

STATEMENT OF OPINION

Subject: Exposure draft of the Bill on amendment and supplement to the Public Sector Internal Audit Act

The Institute of Internal Auditors in Bulgaria (IIA Bulgaria) is the professional organization of the internal auditors in Bulgaria. IIA Bulgaria has over 530 members – professionals in the fields of internal audit, financial control and risk management. Our members are working in all business fields – private companies, banks, insurance companies and public sector organizations. As a Chairman of the Governing Board of IIA Bulgaria, I would like to express my concerns on the fact that the profession, represented by the IIA Bulgaria, was not asked for opinion on the amendments of the Public Sector Internal Audit Act, which is fundamental for performing the internal audit activity in the public sector.

Considering this, on behalf of the Governing Board of IIA Bulgaria, I would like to present our comments on the Bill on amendment and supplement to the Public Sector Internal Audit Act (PSIAA).

Here are our comments and proposals on the amendments:

1. § 2, p. 1 - article 12, paragraph 1, point 4

Increasing the minimum budget level for setting up Internal Audit Units within the administrations of the first-level spenders of budget appropriations, except mentioned in art 12, p. 1 and 3, from BGN 5 million to BGN 10 million, is prerequisite for abolishing most of the existing internal audit units. Thus the administration with lower budget will be deprived of a mechanism for improving the internal control system and reducing the risk of fraud and abuse. We consider illogical that the minimum budget threshold for the first-level spenders of budget appropriations is the same as for the municipalities. The minimal budget thresholds are different in the current PSIAA because of the different significance these organizations have for the public.

2. § 4 - article 14

The amendment in art. 14 of PSIAA which removes the current requirements for minimum number of internal audit staff evolves risks, that in our opinion, are much more significant than those from keeping 50 vacant positions for internal auditors. In the motives to the Bill there is no information about cost/benefits analysis of these amendments. We consider that limitation in the human resources of the internal audit activity in the public sector will significantly increase the risk of illegal and inefficient spending of the public funds. The motives to the Bill do not include analysis of the reasons for having these positions for internal auditors vacant. This could be for various reasons, and it does not mean that if vacant, they are automatically unnecessary, as it is considered into the Bill.

The removal of the legal requirement for a minimum number of the internal audit staff provides opportunity for subjective interpretation by each head of the organization as regards the number of posts.

The criteria for defining staff levels for internal audit units in art. 14, paragraph 1, p. 1-6 are presented as a mechanism for avoiding abrupt shrinkage of the staff, but in our opinion they are ambiguous and subjective. These criteria are not clearly specified as well as the approach for defining the staff numbers – whether it should be based on a cumulative assessment on all criteria or not.

We consider that the proposed amendments do not ensure sufficient independence of the internal audit units which size will depend on the personal views of each organization's head. This is not in conformance with the principle for independence of the internal audit function. It is also a prerequisite for completely abolishing or decreasing the internal audit staff of most of the existing internal audit units and not just elimination of the vacant posts.

There are no qualitative or quantitative criteria that will inevitably lead to only fictitious implementation of the requirements set in art. 14, par. 2 for staffing of the internal audit by the head of organization.

In the proposed amendments the role of the Chief Audit Executive, who is responsible for the overall functioning of the Internal Audit Unit, is totally ignored. According to Standard 203 “The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.” Thus the number of the internal audit staff should be based on risk assessment and in accordance with the audit strategy.

It is proposed that the change in the number of the internal audit staff shall be consulted with the Minister of Finance. It is illogical that this mechanism refers only for the Ministries and second-level spenders of budgetary appropriations within the ministries. It is not clear why this mechanism does not refer for other organizations under art. 12, par. 1, which have internal audit units (the administration of the President, the National Assembly, the Council of Ministers, the National Social Security Institute and the National Health Insurance Fund, the Supreme Judicial Council and the National Audit Office, the municipalities with budgets in excess of BGN 10 mln, administrations of the first-level spenders of budget appropriations which have budget in excess of BGN 5 mln (amended to 10 mln.), as for the second-level spenders of budget appropriations, mentioned in the Annex to PSIAA. We consider that this mechanism not effective enough, having in mind that it does not refer to all organizations, which spend public funds, whether created by a special Act.

IIA Bulgaria opinion is that the proposed amendments into PSIAA will affect negatively the internal audit resources and will increase the risks of errors, irregularities and mismanagement of public funds, and will hinder the identification of fraud indicators. These amendments would remove the few existing mechanisms that allow the public sector internal audit units to be in conformance with the independence and objectivity principles.

In conclusion, I would like to ask you to invite our representatives to participate in any future working groups that discuss changes in the internal audit regulations, affecting both public and private sector.

Yours sincerely,

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