1. **Basic Information**

1.1 **CRIS Number:** BG2003/004-937.09.03

1.2 **Title:** Further implementation of the new model of Public Internal Financial Control in Bulgaria

1.3 **Sector:** Institution Building  
**Twinning Code:** BG03/IB-FI-01

1.4 **Location:** Sofia, Bulgaria

2. **Objectives**

2.1 **Overall Objectives:**
Further development and implementation of the new legislative framework of the Public Internal Financial Control in compliance with the acquis and strengthening the administrative capacity of the Public Internal Financial Control Agency

2.2 **Project purpose:**
Implementation of the new model of Public Internal Financial Control in Bulgaria

2.3 **Accession Partnership and NPAA priority**

*Bulgaria’s Accession Partnership contains the following priorities:*
- Implement the new legislative framework on Public Internal Financial Control and strengthen the administrative capacity and the functional independence of the relevant institutions;
- Implement the framework for systems based and performance audits; develop a culture of managerial accountability;
- Step up efforts to ensure the correct use, control, monitoring and evaluation of EC pre-accession funding as a key indicator of Bulgaria's ability to implement the financial control acquis.

*The NPAA contains the following priorities:*
- Development of the Financial Management and Control systems;
- Enhancement of the control activities of the Public Internal Financial Control Agency;
- Implementation of the certification of the accounts of the functional structures responsible for expenditure of funds under European pre-accession programs;
- Enhancement of the administrative structure of the PIFC Agency to reflect the new model of Public Internal Financial Control;
- Human resources development.

*The Roadmap for accession of Bulgaria to the European Union provides for:*
Bulgaria should focus its further efforts in particular on the continuing amendment of the legal framework and completion and strengthening of the required institutional structures, including in the area of the protection of the EC financial interests where ongoing substantial efforts are still required.

Key steps include:

**Short term**
Ensure the professional criteria for and functional independence of the Public Internal Financial Control Agency leadership in compliance with commitments.
Medium term
Fully implement Public Internal Financial Control Law and make further amendments to implement the Strategy Paper and the Operational Plan for the PIFC Agency. Strengthen further the administrative capacity of the PIFC institutions.
Further develop legislative framework and administrative capacity for the protection of the Communities' financial interests against fraud and irregularities.

3. Description

3.1 Background and justification:
Public Internal Financial Control in Bulgaria is managed and exercised by the Public Internal Financial Control Agency (PIFC Agency).
The PIFC Agency is an administration under the Minister of Finance and a legal entity funded by the Republican budget. The PIFC Agency has a Central Office and 28 Regional Directorates. (See the organigramme of the PIFC Agency in Annex 4)
The PIFC Agency is independent in its functions of planning, assigning, performing and reporting the control activity from the institutions, authorities and persons, whose activities are controlled.
The legal framework of PIFC Agency includes the PIFC Act, the Regulation on the Implementation of the PIFC Act and the Regulation on the Structure of the PIFC Agency. According to it PIFC includes Financial Management and Control (FM/C) systems, internal audit and preventive control. The FM/C systems include the system for ex ante control performed by a financial controller appointed by the manager of the spending centre and the system of “double signature” in respect of assuming any financial liabilities and incurring any expenses. Internal audit is performed by delegated internal auditors of the PIFC Agency and the internal auditors of the PIFC Agency in performing specific financial control tasks. The delegated internal auditors monitor and assist the functioning of the FM/C systems of the entities to which they are delegated.
The PIFC Agency has employed 1275 officers, 1002 of which are auditors. The newly appointed auditors are university graduates and at present account for 32% of the total number of employees.
The PIFC Agency has the following major functions:
• It plans, manages and implements the integrated policy of PIFC and supervises the overall PIFC activity;
• Provides instructions on the methodology of the exercise of PIFC and is responsible for their uniform implementation;
• Develops standards and manuals for the control activities under the PIFC Act as well as risk assessment mechanisms;
• Provides guidance and recommendations to spenders of budget appropriations on the establishment of FM/C systems, to internal control units and for the implementation of the ex ante control. Checks the correct application of financial management and control systems by spenders of budget appropriations;
• Conducts the relevant activities for the certification of the accounts of functional units responsible for expenditure of funds and programmes of the European Union and issues annual certificates of assurance and reports;
• Co-operates with the National Audit Office, tax and customs administrations, the National Statistics Institute, the Financial Intelligence Bureau Agency, the State Receivables Collection Agency, the Privatisation Agency, the Post Privatisation Control Agency, the Ministry of Interior and the Judiciary;
• Co-operates with the financial control authorities and organisations of other states and the European Union.
In the pre-accession process there is a need to develop and implement the new PIFC model concerning the development of the PIFC Agency into a proper internal audit institution according to internationally agreed audit principles.

The Commission’s 2002 Regular Report on Bulgaria’s progress towards accession comments:

“There is a need for further sustained and determined efforts to implement the new legislative framework and to ensure that the PIFC Agency discharges its responsibilities in an effective manner, which delivers tangible improvements in the area of public internal financial control.”

“Bulgaria has made considerable progress towards the establishment of the legal basis for adequate financial control and start to develop necessary administrative capacity. It still needs to finalise the legislative framework and complete and strengthen administrative structures. Bulgaria should focus its further efforts in particular on the continuing amendment of the legal framework and completion and strengthening of the required institutional structures, including the area of the protection of the EC financial interests where ongoing substantial efforts are still required.”

In compliance with the recommendations of the European Commission and the SIGMA Peer Review (first stage ended on 6 June 2002) an updated Policy Paper on PIFC in the Republic of Bulgaria has been elaborated. (See Annex 5) The document was adopted by the Council of Ministers on 19 September 2002. This updated Policy Paper provides for a number of important tasks to be accomplished. In compliance with the short-term tasks the following amendments of the PIFC Act were introduced and entered into force as of 1 January 2003: enhancement of the functional independence of the Director of the PIFC Agency, creation of a new position of financial controller in budget spending centres and repealing the partial financing of the PIFC Agency out of recovered funds.

The most important tasks to be accomplished until the end of 2003 are the transfer of the function of the harmonisation of the FM/C Systems from the PIFC Agency to a unit at the Ministry of Finance and the elimination of the preventive control function of PIFC Agency.

Development of the internal audit as an independent, permanent and objective instrument for improving the public entities’ activities and assisting in the process of fulfilment of their objectives, improvement of the PIFC legal framework, development and harmonisation of the internal audit legislation are priority tasks of the PIFC Agency.

The PIFC Agency needs to consider adopting a new approach to joint inspections based on the use of the Joint Audit Initiative in order to meet the need to adapt controls with a view to the forthcoming enlargement of the Union. The EU Common Position CONF-BG 49/02 stipulates that:

“The EU encouraged Bulgaria to continue its efforts with regard to control measures relating to EU Own Resources and invites it to closely follow up any future changes of the EU financial system in order to adapt its own mechanisms as necessary. The control modules developed by Member States in co-ordination with the Commission in the framework of the Joint Audit Initiative for improving national administration systems for establishing the EU own resources should be taken into consideration. Furthermore, the EU underlines in this context the importance for Bulgaria of ensuring timely fiscal controls and an effective customs administration.”

The PIFC Agency is one of the key institutions for the implementation of the adopted by the Council of Ministers on 5 September 2002 Concept for the transition to the Extended Decentralised Implementation System (EDIS) in the implementation of PHARE and ISPA in compliance with the Roadmap to EDIS.

There is a need of further development and implementation of the new legislative framework of the PIFC and internal audit in compliance with the international audit standards and the EU requirements. The PIFC Agency experts need to improve their knowledge and experience in performance of the modern audit techniques, especially in relation to the implementation of EDIS. The IT audit needs to be properly performed. The IT system of the PIFC Agency also needs to be further developed.
3.2 Linked activities:
The internal financial control was supported by Phare 1997 National Programme in the period 1999 – 2000. This initial project assisted in drafting the amendments to the primary legislation, giving recommendations for the changes in the financial control system in order to comply with the EU requirements. For the period of April - December 2000, OECD/SIGMA provided further short-term assistance. This project essentially provided “bridging activities” for the more substantive and longer-term project under the Phare 2000 National Programme.

The PIFC Agency implemented the Twinning project BG 2000/IB/FI/04 “Strengthening public internal financial control” with the Ministry of Economy, Finance and Industry of the Republic of France. It has supported the development of the legal framework, development of the management capacity and administrative structures, human resources development and information technology development. According to the Strategy elaborated under the project the IT system of the PIFC Agency has been planned to be developed in two Phases.

Phase 1 has been implemented through a Supply contract under the Phare 2000 Twinning project and achieved the following results:

- Implemented solid network architecture, using the services of the Ministry of Finance;
- Provided connectivity to the Intranet for information sharing for all Regional Directorates;
- Implemented core process applications in 6 leading pilot Regional Directorates and the Central Office;
- Training of the auditors from 6 pilot Regional Directorates and the Central Office on the audit software.

The investment component under the proposed project is designed to implement the Phase 2 of the Strategy for the PIFC Agency IT system. It will include the delivery of network devices, computers, printers, office equipment and training for the remaining 22 Regional Directorates of PIFC Agency, taking into account the experience gathered during the implementation of Phase 1.

The co-ordination with the following projects is taken into account in the design of the present project:

- Twinning project BG 00.06.02. “Strengthening the independent public external audit institution” which covers the following activities: development of audit-related legal framework, adoption and implementation of international audit standard, strengthening of the management and administrative capacity and IT support.
- Phare project “Implementation of the Mid-term Strategy of the Ministry of Finance” which covers the following activities: human resources development, improvement of the economic model, European integration, IT support, public expenditures, budget reform.
- Phare project BG 0103.09 “Improving the management of the EU funds” which covers the following activities: conduction of a thorough review of the management of EU funds in Bulgaria; further development and improvement of a system for co-ordination of the co-financing elements under the pre-accession instruments; provision of assistance in tailoring the existing Financial Management Information System of the Ministry of Finance to the specific needs of the National Fund and to the linkage with the Implementing Agencies; supply of equipment and specific additional software through separate contract.
- The PIFC Agency is supported by USAID Open Government Initiative project. The activities are coordinated with other EU funded projects of the PIFC Agency. The scope of activities covers training of 10 employees of the PIFC Agency to receive Certification under Certified Internal Auditor programme of the Institute of Internal Auditors, procurement of specialised audit and IT literature, basic and advanced computer and language training.

3.3 Results:
Component I: The new legal framework further developed and implemented.

1.1 Updated and implemented legislative framework compliant with the EU requirements and international good practices on internal audit - audit instructions, manuals and others;
1.2 Legislation and audit practices developed and implemented for the audit of the own budget revenues of the Republican Budget in line with the Joint Audit Initiative of the EU Member States;
1.3 Performance of effective control over pre-accession funds and preparedness of the PIFC Agency for the implementation of the EU requirements for control over the Structural Funds and the Cohesion Fund.

Component II: Administrative capacity of the PIFC Agency further improved.

2.1 Upgraded and implemented structure of the PIFC Agency implementing the new PIFC model;
2.2 Quality Assessment System developed and implemented for the activities of the PIFC Agency experts and performance of the auditors assessed by it;
2.3 Training strategy for the PIFC Agency updated;
2.4 The auditors at the Central Office and Regional Directorates, able to:
   • Apply modern internal audit techniques on the performance of different types of audit;
   • Perform audit of EU funds;
   • Perform IT audit;
   • Use autonomously the Audit Software.
2.5 IT staff of the PIFC Agency able to manage the Information Systems.

Component III: Training Centre established and functioning.

3.1 Rules for the status and functions of the Centre developed;
3.2 Methodology for the training of the internal auditors developed;
3.3 Operational programme and a system of planning of the training of the internal auditors from the Central Office and Regional Directorates developed;
3.4 Training modules elaborated and implemented for all types of internal audit, risk assessment, planning and reporting of audits. Elaboration of modules for the audit of EU funds with regard to EDIS.

Component IV: The IT system of the PIFC Agency further developed according to Phase 2 of the Strategy for the development of the IT systems.

4.1 Basic IT infrastructure in all Regional Directorates built. The auditors from the Central Office and the Regional Directorates using autonomously the new IT tools;
4.2 Technical equipment for the Training Centre delivered.

3.4 Activities:
The project shall cover the following components:

Component I: Further development and implementation of the new legal framework.

Activity 1.1 Further updating and implementation of the legal framework - elaboration of internal audit norms including audit instructions and manuals on modern audit techniques and implementation of methodologies on different types of audit in compliance with the EU regulations.
Activity 1.2 Development and implementation of the legislation and audit practices on audit of own budget revenues of the Republican Budget in compliance with the Joint Audit Initiative of the EU Member States.
Activity 1.3 Further development and implementation of the legislation concerning the audit of pre-accession funds, the EDIS and the implementation of the EU requirements for control over the Structural Funds and Cohesion Fund.
Component II: Further improvement of the administrative capacity of the PIFC Agency.

Activity 2.1 Further elaboration and implementation of the structure and functions of the PIFC Agency according to the new model of PIFC.
Activity 2.2 The elaboration and pilot implementation of Quality Assessment System for the activities of the PIFC Agency experts including the internal auditors.
Activity 2.3 Updating of the Training Strategy of the PIFC Agency elaborated under the Twinning project BG 00.06.01 "Strengthening public internal financial control".
Activity 2.4 Further training of the staff of the Central Office and the Regional Directorates of the PIFC Agency on the basis of the developed Training Strategy in the following areas:
- Training on performance audit, systems based audit, IT audit, financial audit;
- Training on audit of EU funds;
- Training on IT audit and performance of pilot IT audits;
- Training on Management Information Systems of the IT staff of the PIFC Agency with regard to the implementation of the IT Strategy of the PIFC Agency;
- Performance of pilot audits for on-the-job training on the use of audit software of the auditors from the Central Office and the Regional Directorates.

Component III: Establishment of a Training Centre of the PIFC Agency.

The Centre will be a permanent functioning structure of the PIFC Agency. It will maintain co-ordination of activities with the Public Finance School of the Ministry of Finance, as well as the Training Centre of the National Audit Office and other relevant institutions.
Activity 3.1 Development and implementation of rules for the status and functions of the Centre;
Activity 3.2 Development and implementation of the methodological approaches for training with the support of EU experts;
Activity 3.3 Operational programme and a system of planning of the training of the internal auditors of the Central Office and the Regional Directorates;
Activity 3.4 Elaboration and implementation of training modules on the types of internal audit, IT audit, risk assessment, planning and reporting of audits and modules for the audit of EU funds with regard to EDIS;
Activity 3.5 Co-ordination with the Ministry of Finance.
The staff in charge with the activities of the Training Centre will participate in the development of the Training strategy under Component 2 and the training modules.

Component IV: Further development of the IT system of the PIFC Agency according to Phase 2 of the Strategy for the development of the IT systems.

Activity 4.1 Building the basic IT infrastructure in all Regional Directorates and providing computers and software tools to auditors. Procurement will include servers, network devices, desktop and portable computers and printers.
Activity 4.2 Technical equipment for the Training Centre including the interpreters’ premise and supporting system for simultaneous translation.

3.5 Lessons learned:
The results achieved under the Twinning project BG 00.06.01 “Strengthening Public Internal Financial Control” are a good base for further development and are taken into consideration in the present project.
The main lesson learned is to elaborate a well-designed Action Plan at the very start of the project implementation and to follow it strictly.
The most beneficial way of achieving project results is working in teams, following clear and defined way of communication between all partners, co-ordination of schedules and working programmes. All activities, meetings, seminars and study tours should be recorded and disseminated.
A training programme including detailed modules according to the needs of the target groups are essential for obtaining substantial experience and knowledge. The training activities related to the training of trainers prove to be a good base for further sharing of knowledge and experience among internal auditors. The pilot audits show that the performance of practical cases of internal audits led by EU experts is the useful approach to implement and provide training on the modern audit practices and techniques. The development of the IT structure should be planned strategically and several pilot Regional Directorates should be selected to implement the new IT tools in order to prove their applicability.

4. Institutional Framework

The beneficiary of the project is the PIFC Agency. The PIFC Agency will carry out the project under the leadership of the Director of the PIFC Agency and by the involvement of the chief managerial staff of the Central Office and the Directors of the 28 Regional Directorates. The PIFC Agency will establish a Steering Committee in order to monitor and assist the project implementation. The Steering Committee will be chaired by the Director of the PIFC Agency and its members will be selected in consultation with the Delegation of the EC to Bulgaria. The Committee will meet regularly during the project. The main tasks of the Steering Committee are to monitor the project process on quarterly basis, to evaluate the compliance of the outputs with the project objectives, to recommend corrective measures and redefine if necessary the priorities and activities of the project as well as to assess and ensure the sustainable effect of the project implementation at each stage.

The co-ordination of the project will be provided by the "European Integration and International Co-operation" Directorate of the Central Office of the PIFC Agency. The PIFC Agency will provide the twinning partner with the necessary staff, equipment and other resources to deliver the project results, including open access to the PIFC Agency senior management.

5. Detailed Budget (in MEUR)

<table>
<thead>
<tr>
<th></th>
<th>Phare Support</th>
<th>National Co-financing*</th>
<th>IFI</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment Support</td>
<td>Institution Building</td>
<td>Total Phare (=I+IB)</td>
<td>IFI</td>
</tr>
<tr>
<td>Twinning component</td>
<td>0.675</td>
<td>1.17</td>
<td>1.17</td>
<td>*</td>
</tr>
<tr>
<td>Investment component</td>
<td>0.675</td>
<td>0.675</td>
<td>0.225</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>0.675</td>
<td>1.17</td>
<td>1.845</td>
<td>*</td>
</tr>
</tbody>
</table>

* The National co-financing - up to 10 percent of the amount of the Twinning component according to the Twinning manual.
  • It is envisaged that 0.225 MEUR of the value of the supply under the investment component will be covered by the national budget.
  • The National co-financing for the Investment component (up to 25 %) will be contracted under Bulgarian Public Procurement Law.
  • The co-financing is laid down in the NPAA long-term priorities under Chapter 28 “Financial Control”.
6. Implementation Arrangements

6.1 Implementing Agency
The Implementing Agency is the Central Financing and Contracting Unit (CFCU) at the Ministry of Finance. The CFCU is the implementing agency responsible for tendering, contracting, payments and financial reporting.

6.2 Twinning
The project will be implemented through Twinning. The beneficiary of the project is the Public Internal Financial Control Agency, 1000 Sofia, 2 Lege str., Bulgaria. Member States interested in making a twinning proposal should contact: Mrs. Ginka Draganinska, Director of the PIFC Agency, Ministry of Finance, 1000 Sofia, 2 Lege Str., Bulgaria. Tel.: +359 2 9859 51 00 Fax: +359 2 981 50 42 The Twinning partners will be responsible for delivering all the projects results. The Member States implementing this project will provide the following expertise on behalf of:

Pre-accession Adviser (PAA)
The PAA should have:
- Master degree in public finance, experienced in implementation of methodology and practical audits;
- High professional experience in public internal financial control or as an auditor;
- Good knowledge of European and international public internal financial control and audit issues and standards;
- Good knowledge of EU regulations in the financial control;
- Good interpersonal and communications skills as well as good command of English;
- Capability to work in team and to acknowledge the professional level of the co-partner.

PAA will co-operate with other short-terms experts as well as with Bulgarian officials from the PIFC Agency in order to implement individual components of the project. He/she will submit reports regularly on the development of the project to the Project Leaders. He/she will coordinate all project activities in Bulgaria and will supervise the implementation of the project.

Project Leaders
The Member State Project Leader must have good leadership skills and a broad knowledge of policies and processes in the area of internal financial control, including the control of EU funds. The Project Leader is expected to devote a minimum of 3 days per month to the project, including one visit every 3 months. As a Project Leader from the Member State side he/she will review the progress and advise on future plans. He/she will have full authority over the management of the inputs, human and material resources of the Member State counterpart and will be responsible in particular for the Member State experts.

The Project Leader from the Bulgarian side is responsible for the overall project co-ordination and implementation regarding the Bulgarian counterpart. He will monitor the project progress under the different components, the achievement of the agreed benchmarks, approve the project outputs/results and sign off each significant stage of the project, authorise expenditure of the budget and ensure that the resources required to deliver successfully the project results are provided.
EU experts
EU experts with the relevant audit and legal experience will be required.

In the event that no suitable twinning proposal is forthcoming, the project will instead be implemented through conventional technical assistance.

6.3 Non-standard aspects
None

6.4 Contracts
There will be two separate contracts:
The Twinning component will be implemented through a Twinning covenant at the amount of 1.17 MEUR.
The investment component will be implemented through supply contracts at the amount of 0.9 MEUR.

7. Implementation Schedule

7.1 Start of tendering/call for proposals
Third quarter of 2003.

7.2 Start of project activity
Third quarter of 2004.

7.3 Project completion
Second quarter of 2006.

8. Equal Opportunity
Equal opportunity for men and women to participate in the project will be guaranteed. It will be measured through the lists of participants in the workgroups and workshops.

9. Environment
All environmental standards of the EU will be met in the procurement of the IT equipment.

10. Rates of return
After the completion of the activities under the IT component the staff of the PIFC Agency Central Office and Regional Directorates will enhance its capacity and professionalism. The PIFC Agency IT system will support the optimisation of communication and auditing process. This will further lead to improvement of the preciseness of the audit result and will decrease the time and costs needed for audit implementation. A higher personnel motivation will be achieved, so as to secure the sustainable and more effective implementation of the activities of PIFC Agency.

11. Investment criteria

11.1 Catalytic effect:
The Phare contribution will accelerate the introduction of modern audit techniques applied in the EU thus facilitating the adoption of the acquis in the area of PIFC.
11.2 Co-financing:
National co-financing amounts to 25 percent of total costs for the supply contract and 10 percent for the Twinning component.

11.3 Additionality:
No other financiers will be displaced by the Phare intervention.

11.4 Project readiness and size:
All necessary preparatory studies for the investment component of the project have been completed. The investment component complies with the minimum project size requirements.

11.5 Sustainability:
All supported investment actions are sustainable in the long term beyond the date of accession. They comply with EU norms and standards.

11.6 Compliance with state aids provisions
All investments will respect the state aids provisions of the Europe Agreement.

12. Conditionality and sequencing
The successful completion by November 2003 of the Twinning project “Strengthening Public Internal Financial Control” is a good base for the proposed project implementation:
• The Twinning project is based on and further develops the results of the Twinning project “Strengthening Public Internal Financial Control” under Phare 2000.
• The IT component will upgrade and strengthen the IT system of the PIFC Agency developed under a Supply contract under the Twinning project “Strengthening Public Internal Financial Control” under Phare 2000.
• The implementation schedule of the Twinning project and Investment component under Phare 2003 will be co-ordinated.

The most important milestones are as follows:
• The new legal framework further developed and implemented;
• Administrative capacity of the PIFC Agency further improved;
• Training Centre established;
• The IT system of the PIFC Agency further developed.

ANNEXES TO PROJECT FICHE
1. Logical framework matrix.
2. Detailed implementation chart.
3. Contracting and disbursement schedule.
6. Strategic and Operational plan for development of the PIFC in the Republic of Bulgaria.
7. Strategy for the development of the PIFC Agency Information Systems.
## Annex 1 Logical framework matrix

<table>
<thead>
<tr>
<th>Log frame planning matrix for</th>
<th>Programme name and number</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project</strong></td>
<td></td>
</tr>
<tr>
<td>Further implementation of the new model of Public Internal Financial Control in Bulgaria</td>
<td>Contracting period expires: 30 November 2005</td>
</tr>
<tr>
<td></td>
<td>Disbursement period expires: 30 November 2006</td>
</tr>
<tr>
<td></td>
<td>Total budget: 2.2 MEUR</td>
</tr>
<tr>
<td></td>
<td>Phare budget: 1.845 MEUR</td>
</tr>
</tbody>
</table>

### Overall objective

Further development and implementation of the new legislative framework on Public Internal Financial Control in compliance with the acquis and strengthening the administrative capacity of the Public Internal Financial Control Agency.

<table>
<thead>
<tr>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raised level of guarantees for protection of the State and EU financial interests.</td>
<td>Progress Reports of Bulgaria.</td>
</tr>
<tr>
<td>Proper and efficient utilisation of public and EU funds through modern internal audit techniques.</td>
<td>Regular Reports on Bulgaria’s progress towards accession.</td>
</tr>
<tr>
<td>Harmonisation of internal audit legislation with the acquis.</td>
<td>Peer Reviews by OECD/SIGMA and World Bank.</td>
</tr>
</tbody>
</table>

### Project purpose

Implementation of the new model of Public Internal Financial Control in Bulgaria.

<table>
<thead>
<tr>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality and scope of Internal Audits performed in compliance with the international audit practices.</td>
<td>External audit reports on the activities of PIFC Agency by National Audit Office.</td>
<td>Bulgaria’s progress on implementation of the acquis.</td>
</tr>
<tr>
<td>Effective functioning of PIFC at Central and Local level.</td>
<td>Regular Reports on Bulgaria’s progress towards accession.</td>
<td>Bulgaria’s progress on Strategy for participation in the Structural Funds of Republic of Bulgaria.</td>
</tr>
<tr>
<td>Average duration of the internal audits reduced by 10 %.</td>
<td>Adopted legal norms on PIFC.</td>
<td></td>
</tr>
</tbody>
</table>

### Results

<table>
<thead>
<tr>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Component I: The new legal framework further developed and implemented.

1.1 Updated and implemented legislative framework compliant with the EU requirements and international good practices on internal audit - audit instructions, manuals and others;
1.2 Legislation and audit practices developed and implemented for the audit of the own budget revenues of the Republican Budget in line with the Joint Audit Initiative of the EU Member States;
1.3 Performance of effective control over pre-accession funds and preparedness of the PIFC Agency for the implementation of the EU requirements for control over the Structural Funds and the Cohesion Fund.

Component II: Administrative capacity of the PIFC Agency further improved.

2.5 Upgraded and implemented structure of the PIFC Agency implementing the new PIFC model;
2.6 Quality Assessment System developed and implemented for the activities of the PIFC Agency experts and performance of the auditors assessed by it;
2.7 Training strategy for the PIFC Agency updated;
2.8 The auditors at the Central Office and Regional Directorates, able to:
   • Apply modern internal audit techniques on the performance of different types of audit;
   • Perform audit of EU funds;
   • Perform IT audit;
   • Use autonomously the Audit Software.
IT staff of the PIFC Agency able to manage the Information Systems.

Component III: Training centre established

3. Training Centre of the PIFC Agency established and functioning.
3.5 Rules for the status and functions of the Centre developed;
3.6 Methodology for the training of the internal auditors developed;
3.7 Operational programme and a system of planning of the training of the internal auditors from the Central Office and Regional Directorates developed;
3.8 Training modules elaborated and implemented for all types of internal audit, risk assessment, planning and reporting of audits. Elaboration of modules for the audit of EU funds with regard to EDIS.

Component IV: The IT system of the PIFC Agency further developed according to Phase 2 of the Strategy for the development of

Component I
- Legislative framework updated and compliant with international good practices and EU requirements.
- Number of audits performed in compliance with the EU requirements.
- Modern audit techniques and methodologies on different types of audits.

Component II
- Number of trained auditors.
- Number of training sessions effectively performed.
- Number of auditors having successfully passed the exams for the training modules.

Component III
- Methodologies, operational programme and training modules developed.

Component IV
- Number of teams of Internal Auditors disposing with Portable computer and audit software
- Number of Internal Auditors having successfully completed the training.

Project reports.
- Annual, six months and monthly reports on the activities of the Agency.

Good selection of qualified experts.
- Motivation of the staff of the PIFC Agency.
the IT systems. 
4.3 Basic IT infrastructure in all Regional Directorates built. The auditors from the Central Office and the Regional Directorates using autonomously the new IT tools; 
4.4 Technical equipment for the Training Centre delivered.

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| **Component I:** Further development and implementation of the new legal framework. | - Twinning covenant  
- Supply contract | - Effective communication between all actors  
- Recruitment of staff with the relevant education and qualification |
| **Activity 1.1** Further updating and implementation of the legal framework - elaboration of internal audit norms including audit instructions and manuals on modern audit techniques and implementation of methodologies on different types of audit in compliance with the EU regulations. | | |
| **Activity 1.2** Development and implementation of the legislation and audit practices on audit of own budget revenues of the Republican Budget in compliance with the Joint Audit Initiative of the EU Member States. | | |
| **Activity 1.3** Further development and implementation of the legislation concerning the audit of pre-accession funds, the EDIS and the implementation of the EU requirements for control over the Structural Funds and Cohesion Fund. | | |
| **Component II:** Further improvement of the administrative capacity of the PIFC Agency. | | |
| **Activity 2.1** Further elaboration and implementation of the structure and functions of the PIFC Agency according to the new model of PIFC. | | |
| **Activity 2.2** The elaboration and pilot implementation of Quality Assessment System for the activities of the PIFC Agency experts including the internal auditors. | | |
| **Activity 2.3** Updating of the Training Strategy of the PIFC Agency elaborated under the Twinning project BG 00.06.01"Strengthening public internal financial control”. | | |
| **Activity 2.4** Further training of the staff of the Central Office and the Regional Directorates of the PIFC Agency on the basis of the developed Training Strategy in the following areas: | | |
| • Training on performance audit, systems based audit, IT audit, financial audit; | | |
| • Training on audit of EU funds; | | |
| • Training on IT audit and performance of pilot IT audits; | | |
| • Training on Management Information Systems of the IT staff of the PIFC Agency with regard to the implementation of the IT Strategy of the PIFC Agency; | | |
| • Performance of pilot audits for on-the-job training on the use of audit software of the auditors from the Central Office and the Regional Directorates. | | |
| **Component III:** Establishment of a Training Centre of the PIFC Agency. | | |
| The Centre will be a permanent functioning structure of the PIFC Agency. It will maintain coordination of activities with the Public Finance School of the Ministry of Finance, as well as the Training Centre of the National Audit Office and other relevant institutions: | | |
| **Activity 3.1** Development and implementation of rules for the status and functions of the Centre; | | |
Activity 3.2 Development and implementation of the methodological approaches for training with the support of EU experts;
Activity 3.3 Operational programme and a system of planning of the training of the internal auditors of the Central Office and the Regional Directorates;
Activity 3.4 Elaboration and implementation of training modules on the types of internal audit, IT audit, risk assessment, planning and reporting of audits and modules for the audit of EU funds with regard to EDIS;
Activity 3.5 Co-ordination with the Ministry of Finance.
The staff in charge with the activities of the Training Centre will participate in the development of the Training strategy under Component 2 and the training modules.

Component IV: Further development of the IT system of the PIFC Agency according to Phase 2 of the Strategy for the development of the IT systems.

Activity 4.1 Building the basic IT infrastructure in all Regional Directorates and providing computers and software tools to auditors. Procurement will include servers, network devices, desktop and portable computers and printers.
Activity 4.2 Technical equipment for the Training Centre including the interpreters’ premise and supporting system for simultaneous translation.

Preconditions
- Successful implementation of the activities and achieving the results of the Twinning project BG 00.06.01 “Strengthening Public Internal Financial Control”
Annex 2. Detailed implementation chart

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
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<th>2005</th>
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<td>Activities/Quarters</td>
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<td>Launch Twinning Requests to Member States</td>
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<td>Selection of Member State(s) for Twinning</td>
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<tr>
<td>Elaboration of Twinning Covenant</td>
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<td>Implementation of Twinning Covenant</td>
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<td>Twinning</td>
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<td>Supply Contract</td>
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Annex 3 Cumulative contracting and disbursement schedule (MEUR)

<table>
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<th>2005</th>
<th>2006</th>
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<td>Disbursement</td>
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<td>Disbursement</td>
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<td>0,54</td>
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</table>
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REPORT ON THE ADMINISTRATIVE CAPACITY OF THE PUBLIC INTERNAL FINANCIAL CONTROL AGENCY OF THE REPUBLIC OF BULGARIA

The Public Internal Financial Control Agency is the beneficiary of the proposed project. The management of the project will be undertaken by the Director of the PIFC Agency and the senior executive management of the Central Office. The target groups of the project will involve representatives of the staff of the PIFC Agency from all levels of its structure, both central and regional. The staff from the Regional Directorates will be involved with priority attention to the training.

- The organisational structure of the PIFC Agency as of 1 January 2003 is represented in figure 1 “Organigramme of the PIFC Agency”.

**The new model of PIFC** is under implementation, focusing on internal audit as priority function of the PIFC Agency. Beyond 2003 the function of the harmonisation of the Financial Management and Control Systems is transferred from the PIFC Agency to a Central Harmonisation Unit at the MoF. The elaboration and improvement of the PIFC legislation of Bulgaria in compliance with the acquis and the best international practices remains a priority task of the PIFC Agency.

**Staff**

The total number of PIFC employees is 1275, 1182 (almost 93%) work in the specialised administration under the Civil Servants’ Act, and 93 (more than 7%) work under the Code of Labour. This provides for the stability of the employees and thus their training needs aimed under the project are justifiable and reasonable in medium term.

Of the 1182 total number of the PIFC Agency specialised administration officers, 1011 (85.53%) PIFC Agency officers are internal auditors. Of the 1002 internal auditors, 326 (32.25%) are junior auditors. The predominance of junior auditors provides for a high motivation to improve qualification.

The human resources development and the improvement of the professional qualification of the staff are priority tasks of the management of the Agency.

The PIFC Agency developed a Strategy for the development of the management capacity and administrative structures, including structural changes in the PIFC Agency to enhance co-ordination and co-operation as well as to promote adequate information flows between the relevant Directorates.

One of the final outcomes of the Twinning project BG 00.06.01 with the French partner – the Ministry of Economy, Finance and Industry (due to expire on 2 November 2003) has been the training of a group of trainers. This group is to support the training activities of the PIFC Agency at a permanent functioning Training centre.

**Absorption capacity for the proposed project and its administration**

The Central Office of the PIFC Agency is organised in 7 directorates. The organisational accomplishment of the project will be provided by the “European
Integration and International Co-operation” Directorate, (see figure 2) which is responsible for the design, negotiation procedures on the proposed project. The main participants will be the representatives of the following Directorates:

- Internal Audit of Trade Companies;
- Control over Municipalities, Social Security Funds and Organisation of the National Security System;
- Control over State Budget and EU Funds Spending Units;
- Legal Support of the Control Activities and Normative Acts,
- European Integration and International Co-operation;
- Administrative, Legal and Informational Servicing;
- The Regional Directorates.

*For Component I - the tasks will be performed by he “Legal Support of the Control Activities and Normative Acts” Directorate which is responsible for the further development of the legal framework.*

*For Component II – the following Directorates will undertake the commitments for further improvement of the administrative capacity:*

- “Internal Audit of Trade Companies”;
- “Control over Municipalities, Social Security Funds and Organisation of the National Security System”;
- “Control over State Budget and EU Funds Spending Units”;

*For Component III – the “Administrative, Legal and Information Servicing” Directorate will be responsible for the activity in relation with the establishment of a Training centre for Internal Auditors.*

*For Component IV - the Information Services and Technology Department as part of the “Administrative-Legal and Informational Servicing” Directorate will be in charge of the further development of the IT system of the PIFC Agency.*
Figure 1

Organigram of the PIFC Agency of the Republic of Bulgaria

Director Mrs. Ginka Dragoyanova

Deputy Director

Secretary General Mr. Stefan Danyanov

Information Protection Unit

DIRECTORATES

Administrative, Legal and Informational Services Directorate
- Elena Anagnostova

Financial and Economic Activities and Property Management Directorate
- Silviya Georgieva

Control over State Budget and EU Funds Spending Centres Directorate
- Delphina Mihaylova

Control over State Budget and EU Funds Spending Centres Directorate
- Romana Ralcheva

Control over Social Security Funds and Operations of the National Security System Directorate
- Yonka Guleva

Internal Audit of Public Companies (ODK) Directorate
- Stiliana Simicova

Legal Support of the Control Activities and Harmonization Directorate
- Tanina Haskova-Delcheva

DEPARTMENTS

Human Resources and Legal Servicing Department

Financial Economic Activities Department

Control over State Budget Spending Centres Department

Control over Municipalities Department

Internal Audit of TC with State Equity in Their Capital Department

Legal Support of the Control Activities Department

Informational Service and Technologies Department

Property Management Department

Control Executed by Delegated Authorities Department

Control over Organizations under Defence and Security System Department

Control over Companies with Municipal Equity in the Capital Department

Normative Act and Harmonization with the EU Legislation Department

Control over EU Funds Spending Centres Department
Figure 2
“European Integration and International Co-operation” Directorate

<table>
<thead>
<tr>
<th>Name</th>
<th>Telephone</th>
<th>E-mail</th>
<th>Position</th>
<th>Programme</th>
<th>Passed training</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tatyana Hubenova-Delisivkova</td>
<td>98595165</td>
<td><a href="mailto:T.Houbenova@advfk.minfin.bg">T.Houbenova@advfk.minfin.bg</a></td>
<td>Director</td>
<td>Phare</td>
<td>BG 0006.08 Project Preparation Facility: Training and Workshops on the Practical Guide to Phare, Ispa and Sapard Contract Procedures. 2002</td>
</tr>
<tr>
<td>Totyu Stefanov Totev</td>
<td>98595116</td>
<td><a href="mailto:T.Totev@advfk.minfin.bg">T.Totev@advfk.minfin.bg</a></td>
<td>Junior expert</td>
<td>Phare</td>
<td></td>
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<tr>
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<td>Junior expert</td>
<td>Phare</td>
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</tr>
<tr>
<td>Tanya Dimitrova Stefanova</td>
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<td><a href="mailto:T.Stefanova@advfk.minfin.bg">T.Stefanova@advfk.minfin.bg</a></td>
<td>Junior expert</td>
<td>Phare</td>
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<tr>
<td>Petya Milkova Terzieva</td>
<td>98595116</td>
<td>P.Terzi?<a href="mailto:v@advfk.minfin.bg">v@advfk.minfin.bg</a></td>
<td>Junior expert</td>
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<tr>
<td>Georgi Marinov Stoev</td>
<td>98595116</td>
<td><a href="mailto:G.Stoev@advfk.minfin.bg">G.Stoev@advfk.minfin.bg</a></td>
<td>Senior expert</td>
<td>Phare</td>
<td></td>
</tr>
</tbody>
</table>

Figure 3

Staffing numbers in the main administrative units of the Central Office of the Public Internal Financial Control Agency responsible for the implementation and the co-ordination of the project according to the Regulation on Structure of the PIFC Agency

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<tr>
<td>Deputy Director</td>
<td>1</td>
</tr>
<tr>
<td>Secretary General</td>
<td>1</td>
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<td>“Administrative, Legal and Information Servicing” Directorate</td>
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<tr>
<td>“Financial and Economic Activities and Property Management” Directorate</td>
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<td>“Control over State Budget and EU Funds Spending Units” Directorate;</td>
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<td>“Internal Audit of Trade Companies” Directorate;</td>
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<tr>
<td>“Legal Support of the Control Activities and Normative Acts” Directorate;</td>
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<tr>
<td>“European Integration and International Co-operation” Directorate.</td>
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</table>
POLICY PAPER¹

ON

PUBLIC INTERNAL FINANCIAL CONTROL
IN THE REPUBLIC OF BULGARIA

Updated by Public Internal Financial Control Agency 5 September 2002

SOFIA,
July 2002

¹ Update of the PIFC Policy Paper of February 2000
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Executive Summary

This Policy Paper is an update of the PIFC Policy Paper, approved by the Minister of Finance in February 2000. Considering the current situation and the recent experience of the PIFCA relating to the new control and audit organisation since 2000, the Government believes that there is scope to improve the control and audit of the implementation of the national and lower-level budgets in the public area. This paper takes especially into account the recommendations of the European Commission and of the Sigma Peer Review, recently carried out by relevant experts (Peers) of Bulgarian and of Member States experts, of the PIFC systems in Bulgaria. The commitments taken by the Republic of Bulgaria in the course of negotiations for accession with the EU in the field of financial control have been considered in drafting the PIFC Policy Paper of the Republic of Bulgaria. At present, PIFC in Bulgaria already contains the principle of managerial accountability for the FM/C systems of income, expenditure of allocated budget funds as well as all forms of assets and liabilities. However, the organisation to implement this principle is not considered secure enough and not in line with best international practice. Furthermore the internal audit is centrally performed by the PIFCA, which is independent, under the Minister of Finance.

The PIFCA is also responsible for the harmonisation of the methodology to be used by both the internal audit and the FM/C Systems, for supervising the implementation and for the preventive control (a form of centrally organised ex ante control). The PIFCA develops Guidelines for internal audit and co-operates with the financial control bodies of the European Commission in relation to pre-accession funds.

This Policy Paper recommends a number of important decisions to be made. First of all the Council of Ministers will establish a PIFC Council, which will be responsible for discussing the suggestions made by the PIFCA and deciding on new PIFC policy. Second, the PIFCA itself will be re-organised to enable it to strengthen its capacities to deal with the challenges posed by the new directions and functions of PIFC according to best international practice. The PIFCA will develop into a proper Internal Audit institution according to internationally agreed audit principles. The preventive control function of the PIFCA will be abolished once financial controllers have been established in the spending units and their functions shown to be effective. The harmonisation of FM/C Systems will be transferred to a specialised body in the MoF after the re-organisation. The functional independence of the Head of the PIFCA and of the financial controllers will be improved. Key staff for the important task of controlling and auditing public funds will obtain civil servant status.

The conclusions and recommendations in Chapters 13 and 14 of this document received the approval of all the parties concerned and most of all of the MoF and the National Audit Office and were considered and approved by the PIFC Council under the Council of Ministers of the Republic of Bulgaria.

The Policy Paper is adopted by the Council of Ministers on its meeting on July 2002.
Introduction.
The Policy Paper will describe the present control environment in Bulgaria (Ch 4), describe the present situation of PIFC (Ch 6), consider improvements of the present PIFC systems (Ch 7), discuss administrative capacity and human resources policies (Ch 8), functional independence of the internal audit function (Ch 9) as well as other issues. Chapter 13 contains the Conclusions for improving the present PIFC systems and structures in Bulgaria.

List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>CFCU</td>
<td>Central Financing and Contracting Unit</td>
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<td>CO</td>
<td>Central office of the Agency</td>
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<td>EC</td>
<td>European Commission</td>
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<td>IA</td>
<td>Implementing Agency</td>
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<td>IIA</td>
<td>Institute of Internal Auditors</td>
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<td>PIFC</td>
<td>Public Internal Financial Control</td>
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<td>PIFCA</td>
<td>Public Internal Financial Control Agency</td>
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<td>PIFC Act</td>
<td>Public Internal Financial Control Act</td>
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<td>PIFC Reg.</td>
<td>Regulation on the implementation of PIFC Act</td>
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<td>NAO</td>
<td>National Audit Office</td>
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<td>RD</td>
<td>Regional Directorates of PIFCA</td>
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<td>MoF</td>
<td>Ministry of Finance</td>
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<td>NF</td>
<td>National Fund</td>
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<td>TS</td>
<td>Treasury System</td>
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<td>FM/C Systems</td>
<td>Financial management and control systems</td>
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<td>FMIS</td>
<td>Financial management Informational System</td>
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<td>EU</td>
<td>European Union</td>
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<td>DIA</td>
<td>Delegated Internal Auditor</td>
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<td>DI</td>
<td>Delegated Internal Auditor</td>
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<td>PIFCA</td>
<td>Public Internal Financial Control Agency</td>
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<td>MoF</td>
<td>Ministry of Finance</td>
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<td>NSSI</td>
<td>National Social Security Institute</td>
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<td>NNIF</td>
<td>National Health Insurance Fund</td>
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List of Definitions pertaining to control/audit
A list of definitions pertaining to public control/audit is given in Annex 1 of this paper. These definitions are based on those used in the Glossary of Terms as given by the INTOSAI Auditing Standards and Standards for Internal control and on the Glossary used by the European Commission. These definitions are important for correct understanding of this Policy Paper.

Description of the present control environment in Bulgaria
The relevant actors in the control environment in Bulgaria are the National Assembly, the National Audit Office, the Government and the municipalities.

The National Assembly and the National Audit Office
The National Assembly is responsible for the democratic control of the policies of the Government and, in the context of the subject of this Policy Paper, of how the Government performs sound financial management of the state budgets and the lower level budgets. The National Assembly relies on the NAO, which is the independent
Supreme Audit Institution, responsible for the “external” assessment or audit of whether the Government and its agencies have established adequate structures for control and audit of the national and subordinated budgets, assets and liabilities of the first level budget spending centres and spenders of lower level. Such structures are called PIFC systems. The NAO is a constitutional audit body and functions independently from the legislative, executive and judicial power. It performs audits (“external” in relation to the government systems) and reports on its findings and recommendations to the National Assembly for discussion of the follow-up thereof.

Recently, at the end of 2001, a new NAO Act, based on internationally agreed audit principles, enhanced the NAO powers. The NAO audits all public budgets in the state sector: the state budget, the budget of the National Social Security Institute, the budget of the National Health Insurance fund and the municipal budgets. The NAO activity covers also the EU funds and programmes, including the management thereof up to the final beneficiaries. The NAO performs audits on the use of the budgetary and other public funds in respect of legality, effectiveness, efficiency and economy. The EU considers that with the new NAO Act and the start of the implementation thereof, the NAO complies to the external audit requirements of the accession criteria.

The Government and its structures
The Organic Budget Act regulates the establishment, adoption, implementation and reporting of the State Budget, for which the MoF is responsible. The budget spending units are defined by the Council of Ministers. In compliance with the PIFC Act the spending units bear full responsibility for the establishment, functioning, maintenance and developing of sound FM/C Systems. The State Budget defines and allocates funds for the implementation of public functions and policy decisions in compliance with the principles of legality, regularity, expedience, economy and transparency.

The Government determines the criteria for the functioning and reliability of its public internal financial control systems within the framework of the state and lower-level budgets. The Government has chosen for an internal financial control system in which the financial management and control for spending public funds rests with the budget spending units themselves; in short the spender is responsible for sound financial management. Ex ante financial control is presently performed by the Chief Accountant under the responsibility of the Head of the relevant Public Administration. This solution is considered not adequate or secure enough to guarantee objective quality assurance.

The PIFCA performs internal audit in a centralised way. To serve the Head of Public Administration better, PIFCA has recently nominated so-called “delegated internal auditors” in some of the first level spending agencies. Modern auditing techniques with emphasis on systems-based audits and performance audits are being developed.

The internal auditor is expected to assess independently the adequacy and reliability of the FM/C Systems as established by the Head of Public Administration and to report directly on his findings to the Head and provides him with recommendations to be followed up.
4.2.1 The Ministry of Finance and its actors

4.2.1.1 Treasury system

The introduction of a new Treasury system in Bulgaria provides for the necessary framework of PIFC. A description of the Bulgarian Treasury system is attached in Annex 2.

4.2.1.2 The Public Internal Financial Control Agency (PIFCA) (described in Chapter 6.)

4.2.1.3 Financial management and control systems in the public spending centres (described in Chapter 6.)

4.2.1.4 Customs control authorities

Customs control is exercised by the Customs administration in the Customs Agency under the Minister of Finance. Its principle tasks are: performing customs control on the customs territory of the country and surveillance over import, export and transit of goods from, to and through the Republic of Bulgaria; collection of duties; prevention and exposure of customs and currency offences and crimes and of illicit traffic of narcotic substances and precursors; exposing administrative infringements and imposing administrative punishments; applying of tariff measure and economy policy measures; effectuation of posterior control over goods and documents in connection with import, export and transit.

4.2.1.5 Tax control authorities

The status and functions of the Tax Administration are regulated in Art 231 of the Tax Procedure Code. In 2000, the Council of Ministers adopted the concept for establishing a Unified Revenue Agency. The intention is to transfer the tasks of the Tax Administration and its control bodies as well as part of the authorities of the National Social Security Institute, collecting social security contributions for the state social security and the health insurance, to this Agency. Legal preparations are underway. According to the draft law the relevant control bodies shall be referred to as "revenue authorities". They will have control functions, which are analogous to the ones of the tax administration.

4.2.1.6 Control of the National Fund, the Central Financing and Contracting Unit (CFCU) and Implementing Agencies.

The MoF established as a central Treasury unit the National Fund (NF), responsible for the management of EU-funds. This was the first step towards the integration of the management of the pre-accession instruments into the administrative structures of Bulgaria. Also, in 1998, the Central Finance and Contracts Unit and a limited number of Implementing Agencies (PHARE and ISPA and SAPARD) were established.

The National Fund is a key structure of the overall co-ordination of EU-funding. It takes care of project formulation, grant applications, opening of bank accounts ensuring the flow of EU-funds, national co-financing resources, fund transfers to implementing agencies, monitoring, assessment and financial control.

The National Fund guarantees and ensures the transparency and economic effectiveness of the management of the grants provided by the EU. The NF is under the responsibility of the National Authorising Officer, which is the Minister of Finance, who has the overall responsibility for the financial management and reporting of the use of funds. The NF manages also the national co-financing resources for the joint EU-Bulgarian projects and programmes. The funds managed by the NF are fully incorporated in the consolidated fiscal programme of the Government.

The National Fund is subject to both external audits performed by the NAO and to internal audit performed by the PIFCA . Auditor/controllers nominated by the European Commission or by the
European Court of Auditors are also entitled to check the operations of the NF, the CFCU and the IA.

The actual management of projects (co-) financed by the EU is carried out by Implementing Agencies (IA) for PHARE, ISPA and SAPARD.

The Implementing Agencies are headed by a Programme Authorising Officer (under Phare) or Sector Authorising Officer (under ISPA) and are responsible for the proper financial, administrative and technical management of the projects, including tendering and contracting as well as monitoring of project implementation. Moving towards Extended Decentralised Implementation System (EDIS) of fund management aims at giving more financial management and control responsibilities towards the IA.

4.2.2 Public Fund control authorities

4.2.2.1 Supervisory Bodies of the National Social Security Institute

The Supervisory Bodies of the NSSI carry out control (checks and financial audits) both on revenue and expenditure of the State Social Insurance (SSI) Fund, on revenue from the Supplementary Mandatory Social Insurance and Health Insurance, thus exposing losses which may be caused by non-payment of insurance contributions or by flawed expenditure. The bodies concerned comply with the NSSI Plan for Insurance Contribution Compliance Improvement.

Also, in compliance with an agreement for joint activities between NSSI, the Ministry of Labour and Social Policy, the Employment Agency, the General Labour Inspectorate Implementation Agency and the Police National Service Directorate, joint checks take place. The PIFCA and the NAO check the activities of NSSI and its Regional Offices.

4.2.2.2 Control of the National Health Insurance Fund

The control over the National Health Insurance Fund activities is regulated in Part X “Control, expertise and disputes” of the Health Insurance Act. In conformity with Art 73a of this Act the control on the NHIF revenues of health insurance payments is performed by the controlling bodies of NSSI (the Mandatory Social Insurance Code).

Financial inspectors, officials from NHIF and RHIF, perform the control on the health insurance expenses. Art 73 of HIA stipulates that the financial inspectors may perform checks. They are verifying the reporting documents of the medical care performers and the conformity of the expenses to the Law. PIFCA checks the disbursement of budget funds and the compliance with the Public Procurement Law procedures.

4.2.3 Municipalities

The PIFCA covers also the financial activity of the municipalities. The PIFCA issues instructions (Guidelines for establishment and functioning of the FM/C systems) to the mayors of the municipalities, who are responsible for establishing FM/C systems for their budgets and funds.

The Agency regularly gathers information through systems audit, analyses the implementation of the Guidelines and formulates recommendations based on its findings. The 28 highest budget-spending municipalities are covered by delegated teams of internal auditors who monitor the FM/C Systems, in addition to the own internal audit in the municipalities. Audit in the other municipalities will be based on risk assessment.

Risk areas in the municipalities are determined inter alia by the outcome of analysing previous internal audits. Special attention is paid to the areas of acquiring, managing and accounting of municipal property, the revenues from privatised municipal trade companies and their transfer to funds and accounts, disbursement of aid grants and the recovery of the unused sums, the compliance of income and expenditure of extra budgetary funds with the law; whether the requirements of the Public Procurement Law are respected and unpaid disbursements.
Municipalities are financed by their own resources and by state subsidies. With the Council of Ministers Decree No. 399 from June 13, 2002, a Concept and a Programme for financial decentralisation was accepted. Several of the measures, aiming at the increasing of the financial independence of the municipalities, will be implemented with the Annual Budget Act for 2003 and with the amendments of some laws, namely the Law on municipal budgets, the Organic Budget Law, the Law on the local taxes, the Law on the corporate revenue taxation, the Law on the municipal property etc.

The financial independence of the municipalities will again strengthen with the development of local self-governance.

**RECOMMENDATIONS IN THE COMMISSION 2001 REGULAR REPORT ON THE REPUBLIC OF BULGARIA'S PIFC SYSTEM**

In the context of the above it is worthwhile recalling the latest official opinion of the European Commission on PIFC in Bulgaria (2001 Regular Report). The relevant quotes are:

“During the period covered by this Regular Report (October 2000-2001), Bulgaria has made further progress in this area.

As regards **public internal financial control**, the new Public Internal Financial Control (PIFC) law came into effect at the beginning of 2001. The law allows the independent PIFCA in the MoF to perform preventive control and a centralised version of internal audit. The Agency is also responsible for the harmonisation of the Internal Audit systems and financial management and control in the wider public sector. Regulations relating to the implementation of the new Act were adopted in May. The PIFCA certifies the accounts of the newly accredited SAPARD Agency in addition to the auditing of the use of the PHARE and ISPA funds.

In the field of protecting EC financial interests, the PIFCA is entitled to carry out investigations, including joint on-the-spot checks in relation to EC pre-accession and other funds.

Public Internal Financial control is a key priority in the Bulgaria’s preparations for accession. With the adoption of the new PIFC Act, the legal framework for adequate public internal financial control has been achieved. The functional independence of the PIFCA itself will have to be reviewed. Sustained and determined efforts are needed to implement the new legislative frameworks and ensure that the PIFCA discharge its responsibilities in an effective manner that delivers tangible improvements of the financial control in the public sector. As far as the PIFCA is concerned, the priorities include developing manuals for FM/C systems and internal audit, including the audit of EC funds, and phasing out the funding of the PIFCA partly from funds recovered as a result of discovered irregularities during the execution of audits. These activities will need to be supported by a substantial investment in training for staff in the PIFCA, and the line ministries. The establishment of a Public Finance School should be considered. The MoF should facilitate the progress in this area.”
DESCRIPTION OF THE CURRENT SITUATION OF THE PIFC IN BULGARIA

The present status of the PIFC can be seen from different perspectives: the current legal basis, objectives, scope, FM/C Systems (managerial accountability), Internal Audit, inspection, public procurement, central harmonisation and audit of the entities financed by EU funds.

Current legal basis

Primary PIFC legislation
The present Public Internal Financial Control Act (PIFC Act) was adopted by the National Assembly of the Republic of Bulgaria on 27 October 2000 and is in force as of 1 January 2001. This law was developed in close co-operation with DG Financial Control of the EC.

Secondary PIFC legislation
The Regulation on the Implementation of the PIFC Act adopted by the Council of Ministers on 5th April 2001 It contains detailed rules for the performance of the public internal financial control.

The Regulation on the Structure of the PIFCA was adopted by the Council of Ministers on 13th February 2001 and is in force as of 24th February 2001. A new structure of the PIFCA was established in accordance with this Regulation.

Instructions, Regulations and Guidelines on the PIFC
The PIFCA issued Guidelines on the Organisation of the FM/C Systems and sent them to all first class budget spending centres. The Guidelines were also sent to all Regional Governors and to the biggest municipalities in Bulgaria. The PIFCA monitors the implementation of the Guidelines and carries out monthly meetings with the representatives of the budget spending centres for discussions on the possible improvement of the Guidelines.

Since this update of the Policy Paper will effect the re-editing the PIFC Act, the secondary and tertiary PIFC legislation will have to be adapted in accordance with the recommendations made in this Paper.

Main objectives of the PIFC
PIFC is a complex of activities that ensure sound financial management in the public sector. Its objective is, through a number of tools, to ensure that budget related decisions in public budget spending units comply with the principles of legality, regularity, efficiency, effectiveness and economy;

The PIFC’s tools are defined in the PIFC Act:

(1) Spending units are responsible for the establishment of FM/C Systems. The segregation of duties between the authorising officer and the Chief Accountant (double signature system) is a basic principle;

(2) In exceptional cases PIFCA can, upon its own initiative, establish a system of preventive (centralised ex ante) financial control, based on risk assessment;

(3) PIFCA performs an Internal Audit, not only for the “classical” financial audits, but also for systems-based, performance and IT audits.
(4) PIFCA is the central harmonising authority for developing methodologies and guidelines on FM/C and IA Systems throughout the entire public sector;

**The scope of PIFC**

PIFCA covers the financial activities of all budget spending centres under the central government budget and spenders of funds under EU programmes. It also covers the activities of the authorities administering revenues for the central government budget; spenders of extra-budgetary accounts and funds in accordance with the State Budget Act for the respective year; spenders of budget appropriations under municipal budgets and funds; the National Social Security Institute, the Professional Training and Unemployment Fund and the National Health Insurance Fund. PIFCA controls also the financially related activities of all legal entities, with a blocking quota of state or municipal equity in their capital, including when in insolvency proceedings and legal entities whose liabilities are guaranteed with state or municipal property. The scope of PIFC extends also to the activities of the entities financed with funds from the central government and municipal budgets, and under EU programs in respect of such funds.

**Financial Management and Control Systems**

The FM/C Systems are based on the principle of double signature (of the Authorising Officer and the Chief Accountant). The second signature indicates that the Accountant has checked whether the draft decision of the authorising officer complies to the principles of legality and regularity. If this is not the case, the Accountant must refuse to sign the draft decisions. In case that the manager neglects the Chief Accountant’s opinion and his/her decision results in violation of the financial discipline, the manager will bear the relevant responsibility. The Accountant takes part in the preparing the draft decision so that this may lead to a conflict of interests.

According to the present rules (since the introduction of the PIFC Act) PIFCA may, on the basis of its own risk assessment, establish a provisional preventive (ex-ante financial) control system in specific budget spending centres, thus exercising preliminary control before any commitments and disbursements. This system was introduced as a defensive measure against incorrect functioning of the FM/C Systems.

In compliance with Art 8, para. 1, item 6 of the PIFC Act, PIFCA issues instructions and guidelines to the budget spending units for the establishment of FM/C Systems. PIFCA has already developed and issued Guidelines for the establishment and functioning of the FM/C Systems in July 2002. On the basis these Guidelines, the spending units now establish these systems, taking into consideration the specificity of their organisation. The Agency only provides the frameworks of the FM/C Systems and controls their establishment and functioning.

The Guidelines are published in special editions and sent by the PIFCA to the state budget spending centres, EU funds spending centres, municipalities’ budgets spending centres, etc. The Agency organises and carries out seminars in order to clarify the guidelines.
The Agency regularly gathers information and analyses the implementation of the Guidelines on establishment and functioning of the FM/C Systems. The Agency performs an Internal Audit, the work program includes checks of the FM/C Systems. The auditors perform checks of the FM/C Systems through questionnaires/checklists for the evaluation of the control environment and the integrity of the management. The checks and the conclusions are reflected in the audit report. The Agency also gives recommendations on how to improve the systems.

**Internal Audit**

**Audit planning**
The PIFCA performs its audits according to an annual audit plan approved by the Director of PIFCA. This annual audit plan is prepared in accordance with the results of the previous audits, administrative capacity of the Agency, the risk assessment methodology and upon any other kind of available information.

The annual audit plan indicates the auditees to be audited during the respective year and the type of audit. The Director of PIFCA is responsible for the performance of the audit activities according to the approved annual plan.

Ad hoc audits can be performed upon a decision made by the Director of PIFCA, based on his own assessments or upon a request made by the Council of Ministers and the Minister of Finance.

The planning of the Internal Audit requires that the questions which will be put forward, the audit risks and the audit approach to be taken into account in the evaluation of the control and accountancy environment.

**Audit Organisation and Performance**
The authorities of the PIFCA perform Internal Audit of the FM/C Systems of the auditees for the purpose of assessing the compliance with the principles of legality and regularity, economy, efficiency and effectiveness.

**Audit organisation**
Internal audit shall be performed by both Delegated Internal Auditors in budget spending centres and Internal Auditors performing specific financial control tasks.

The Delegated Internal Auditors are civil servants within the PIFCA and are subordinated to the PIFCA Director. The delegated internal auditors perform their activity within the administration of the budget spending centres following an order issued by the Director of the PIFCA. The delegated auditor elaborates strategic and annual plans for the audit activity, which are agreed with the Head of the relevant budget spending center. The delegated auditor is functionally independent from the management of the auditee where he/she is delegated. The Heads of the auditees and the internal auditors designate with agreement the way of collaboration.

The main functions of the Delegated Internal Auditors are the following: to perform internal audit; to observe, evaluate help the functioning of the FM/C Systems; to analyse the reasons and conditions for breaching financial discipline and propose measures for
their avoiding and elimination, to give advise to the managers of the spending units and the Chief Accountants.

The Agency has at present delegated internal auditors to 12 ministries and 28 municipalities. Further delegation to other spending centres is envisaged. The Delegated auditors work in teams. A Draft “Instruction for the activities of Delegated auditors” has been prepared and will be pilot tested by the delegated auditors before its final version is adopted by PIFCA. The instruction regulates the rights and obligations of the delegated auditors, the activity and collaboration of the delegated auditor with PIFCA and with the entities where he/she is delegated.

All Internal Auditors, including the Delegated Internal Auditors, will be subject to an Audit Charter and a Code of Ethics, to be prepared by PIFCA. They will also use Internal Audit manuals, which will also be prepared and endorsed by PIFCA.

In relation to the internal audit performance the auditors of the Agency may perform global audits with crosschecks over a number of spending centres or over legal entities and sole proprietorships other than the auditees.

Audit Performance

Internal audit can be performed in a variety of ways. The internal auditor has a choice between, but is not limited to the following types of audit: financial audits, systems-based audits, performance audits and IT-audits.

Before the audit proper starts, the internal auditor shall acquaintance himself with the organisation and objectives of the auditee as well as the laws and regulations to which the auditee is subject. The development of audit trails will facilitate the function of internal auditor.

The auditor shall check facts and data relating to the financial activities of the auditee; analyse data, procedures and systems; interview the auditee’s staff and other persons, if deemed necessary within the scope of the audit.

In case serious irregularities and suspicion of fraud is disclosed during the internal audits, the internal auditor informs the relevant authorities for further investigation and follow-up in accordance with the relevant legal procedures. The auditor shall inform the competent authorities of any liabilities of the auditee to the state and municipal bodies.

Before the end of 2002 the Government will designate a public administration for coordinating the investigations of fraud and serious irregularities in the framework of EU financial interests. This organisation will be the contact point for DG OLAF.

Audit reporting

The findings, conclusions and recommendations resulting from the internal audit are summarised and documented in draft audit reports. These reports will be discussed with the auditee in contradictory proceedings before the Final report is finalised.

The final audit reports will be sent to the Head of the spending centre and to the PIFCA.
At the end of each quarter and each year all Regional Directorates of the PIFCA provide to the Central Office analyses and reports on work performed during the relevant periods. The reporting follows previously set indicators.

The Agency shall present an annual report on the results of its activities to the Council of Ministers via the Minister of Finance.

The Agency summarises and reports to the European Commission the results of its activities relating to European Union funds.

**Inspection/Investigation**

At present no distinction is made in the PIFC Act between the functions on internal audit and the function on detection of administrative irregularities (inspections). The internal auditors of the Agency exercise these two functions at the same time while performing an internal audit. The combining of these two functions will be solved in the revised version of PIFC. The PIFC Act contains provisions on imposing administrative measures. In case of suspected crime the Prosecution is informed.

On the basis of the report written instructions for the elimination of the established irregularities; proposals to the competent authorities to repeal any illegal administrative acts of the managers of the auditees and proposals for undertaking of patrimonial liability and disciplinary responsibility are given.

Any failure to meet obligations to the state budget, municipal budgets and the extra-budgetary accounts and funds and the control over Public Procurements Procedures shall be examined carefully.

The audit reports should have legal consequences, as provided for in the PIFC Act and should contain instructions for elimination of established irregularities; search patrimonial and administrative-penal liability; give recommendations to impose a disciplinary penalties; etc.

**Deficit deed** - This act is issued in cases the damages are of deficit and intentionally caused, according to the law and the preconditions, leading to the patrimonial responsibility are in place. The deficit deed is sent to the Court of Justice, which pronounces for the patrimonial responsibility or in the Prosecution in case of crime.

In cases where administrative violations are found an act on administrative violation will be issued and imposing administrative penalty and fines procedures are started.

**Public Procurement Law**

In accordance with the Public Procurement Law and the PIFC Act, the internal auditors of the PIFCA perform control over the compliance with the requirements for performing of public procurement procedures. The check of public procurement procedures, which end with a contract or are terminated, is an ex-post control. The delegated auditor can perform control over the compliance with the requirements for performing of public procurement procedures in the frames of the internal audit.

The main objective of the control over the public procurement procedures is to check whether the principles of transparency, equal opportunities for all potential participants in the procedure and fair competition are observed. The objective of checking the dossiers for performed procedures is to indicate whether the procedures are performed in compliance with the requirements of the legislation in force.
The results of the checks performed, supported by proves, conclusions and recommendations, are reflected in the audit report, which are given to the bidders. For the harmonisation of the control procedures, Guidelines for the performance of control over the public procurement are prepared in the Agency.

Harmonisation of FM/C Systems and IA methodologies
PIFCA is responsible for the harmonisation of methodology and co-ordinating the implementation of its recommendations for both the FM/C Systems and for the Internal Audit throughout the public sector. Implementing both functions may be a cause of conflicts of interest, since PIFCA would be devising system-elements of FM/C Systems, which it should assess independently afterwards. This issue has to be revised by the end of 2003.

Audit of EU funds spending centres
PIFCA performs audit of the functional structures relating to the implementation of EU funds (PHARE, ISPA).

The audit performed by PIFCA on the implementation of EU-funds follows international audit standards and has been agreed with the EC. The audit of EU funds is serving as a good example for the audit of national funds.

The Bulgarian SAPARD Agency has met successfully the above-mentioned criteria and received national accreditation from the National Fund in its capacity of Competent authority. A decision by the European Commission on the conferral of management of SAPARD aid was given on a fully decentralised basis. On the basis of a Multi-annual Financial Agreement and by virtue of the PIFC Act, PIFCA has been entrusted with the function of certifying body for the annual accounts of the SAPARD programmes. PIFCA reports to the European Commission for the certification performed.

Considerations to improve the present PIFC systems
The description of PIFC elements in Chapter 6 above has shown important areas for improvement. It calls for considering changes in the organisational structure and in the legal basis of the present PIFC complex.

The main areas for change are the following:

1. There is a clear need for centralised formulation of PIFC policies in relation to the need to create a platform for understanding its implications and discussion with all partners affected by these PIFC policies. The best solution would be a central body on high government level, responsible for setting PIFC policy directions (short and medium term strategies), supervising and co-ordinating PIFC policies, creating a culture of sharing progress and experience and establishing a climate of mutual assistance between relevant institutions.

2. PIFCA will have to focus more and more on the internal audit tasks proper, especially into the direction of systems-based and performance audits. A study on how to combine or separate internal audit functions and financial inspection functions will be carried out aiming improvement of the functions of PIFC. 3. The present function of “preventive financial control” of PIFCA, although it has not yet been applied, is incompatible with the function of Internal Audit and could create conflicts of interest. It is also not conducive to strengthening the function of the financial controller in spending centres. It is planned to establish new functions of ex ante financial controllers in spending centres.
Once these new functions operate satisfactorily (to be assessed by the delegated internal auditors) the preventive control function of PIFCA can be abolished.

4. The present function of harmonising FM/C Systems may also create conflicts of interest. This is because, if PIFC introduces instructions relating to the characteristics of FM/C Systems, it will be difficult for PIFC to assess independently in later stages the proper functioning of such systems. It is planned that this function will be transferred to another unit in the MoF, as soon as the envisaged reorganisation of the MoF has taken place. In the meantime, PIFCA will continue its present activities and inform the Commission as soon as there will be changes, due to the reorganisation.

Administrative Capacity and Human Resources Policy in PIFCA

According to the Regulation on the Structure of the PIFCA, in force since February 20, 2001, the Agency is organised in a Central Office and 28 Regional Units having the status of regional directorates (total number of personnel 1275 employees).

The human resources development and the improvement of the professional qualification of the staff are priority tasks of the management of the Agency. PIFCA developed a draft Strategy for the development of the management capacity and its administrative structures, including structural changes in the PIFCA to enhance co-ordination and cooperation as well as promote adequate information flows between the relevant Directorates. The strategy also aims at improved overall development of the human resources in PIFCA.

Also, a draft “Strategy for the management of the human resources” has been developed on the basis of an analysis of the training needs for the different categories of staff. A training programme will also be developed. The programme will include training of trainers and professional and specialised training for existing and newly acquired financial controllers and auditors. PIFCA envisages developing a system for the evaluation of staff and monitoring its performance against quality standards, focussing on achievements, ethical behaviour, self-assessment and motivation for further development, training and promotion.

FUNCTIONAL INDEPENDENCE

Functional independence is a special codified status of the internal audit function, allowing the internal auditor to maintain its professional integrity in expressing its professional judgements without fear for his position.

Functional independence is furthermore guaranteed by the fact that the responsibilities for performing internal audit cannot be mixed with managerial responsibilities. The internal auditor is independent in fixing his audit plans, in the choice of his audit methods and in the way of reporting. It is obvious that in the realm of public internal audit, the internal auditor and those who direct the internal audit organisation (PIFCA) cannot be subject to political pressure. The nomination, transfer and dismissal of internal auditors are subject to special rules.
The PIFC Act guarantees the functional independence of PIFC. However, at present the PIFC Director is assigned on a contract basis and is easily subject to political or any other kind of influence. This does not enhance the functional independence of the highest public Internal Auditor in the country and does not strengthen the stability and strength of management in PIFCA.

FINANCING OF THE PIFCA AND REMUNERATION OF ITS STAFF
PIFCA is a second level budget spending centre. The Agency forms a part of its budget as a percentage of discovered and recovered sums during the internal audit. Although the collected funds could not be used for material stimulation of the personnel, the consideration is that this way of budgeting threatens the independence of the Agency’s policy. The current practice will be abolished by the end of 2002.

PIFC staff is entirely paid out of the national budget. The Civil Servant Act, secondary acts on its implementation and other acts of The Council of Ministers define the salary and other remuneration levels for the different categories of employees. Article 13 of PIFC Act provides for supplementary salary financing in the Agency for a total of up to 25% of the annual salary funds under its budget. The Director is responsible for the allocation of this supplementary fund and gives an opportunity for some flexibility in the salary system to reward excellence and motivation.

Even though, the general salary levels in the Agency are not considered adequate for motivating and keeping highly qualified staff.

The rules of the Civil Servant Act and the Regulation on the structures of the PIFCA for promotion also are a cause for concern, because they do not support staff motivation or general interest in obtaining and keeping highly qualified and professionally skilled staff.

REVIEW OF EU SUPPORT FOR DEVELOPMENT OF THE PUBLIC INTERNAL CONTROL FUNCTION
Bulgaria received PHARE assistance to enhance its public financial control mechanisms since 1997. The assistance related to analysing and reviewing the relevant existing legal framework, to improve methodology and procedures and to develop training programmes for control and auditing in the public sector.

Further support was given from 2000-2001 to draft secondary legislation, analyse the training needs of PIFCA staff and to prepare the terms of reference for a new twinning project for PIFCA.

In November 2001 PIFCA entered into a twinning agreement “Strengthening of the public internal financial control” (BG 00.06.01) with the French Ministry of Economy, Finance and Industry for a project of 2 years. The project has four components: legal framework development; developing management capacity and administrative structures; human resource development and information technology. This is to be achieved through:

(1) Development and implementation of the guidelines and instructions, audit methodologies in compliance with the internal audit standards, audit manuals and audit trails;
(2) Strengthening the structure of the PIFCA, its Regional Directorates and delegate auditors in the spending centres;

(3) Enhancing the professional standards and general competence of the staff and management of the Agency;

(4) Developing a new wide area network (WAN) within the PIFCA.

Public finance school will be formed within the MoF, with a main contractor The Dutch Institute of Economy, within the frames of the project for “Support for the mid-term strategy of the Ministry of Finance” under PHARE 99. Employees of the state and local administration dealing with public finance will be trained in this finance school.

The Agency will apply for 2003 PHARE support of the establishment of Training centre for training and professional qualification of the internal auditors, development of the IT system of the Agency. Co-ordination between PIFCA AND the National Audit Office

A Draft Co-operation Agreement between NAO and PIFCA has been signed in July 2002. This agreement will co-ordinate the activities of both institutions, co-ordinate their annual audit programmes, use each other’s audit results, carry out joint seminars on issues of mutual interest, perform joint audits and co-operate in developing audit standards. The Agreement aims at increasing the effectiveness of the entire public control system.

Conclusions
Based on the comments made in previous Chapters the following conclusions are drawn:

Organisational level:
(1) The Government shall establish PIFC Council under the Council of Ministers. The PIFC Council will formulate new PIFC policy (short term and medium term strategies) and create consensus in the public area. It will also be responsible for the co-ordination and monitoring of such policy. In particular will the Council discuss the outcome of this Policy Paper and, whenever necessary, make any subsequent updates. The Policy Paper will be presented for approval to the Council of Ministers. The Council will encourage discussions between the professional and scientific quarters, as well as with the non-governmental sector for the development of better control/audit in the field of the public administration. It will ensure an effective process of action plan development, including objectives, responsibilities and deadlines for implementation. The Council will also approve training plans for internal auditors, spending units and staff responsible for internal.

(2) In respect of the establishment of the PIFC Council, the PIFCA responsibilities on policy matters will be reformulated.

(3) Every 6 months shall the Council present to the Budget and Finance committee under the National Assembly information on the current PIFC policy and strategic
intentions of the Government. On the basis of the Council’s suggestion, the Budget and Finance Commission adopts and amends the general PIFC legislative framework.

(4) PIFCA will establish a specific central unit for the harmonisation of the internal audit functions and methodologies;

(5) PIFCA will separate inspection functions related to the performance of the patrimonial and administrative-penal liability and the internal audit function.

(6) Article 14 of the PIFC Act, which allows PIFCA’s budget to receive 10 % share of the recovered sums, will be repealed.

(7) The rules for interaction between PIFCA and the Prosecution in cases of serious irregularities and frauds will be improved.

(8) Central harmonisation unit will be established within the structure of the MoF for the methodological development, co-ordination and follow-up of regulations for the FM/C Systems.

Internal Audit

(1) Legislative measures will be taken to ensure that the hierarchy of PIFCA will be immune to political or any other pressure in order to maintain the highest standards of professional integrity; this will also increase the stability in PIFCA management.

(2) A study will be made on how to combine (or separate) the functions of internal auditor and of financial inspectors under the aegis of PIFCA; PIFCA is to develop as an Internal Audit Agency, focused on system-based and performance audits; Auditors, delegated to the budget spending units, who will keep their status of PIFCA employees and of civil servants, will work in teams and in a close co-operation with the financial and accountancy units of the relevant spending centres.

(3) PIFCA will develop harmonised audit practices, audit trails and an overall binding Audit Charter as well as a Code of Ethics for internal auditors.

(4) PIFCA will also develop audit standards for the procedures of Public Procurement awarding.

Financial Management and Control

(1) The central harmonisation and co-ordination task for FM/C Systems in the public sector will be transferred to a unit in the MoF, but outside the scope of PIFCA. This unit will be responsible for the elaboration of a legal base, guidelines and appropriate manuals for the functioning of the FM/C Systems, including planning, ex-ante control and follow-up. Until such unit has been established, PIFCA will continue performing this task through a unit that is not involved in the functions of internal audit.
(2) The function of a functional independent financial controller will be introduced in the financial services of spending centres (between the Head of the spending centre and the Chief Accountant), responsible for prior written approval of any draft financial decisions on the basis of legality and regularity; The function of the financial controller will be in compliance with international standards as embodied in national legislation. The financial controller can make use of scientifically developed sampling techniques.

(3) Appropriate measures for establishing financial management and control units will be developed within the municipalities, performing control over own revenues and expenditure. The PIFCA will control only utilisation of funds and grant aid from the State budget.

Adaptation of the PIFC legislative framework

The present PIFC legal framework will be adapted in two stages:

**Short-term (till the autumn of 2002)**

The PIFC Act will be amended and supplemented, taking into account, inter alia, the following changes:

1. Enhancing the functional independence of the Head of PIFCA, by granting him/her the status of civil servant;
2. The creation of a new position of financial controller in budget spending centres;
3. Repealing Article 14 of the PIFC Act to partly finance PIFCA out of recovered funds as of January 1, 2003

**Mid-term (till the end of 2003)**

Further amendments to the PIFC Act will be introduced focussing on:

1. The transfer of the harmonisation functions of the FM/C Systems from PIFCA to a unit in the MoF, still to be established;
2. Elimination of the preventive control function of PIFCA

As a result the legal basis as described in Chapter 5.1.1. above will also be adapted.

**Other issues**

1. Adequate training of control and audit staff at all levels of the PIFC systems should be developed in a structural way;
2. The experience of auditors in Bulgaria that have been certified by the IIA should be used in favour of the development of internal audit in the Republic of Bulgaria.
3. A modern “control environment” based on International Accountancy and Audit standards will be introduced into national legislation as well as contemporary information technologies, management style, culture and values.
An integrated system for information for the financial management (SAP/3) will be introduced for the benefit of all budget-spending centres of all levels.

**Approval by the Council of Ministers**
On the basis of suggestions of the PIFC Council, the Council of Ministers of the Republic of Bulgaria approves that:

1. The conclusions made in Chapter 13 above will be implemented:
2. PIFCA will remain the partner of the European Commission in all issues concerning PIFC.
3. A new Public Procurement Law will be adopted in full compliance with the EU Directives in the field of Public Procurement.
4. There will be collaboration and co-ordination between the control bodies, especially the National Audit Office, PIFCA and inspectorates in Ministries and State Agencies, in order to reduce the risk of overlapping or possible lack of control.
5. An analysis be made of the functions of the Inspectorates in order to ensure that there is no overlap between the functions and responsibilities of the internal audit and the FM/C Systems.
6. The Director of PIFCA should have the status of civil servant.
7. A Unified Revenues Agency will be established (See annex 2)
I. List of Definitions used for the Bulgarian Policy Paper on the Public Internal financial Control function

Public financial control
The entire system of (external audit and internal) financial and other controls, including the organisational structure, methods, procedures and internal audit, established by the legislative and executive powers of a State within its legal goals, to assist in conducting the management and control of the audited public entity in a regular economic, efficient and effective manner; ensuring adherence to management policies; safeguarding assets and resources; securing the accuracy and completeness of accounting records; and producing timely and reliable financial and management information.

Public external audit
Public external audit is carried out by the public body of a State which, however designated, constituted or organised, exercises by virtue of law, the highest public auditing function of that State. This body (e.g. the National Court of Auditors or the State Financial Control) is responsible and reporting to the State’s Parliament. It performs it tasks through ex post audits.

Public internal financial control
Public internal financial control as defined under § 2.1 above may be carried out on various levels, through ex ante financial control by the public spending centres and through internal audit by either the same public spending centres or a centralised control/audit organisation somewhere else in the Government. This could be the MoF or an organisation under the direct responsibility of the Cabinet or the Prime Minister.

Internal audit
The functional means by which the managers of a (semi-) public entity receive an assurance from internal sources that the processes for which they are accountable are operating in a manner which will minimise the probability of the occurrence of fraud, error or inefficient and uneconomic practices. Internal audit has many of the characteristics of external audit but may properly carry out the directions of the level of management to which it reports.

Public spending centres
Public spending centres are all public entities that have been allocated national budgetary funds and that can make financial decisions that may have an impact on the financial policies of the Government. It comprises all spending line ministries and other government agencies.

Ex ante control:
A series of actions, which is considered to be part of the total internal control system concerned with realising the accounting goals of the entity. This includes compliance with accounting and financial policies and procedures, safeguarding the entity’s resources and preparing reliable financial reports. The Accounting Officer carries out these actions under the double signature system within the management of a public spending centre, prior to his/her approval of the financial decisions by the management.

Systems Audit
An audit of the management and control systems developed by the management of the audited entity, under which it uses its resources in carrying out its responsibilities.

Performance Audit
Performance audit is an audit of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities.

Economy: Minimising the cost of resources used for an activity, having regard to the appropriate quality.
**Effectiveness**: The extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity.

**Efficiency**: The relationship between the output, in terms of goods, services or other results, and the resources used to produce them.

**Compliance testing**
The activity of the auditor to test whether a selected number of individual transactions are performed according to the rules of the management and control system used by the management of the audited entity.

**Substantive testing**
The activity of the auditor to perform a test on an entire population of transactions as a result of deficient results of compliance testing.

**Functional independence**
The freedom of any public accounting officer (controller) and auditor in control/auditing matters to act in accordance with his/her control/audit mandate without external direction or interference of any kind. Independence permits controllers/internal auditors to render impartial and unbiased judgements essential to the proper conduct of control and audits. It is achieved through organisational status and objectivity.

**Control Environment**
The control environment comprises the actions, policies and procedures, reflecting the management understanding of the sense and importance of the control.
### II. GLOSSARY OF TERMS FROM INTOSAI AUDITING STANDARDS AND TERMS USED BY THE EUROPEAN COMMISSION

<table>
<thead>
<tr>
<th>Name</th>
<th>Definition</th>
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</thead>
<tbody>
<tr>
<td>Accounting Control System</td>
<td>A series of actions, which is considered to be part of the total internal control system concerned with realising the accounting goals of the entity. This includes compliance with accounting and financial policies and procedures, safeguarding the entity’s resources and preparing reliable financial reports.</td>
</tr>
<tr>
<td>Administrative Control System</td>
<td>A series of actions, which are part of the internal control system, concerned with administrative procedures needed to make managerial decisions, realise the highest possible economic and administrative efficiency and ensure the implementation of administrative policies, whether related to financial affairs or otherwise.</td>
</tr>
<tr>
<td>Audit</td>
<td>In its most generic sense this can mean any examination ex-post of a transaction, procedure or report with a view to verifying any aspect of it – its accuracy, its efficiency, etc. The word usually needs to be qualified more narrowly to be useful.</td>
</tr>
<tr>
<td>Audit Evidence</td>
<td>Information, which supports the opinions, conclusions or reports of the auditors, internal audit services or SAI.</td>
</tr>
<tr>
<td></td>
<td>It should be:</td>
</tr>
<tr>
<td></td>
<td><strong>Competent</strong>: information that is quantitatively sufficient and appropriate to achieve the auditing results; and is qualitatively impartial such as to inspire confidence and reliability.</td>
</tr>
<tr>
<td></td>
<td><strong>Relevant</strong>: information that is pertinent to the audit objectives.</td>
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<tr>
<td></td>
<td><strong>Reasonable</strong>: information that is economical in that the cost of gathering it is commensurate with the result, which the auditor or, the internal audit service or the SAI is trying to achieve.</td>
</tr>
<tr>
<td>Audit Mandate</td>
<td>The auditing responsibilities, powers, discretion and duties conferred on any audit body (e.g. the SAI under the constitution or other lawful authority of a country (as set out in primary or secondary national legislation).</td>
</tr>
<tr>
<td>Audit Objective</td>
<td>A precise statement of what the audit intends to accomplish and/or the question the audit will answer. This may include financial, regularity or performance issues.</td>
</tr>
<tr>
<td>Audit Procedures</td>
<td>Tests, instructions and details included in the audit programme to be carried out systematically and reasonably.</td>
</tr>
<tr>
<td>Audit Scope</td>
<td>The framework or limits and subjects of the audit.</td>
</tr>
<tr>
<td>Audit Trail</td>
<td>The phrase has a rather imprecise general meaning in general audit usage. However, annex 1 of Council Regulation 2064/97 has provided a specific detailed description</td>
</tr>
</tbody>
</table>
of the requirements of ‘a sufficient audit trail’ for the purposes of the structural funds managed by the Member States on behalf of the Commission. In brief summary it requires the maintenance of records giving the full documentation and justification at all stages of the life of a transaction together with the ability to trace transactions from summarised totals down to the individual details and vice versa.

The overriding objective of the audit trail is to ensure a ‘satisfactory audit from the summary amounts certified to the Commission to the individual expenditure items and the supporting documents at the final beneficiary’.

The word "audit trail" in the Regular Reports and the Accession Partnerships is to be understood in the light of the above definition, which should be applied in the context of all Pre-Accession Funds to Candidate Countries.

<table>
<thead>
<tr>
<th>Audited Entity</th>
<th>The organisation, programme, activity or functions subject to audit by the SAI or the (internal) audit service.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditing Standards</td>
<td>Auditing standards provide minimum guidance for the auditor that helps determine the extent of audit steps and procedures that should be applied to fulfil the audit objective. They are the criteria or yardsticks against which the quality of the audit results are evaluated.</td>
</tr>
</tbody>
</table>
| Charter (Internal Audit Charter) | Also called Internal Audit Mission Statement, especially in non-US (-linked) organisations. The Charter/Mission Statement of the internal audit activity is a formal, written document that defines the internal audit activity's purpose, scope, and responsibility. It aims to ensure that the internal audit is looked upon with trust, confidence and credibility. The charter should:  
  - Ensure the functional independence including specification of the position of the internal audit activity within the organisation;  
  - Permit unrestricted access to records, personnel, and physical properties relevant to the performance of engagements;  
  - Define the scope of internal audit activities;  
  - Define reporting requirements to auditees and, where necessary, to judiciary institutions and  
  - State the relationship with the State Audit Office. |
<p>| Compliance Audits | See Regularity Audits |
| Constitutional | A matter, which is permitted or authorised by, the fundamental law of a country. |
| Due Care | The appropriate element of care and skill which a trained auditor would be expected to apply having regard to the complexity of the audit task, including careful attention to planning, gathering and evaluating evidence, and forming opinions, conclusions and making recommendations. |</p>
<table>
<thead>
<tr>
<th>Economy</th>
<th>Minimising the cost of resources used to achieve given planned outputs or outcomes of an activity (including having regard to the appropriate quality of such outputs or outcomes).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effectiveness</td>
<td>The extent to which objectives are achieved and the relationship between the planned impact and the actual impact of an activity.</td>
</tr>
<tr>
<td>Efficiency</td>
<td>Maximising the outputs or outcomes of an activity relative to the given inputs.</td>
</tr>
</tbody>
</table>
| Evaluation | Can mean  
  a) The evaluation of tenders as part of the contracting process; or  
  b) Specific reviews designed to examine the overall performance of a programme or project. Its scope may vary. Its core should be setting out, obtaining or calculating the outcomes of the programme or project and considering their economy, effectiveness and efficiency, but it usually covers a much wider range of issues including the appropriateness and achievement of output objectives as well. It may be carried out before, during or after the programme or project has been completed (usually known as ex-ante, mid-term or ex-post). It shares many characteristics with performance audit |
| Ex ante financial control (EAFC) | Ex ante financial control (EAFC) is the set of control activities prior to carrying out financial decisions relating to appropriations, commitments, tender procedures, contracts (secondary commitments), and related disbursements and recovery of unduly paid amounts. Such decisions can only be made on the basis of a taken after the explicit approval of the ex ante financial controller.  
  EAFC is sometimes also called "preventive control". This is the narrower meaning of financial control. If described as EAFC there can be no ambiguity. |
| Ex post internal audit (EPIA) | The set of audit activities that take place ex-post. I.e. in this context, after financial decisions have been made by the management. EPIA can be carried out by centralised government audit bodies, responsible and reporting to the highest levels of government (MoF or even the Council of Ministers) or decentralised audit bodies (Internal Audit Units in government budget implementation spending units, like Ministries or Agencies). |
| Ex-post | When referring to audit, "ex post" usually means an audit performed after the initial legal commitment of a transaction. When referring to evaluation, "ex post" usually means an evaluation performed after the transaction has been fully completed. |
| External audit | Any audit carried out by an auditor who is independent of the management being audited. In public finance, it means audit external to the government financial management and control policy is carried out by the national Courts of Auditors (or similar institutions) Supreme Audit Office to objectively ensure that such management and control systems are compliant with the definition of PIFC as |
| Field Standards | The framework for the auditor to systematically fulfil the audit objective, including  
a) planning and supervision of the audit, b) gathering of audit evidence which is  
competent, relevant and reasonable, and c) an appropriate study and evaluation of  
internal controls. |
| Financial Audits | Cover the examination and reporting on financial statements and examine the  
accounting statements upon which those statements are based |
| Financial controller | The function of the financial controller may mean different things in different  
organisations e.g:  
a) the role which gives ex-ante approval to individual transactions that they are in  
conformity with regulations and procedures; or.  
b) the same as auditor; or.  
c) the management role which combines responsibility for the recording and  
processing of transactions (financial accounting) with the preparation of and  
reporting against budget targets (management accounting).  
In the Commission, Financial Control was originally (1973) defined as ex ante  
approval of any kind of financial decisions, later the internal audit function was  
added to the functions of the Finance Controller. Recently the trend is to split the  
two functions and the term "financial control" refers again only to ex ante approval.  
In the framework of Enlargement the term is used for the ex ante approval function. |
| Financial controls | The phrase has a wide meaning in some organisations and a narrow meaning in  
others (very broadly, organisations from further North take the wider meaning and  
those from further South take the narrower meaning).  
The wide meaning follows the meaning of internal controls except that it refers to  
controls, which have a specific financial component. In practice, in this context,  
there are few controls, which do not have a financial component and the phrase  
financial control can often be virtually interchangeable with internal control.  
The narrower meaning follows the narrower meaning of financial controller and  
refers to the specific review of the conformity of transactions with regulations and  
procedures described in ex-ante financial control. |
| Financial management (FM) | In the framework of Enlargement the term is understood to be the set of  
responsibilities of the management (which is responsible for carrying out the tasks  
of government budget handling units) to establish and implement a set of rules  
aiming at an efficient, effective and economic use of available funds (comprising  
income, expenditure and assets). It refers to planning, budgeting, accounting, |
<table>
<thead>
<tr>
<th><strong>Financial Systems</strong></th>
<th>The procedures for preparing, recording and reporting reliable information concerning financial transactions.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Findings, Conclusions and Recommendations</strong></td>
<td>Findings are the specific evidence gathered by the auditor to satisfy the audit objectives; conclusions are statements deduced by the auditor from those findings; recommendations are courses of action suggested by the auditor relating to the audit objectives.</td>
</tr>
<tr>
<td><strong>Functional Independence (FI)</strong></td>
<td>The special status of a financial controller (narrow sense) or an internal auditor (whether central or decentralised), providing him/her with the power of maintaining a free professional judgement vis-à-vis his superior of the organisation in matters of control and audit. This concept requires the maintenance of a balance between those who are responsible for managing the organisation and those who are controlling/auditing the organisation. FI should be embodied in relevant legislation. Another way to ensure FI is to have the central control/audit organisation nominate a delegate Internal Auditor into the organisation to be audited or to allow the Internal Auditor (in case of conflict of interests) to report his findings freely to the central audit body.</td>
</tr>
</tbody>
</table>
| **Fundamental** | A matter becomes fundamental (sufficiently material) rather than material when its impact on the financial statements is so great as to render them misleading as a whole.  
See also Significant Control Weakness |
| **General Standards** | The qualifications and competence, the necessary independence and objectivity, and the exercise of due care, which shall be required of the auditor to carry out the tasks related to the fields and reporting standards in a competent, efficient and effective manner. |
| **Impact** | The same as result or outcome. |
| **Independence** | For an external audit it means the freedom of the national Courts of Auditors or similar institutions in auditing matters to act in accordance with its audit mandate without external direction or interference of any kind.  
From an internal audit viewpoint it means that the internal audit service should be organised directly under the top management. Nevertheless, the internal audit service should be free to audit any area that it considers to be an area of risk for material errors, even when management might not think so. (see also functional independence) |
| **Internal Audit** | The Institute of Internal Auditors definition is:  
Internal audit is an independent, objective assurance and consulting activity |
Centralised internal audit (CIA)

Decentralised internal audit (DIA)

Internal Auditor (IA)

<table>
<thead>
<tr>
<th>Centralised internal audit (CIA)</th>
<th>designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. More concretely, it is the functional means by which the managers of an entity receive an assurance from internal sources (including internally subcontracted sources) that the internal controls are achieving their internal control objectives. It will cover, inter alia, Financial Audits, System Based Audits, Performance Audits, IT-Audits. It has most of the characteristics of external audit except that it finally reports to the management and therefore can never have the same level of independence as external audit. In public finance a distinction is made between centralised internal audit (CIA) and decentralised internal audit (DIA) as follows: CIA is public ex post internal audit performed by a centralised body (e.g. the MoF or another Internal Audit body (like the Government Control Office in Hungary or the Internal Audit Board in Malta)) on systems. DIA is the internal audit performed by specialised Internal Audit Units located inside Government or lower public budget implementation spending centres (Ministries or Agencies) who are assigned to execute the budget policy.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decentralised internal audit (DIA)</td>
<td>The Internal Auditor (IA) (whether located outside or inside the organisation of the Managing Director) is responsible for carrying out all relevant kinds of ex post internal audit. In public finance terms, the IA should be subject to a special &quot;statute&quot; (preferably written in the Internal Audit Law governing the PIFC-system in a given country) allowing him an adequate degree of functional independence. The IA can report to the MD or be assigned by a central Public Internal Audit Service, like the MoF or an Internal Audit Board responsible to the Prime Minister of the Cabinet of Ministers</td>
</tr>
</tbody>
</table>
| Internal Control | The whole system of financial and other controls, including the organisational structure, methods, procedures and internal audit, established by management within its corporate goals, to assist in conducting the business of the audited entity in a regular, economic, efficient and effective manner.

Internal control relate to the following categories: Control environment; Risk assessment; Information and Communication; Control activities and Monitoring of controls |
| Internal Control Objective | The primary objectives of internal control are to ensure:
1) The reliability and integrity of information.
2) Compliance with policies, plans, procedures, laws, and regulations.
3) The safeguarding of assets.
4) The economical, efficient and effective use of resources.

Each organisation should design its own system of internal control to meet the needs and environment of the organisation. |
| International Organisation of Supreme Audit Institutions (INTOSAI) | An international and independent body, which aims at promoting the exchange of ideas and experience between Supreme Audit Institutions in the sphere of public financial control. |
| IT systems audits | Examine the sufficiency and adequacy of the protection of the security of the systems of IT applications in order to guarantee the confidentiality, integrity and availability of information and IT systems |
| Management control | Control by management: the same as internal control, including financial control |
| Managing Director (MD) | The Managing Director (MD) can be a Line Minister or his delegates, responsible for the implementation of Programmes/projects relating to national or lower budget income or expenditure. The MD is responsible for setting up FM/C Systems inside his organisation and the development of financial management and control manuals and its implementation through the nomination of an Accountant. The MD and the Accountant should create a double signature system (DSS) to provide for the highest degree of transparency in financial management. |
| Materiality and Significance (Material) | In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the financial statements or the performance audit report. Materiality is often considered in terms of value but the inherent nature or characteristics of an item or group of items may also render a matter material - for example, where the law or some other regulation requires it to be disclosed separately regardless of the amount involved. In addition to materiality by value and by nature, a matter may be material because of the context in which it occurs. For |
example, considering an item in relation to the overall view given by the accounts, the total of which it forms a part; associated terms; the corresponding amount in previous years. Audit evidence plays an important part in the auditor’s decision concerning the selection of issues and areas for audit and the nature, timing and extent of audit tests and procedures.

<table>
<thead>
<tr>
<th>Mission Statement</th>
<th>See Charter (Internal audit Charter)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opinion</td>
<td>The auditor’s written conclusions on a set of financial statements as the result of a financial or regularity audit.</td>
</tr>
<tr>
<td>Outcomes</td>
<td>The effects of a programme or project measured at the highest meaningful level in proportion to the programme or project (e.g. jobs created). In practice there are always at least some external non-controllable elements, which influence whether outcomes are achieved or not. The same as results or impacts</td>
</tr>
<tr>
<td>Outputs</td>
<td>The directly tangible deliverables of a programme or project insofar as they are, for practical purposes, completely under the control of the implementers of the project (e.g. training seminar executed).</td>
</tr>
<tr>
<td>Passer-outre</td>
<td>PO is the procedure whereby the opinion of the ex ante financial controller (refusal to approve) can be overridden by the ultimate body responsible for the management of government budget implementation (e.g. Council of Ministers). A reasoned and extensive request by the MD should be the basis for such a decision, while the MD remains responsible for his acts.</td>
</tr>
<tr>
<td>Performance Audit</td>
<td>An audit of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities.</td>
</tr>
<tr>
<td>Planning</td>
<td>Defining the objectives, setting policies and determining the nature, scope, extent and timing of the procedures and tests needed to achieve the objectives.</td>
</tr>
<tr>
<td>Postulates</td>
<td>Basic assumptions, consistent premises, logical principles and requirements, which represent the general framework for developing auditing standards.</td>
</tr>
<tr>
<td>Public Accountability</td>
<td>The obligations of persons or entities, including public enterprises and corporations, entrusted with public resources to be answerable for the fiscal, managerial and programme responsibilities that have been conferred on them, and to report to those that have conferred these responsibilities on them.</td>
</tr>
<tr>
<td>Public Internal Financial Control (PIFC)</td>
<td>PIFC is the overall financial control system performed internally by a Government or by its delegated organisations, aiming to ensure that the financial management and control of its national budget spending centres (including foreign funds) complies to the relevant legislation, budget descriptions, the principles of sound financial management, transparency, efficiency, effectiveness and economy. PIFC comprises all measures to control all government income, expenditure, assets and liabilities. It represents the wide sense of internal control. It includes but is not</td>
</tr>
</tbody>
</table>
| Reasonable Assurance | Internal control, no matter how well designed and operated, can provide only reasonable assurance to management regarding the achievement of an entity's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These limitations may include faulty decision-making with respect to the establishment or design of controls, the need to consider costs as well as benefits, management override, the defeat of controls through collusion, and simple errors and mistakes. Additionally, controls can be circumvented by collusion of two or more people. Finally, management may be able to override elements of the internal control system.

Reasonable assurance is provided when cost-effective actions are taken to restrict deviations to a tolerable level. This implies, for example, that material errors and improper or illegal acts will be prevented or detected and corrected within a timely period by employees in the normal course of performing their assigned duties. Management during the design of systems considers the cost-benefit relationship. The potential loss associated with any risk is weighed against the cost to control it. |
<p>| Regularity Audit | Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements; attestation of financial accountability of the government administration as a whole; audit of financial systems and transactions, including an evaluation of compliance with applicable statutes and regulations; audit of internal control and internal audit functions; audit of the probity and propriety of administrative decisions taken within the audited entity; and reporting of any other matters arising from or relating to the audit that the SAI considers should be disclosed. |
| Report | The auditor’s written opinion and other remarks on a set of financial statements as the result of a financial or regularity audit or the auditor’s findings on completion of a performance audit. |
| Reporting Standards | The framework for the auditor to report the results of the audit, including guidance on the form and content of the auditor’s report. |
| Results | The same as outcomes. |
| Risk | An event, which can result in an undesirable or negative outcome. It is characterised by the probability or likelihood of the event occurring and the resulting impact or consequence if it does occur. These two factors combine to result in a level of risk exposure. |
| Risk assessment | Auditor’s tool to help identifying audit projects offering the highest added value to the organisation. Risk assessment is the identification of all local FM/C Systems and of their associated risks according to a number of risk factors (IIA). |</p>
<table>
<thead>
<tr>
<th><strong>The risk assessment approach has to be used at, at least two levels:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>A. for the establishment of the annual audit programme, selecting projects of highest expected return and</td>
</tr>
<tr>
<td>B. In the planning phases of the individual audit itself.</td>
</tr>
</tbody>
</table>

Risk factors are: assessment of volume, sensitivity and materiality of data, the control environment, confidence in management, complexity of activities and Information systems, geographical diversity, and prior audit knowledge.

<table>
<thead>
<tr>
<th><strong>Risk Management (RM)</strong></th>
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</thead>
<tbody>
<tr>
<td>The overall process of identifying, assessing and monitoring risks and implementing the necessary controls in order to keep the risk exposure to an acceptable level. Best practice suggests that it should be an embedded part of the management process rather than something, which is added at a later stage. RM acts as awareness raising exercise and as a forum for sharing views at all levels in organisations; it informs and trains management and staff and increases the likelihood for success in the achievement of the objectives. Management creates the conditions and establishes tools necessary to evaluate, prioritise and decide before carrying out an activity to allow it to obtain a reasonable assurance of achieving the objectives with reasonable value for money. The internal control system ensures that management protects itself from unacceptable risks. Processes need to be developed to identify these risks and conceive and implement a system to control the most significant risks. A success factor for implementing the risk management system throughout the organisation is the management’s general interest in the exercise. RM should be put on the agenda for the development of its own system for assessing the risks to which the organisation is subject.</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th><strong>Significant Control Weakness</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant is the level of importance or magnitude assigned to an item, event, information, or problem by the internal auditor. Significant audit findings are those conditions that, in the judgement of the director of internal auditing, could adversely affect the organisation. Significant audit findings (as well as weaknesses cited from other sources) may include conditions dealing with irregularities, illegal acts, fraud, errors, inefficiency, waste, ineffectiveness, conflicts of interest, and control weaknesses.</td>
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</table>

<table>
<thead>
<tr>
<th><strong>Supervision</strong></th>
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<tbody>
<tr>
<td>An essential requirement in auditing which entails proper leadership, direction and control at all stages to ensure a competent, effective link between the activities, procedures and tests that are carried out and the aims to be achieved.</td>
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<table>
<thead>
<tr>
<th><strong>Supreme Audit Institution (SAI)</strong></th>
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<tbody>
<tr>
<td>The public body of a State which, however designated, constituted or organised, exercises by virtue of law, the highest public auditing function of that State.</td>
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</table>

<table>
<thead>
<tr>
<th><strong>Systems based Audit</strong></th>
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<tbody>
<tr>
<td>Systems based audit refers to an in-depth evaluation of the internal control system with the objective to assess to extent to which the controls are functioning effectively. It is designed to assess the accuracy and completeness of financial</td>
</tr>
</tbody>
</table>
statements, the legality and regularity of underlying transactions and the economy, efficiency and effectiveness of operations. A systems based audit should be followed-up through substantive testing of a number of transactions, account balances, etc. to determine whether the financial statements of the auditee are accurate and complete, the underlying transactions legal and regular and/or the criteria for economy, efficiency and effectiveness have been achieved.
The introduction of a treasury system for the public finances in the Republic of Bulgaria supports a framework for the development of the internal control/audit. The implementation of the treasury system as part of the reform in the budget area is directed mainly to:

- The introduction of the Treasury Single Account System in Bulgarian National Bank BNB (TSA) as element of the Treasury through the re-organisation of the payment system and of the bank accounts regime
- The development of a financial management information system (FMIS) in the budgetary sector.

The basis of the TSA has been established in 1999 by including the accounts of the First level spending units (FLSU) as sub-accounts of the account of the Republican Budget. The basic principles and necessary measures and steps for the initiation of the Treasury Single Account are included in the Annual Budget Law 2000 (§18, Transitional and Final Provisions). Also, there are provisions for improvement of the TSA in the Annual Budget Act for 2001 (§17) and for 2002 (§19). The accounts in leva of all first level spending units (except the accounts of the municipal budgets and the autonomous budgets) have been included in TSA in 2001. It is envisaged to expend the scope of the TSA by including the accounts of the autonomous budgets as well as the relationship between central budget and municipality budgets (subsidies) by the end of 2002. The following major budget control aspects, could be outlined as follows:

1. The centralisation in the TSA of all available funds of the budgetary organisations (except the municipalities) through transit accounts in the commercial banks under the control and management of the Minister of Finance.

2. The setting up of payment limits in the accounts of the relevant first level spending units. The relevant first level spending units distribute in SEBRA (System for electronic budget payments) the allocated budget resources to all their dependent units based on approved monthly limits and they are responsible for tracking of the payments to the relevant spending unit. This ensures that those units cannot overspend beyond the set limits. The classification and realisation of any payment in terms of priority is not a function of the payment system, but remains the responsibility of the relevant first level-spending unit who has initiated the payment.

3. Authorising the payments of second and lower level spending units by the relevant FLSUs through SEBRA within approved limit for expenditures for the system of the FLSU. The payment requests are submitted by the spending units through commercial banks and are confirmed in SEBRA by FLSU.

4. The introduction of a system for registration of financial commitments undertaken and the shift of budget reporting from the final stage of the payment to the initial stage of creating a commitment. This is included in the new
Information System for Financial Management through the requirement for reservation of the necessary budget funds for commitments under concluded contracts. All FLSUs (except the municipalities) and six Second level budget spending units of the MoF are included in the ISFU. In 2001 the ISFU for the budget sector was finished and was accepted in operational status on its first stage of setting up and implementation. In 2002 training is provided for end users in the three SAP/R3 modules included in ISFU in order to implement it: Financial Accountancy, Budget Management and Control, Cash Management.

5. The relevant first level-spending unit also complement the activity of the internal control both at the stage before establishing a commitment – by checking the lawfulness of the tenders and contract-concluding procedures, and at the stage of contracts performance – and before making payments through checking whether invoices cover the obligations in the contract.

6. In exercising its internal audit functions, the PIFCA monitors and evaluates the ex-ante control and the functioning of the accountancy system and the control risks involved. The responsibility for carrying out day-to-day control of the accounting system explicitly is assigned to the relevant first level-spending unit.

7. The new Chart of Accounts for the budget sector, in compliance with the requirements of SNA 93, ESA 95 and the new GFS 2001 has been developed in order to improve the functioning of the accountancy system. It was implemented in the budget sector in 2001 through closing of the accounts for 2001 on accrual base (except the central budget) and the submission of the trial balances by the budget entities was important element of the accountancy improvement in the budget sector. These allows the consolidation of the information for the budget sector on accrual base and the harmonisation of the public finance statistics in compliance with the requirements of the European legislation.
REPUBLIC OF BULGARIA
COUNCIL ON PUBLIC INTERNAL FINANCIAL CONTROL

STRATEGIC PLAN

FOR DEVELOPMENT OF PUBLIC INTERNAL FINANCIAL CONTROL IN REPUBLIC OF BULGARIA

OCTOBER 2002 - OCTOBER 2005
Introduction

This strategic plan aims to reflect the main objectives of the Public Internal Financial Control (PIFC), laid down in the Policy Paper of PIFC, adopted by the Council of Ministers on 19th September 2002.

The Policy Paper of PIFC outlines the short-term and the medium-term tasks of PIFC, which are defined in the current strategic plan.

The strategic plan is in compliance with the recommendations of the European Commission regarding the development of PIFC and comprises the period 01/10/2002 – 30/09/2005. The strategic plan includes SIGMA’s recommendations, made in the Report for the first stage of the Peer Review of the PIFC system in Bulgaria concerning elaboration of a Plan for development of PIFC in Republic of Bulgaria.

The Council on PIFC is a permanent authority under the Council of Ministers and contributes for the achieving of Government’s objectives in the PIFC area as:

- Planning the strategic issues of PIFC and developing of control mechanisms of the executive authority;
- Monitoring and co-ordination financial-control units’ activities within the executive authority.

Main functions of the Council of PIFC are the formulation of the new policy of PIFC and achievement of consensus in the public sphere regarding its implementation.

4 Strategic objective of PIFC

Providing of transparency and a sound financial management and control of the public funds, observing the principals of effectiveness, efficiency, and economy.

5 Priority objectives of PIFC


2. Improvement of the PIFC legal framework.

3. Encourage the improvement of the control environment based on the international accounting and auditing standards and applying the achievements of the modern informational technologies.

4. Strengthening the preventive nature of the control through emphasizing over the preventive control function.
5. Development of the internal audit as an independent, permanent and objective instrument for improving the organizations’ activities and assisting in the process of fulfillment of their objectives.

6. Clear determination of the inspectorates’ functions within the Ministries and the other authorities where such inspectorates are established aiming the avoidance of overlapping with the PIFC Agency control functions.

7. Protection of the State and municipalities financial interests in the legal entities with a blocking quota of state or municipal equity.

8. Protection of European Union financial interests in relation to the disbursement within European Union funds and programmes.


10. Co-operation with OLAF in relation to its activities comprising irregularities and fraud recovery regarding the financial interests of European Union.

11. Performance of effective policy for development of human resources accomplishing the main elements of the PIFC system.

12. Improvement of the Public Procurement and control system.

13. Implementation of the modern informational technologies in performance of PIFC.

14. Improvement of the communications between the different institutions within the PIFC system and insurance of effective co-operation with European Union control institutions and with the institutions for external audit.

15. Financial insurance of the functions in performance of PIFC.

The anticipated tasks realizing the above mentioned priority objectives are set in the Annex 1 to the current strategy plan.

Annual operational plans defining the concrete measures, responsible institutions and deadlines are in process of elaboration for performance of the priority objectives laid down in the current strategic plan.

**Remarks:** In the meaning of the current strategic plan “institutions within the PIFC system” are all institutions specified in Art. 4 from PIFC Act and institutions included in the Policy Paper on PIFC of Republic of Bulgaria, with the exception of these under item 4.1.
Annex 1

To the Strategic plan for development of PIFC in Republic of Bulgaria

<table>
<thead>
<tr>
<th>PRIORITY OBJECTIVES AND TASKS</th>
<th>INSTITUTION RESPONSIBLE FOR THE ACTIVITY</th>
<th>TIME TABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority 1: Guarantee of legitimacy, effectiveness, efficiency and economy in the process of disbursement of budget funds in Republic of Bulgaria.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tasks:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Providing of an effective functioning of the financial management and control systems</td>
<td>• Republican and municipal budget and EU funds spending centers, National Health Insurance Fund, State Social Security and PIFCA</td>
<td>• Permanent</td>
</tr>
<tr>
<td>• Development of methodology for the enhancement of the financial management and control systems</td>
<td>• PIFCA</td>
<td>• Short-term</td>
</tr>
<tr>
<td>• Supporting the managers on achieving the entities goals by extending the scope of the institute of delegated auditors;</td>
<td>• PIFCA</td>
<td>• Short- medium term</td>
</tr>
<tr>
<td>• Introduction of an audit trail in the state and municipality budget and EU funds spending centers</td>
<td>• Republican and municipal budget and EU funds spending centers,</td>
<td>• Medium-term</td>
</tr>
<tr>
<td>Priority 2: Improvement of the PIFC legal framework.</td>
<td>National Health Insurance Fund, State Social Security and PIFCA</td>
<td></td>
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<td>-----------------------------------------------</td>
<td>---------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td><strong>Tasks:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Modernizing the current legal framework as follows:</td>
<td>• PIFCA</td>
<td></td>
</tr>
<tr>
<td>✓ Priority to the internal audit function in the PIFCA</td>
<td>• PIFCA</td>
<td></td>
</tr>
<tr>
<td>✓ Separation of the functions on realizing the responsibilities</td>
<td>• Ministry of Finance</td>
<td></td>
</tr>
<tr>
<td>✓ Separation of the function for the harmonization of the systems</td>
<td>• PIFCA</td>
<td></td>
</tr>
<tr>
<td>• Updating and supplementing the Guidelines for the establishment and functioning of the financial management and control systems;</td>
<td>• Medium-term</td>
<td></td>
</tr>
<tr>
<td>• Elaboration of a new legal framework concerning the financial management and control systems;</td>
<td>• Short-term</td>
<td></td>
</tr>
<tr>
<td>• Elaboration and improvement of the PIFCA internal acts in relation with its control activities;</td>
<td>• Medium-term</td>
<td></td>
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<tr>
<td></td>
<td>• Medium- short term</td>
<td></td>
</tr>
</tbody>
</table>
**Priority 3:** Encourage the improvement of the control environment based on the international accounting and auditing standards and applying the achievements of the modern informational technologies.

**Tasks:**
- Performance and control over the operations at first level by extending the scope of the unified account
- Performing of budget internal control by the financial management information system in the budget sector.

**Priority 4:** Strengthening the preventive nature of the control through emphasizing over the preventive control function.
**Tasks:**

- Establishment of the institute of financial controller
- Avoiding the conflict of interests by moving the methodology function concerning the Financial management and control systems from PIFCA to a specialized unit in the Ministry of Finance;
- Reassessment of the necessity of the preventive control function by PIFCA after receiving satisfactory guarantees for sound Financial management and control systems;
- Administrative and procedure guarantees for the function on giving obligatory guidelines concerning the public procurement procedures;
- Republican and municipal budget and EU funds spending centers, National Health Insurance Fund, State Social Security and PIFCA
- PIFCA and Ministry of Finance;
- PIFCA;
- Minister of State Administration.

**Priority 5** Development of the internal audit as an independent, permanent and objective instrument for improving the organizations’ activities and assisting in the process of fulfillment of their objectives

**Tasks:**
- Focusing the PIFCA activity entirely on the internal audit function;
- Separation of the function on realizing responsibilities from the internal audit function;
- Improvement of the methods and procedures for performing systems audit, performance audit and IT audit;
- Extending the scope of the institute of delegated auditors;
- Introduction and implementation of the best practices for internal audit;
- Elaboration and implementation of a policy on training internal auditors.

| Priority 6: Clear determination of the inspectorates’ functions within the Ministries and the other authorities where such inspectorates are established aiming the avoidance of overlapping with the PIFC Agency control functions. |
|---|---|---|
| Tasks: | PIFCA; | Medium - term |
| - Assessment of the inspectorates activity aiming to avoid overlapping their inspection function with the internal audit function; | PIFCA; | Medium- term |
| | PIFCA; | Short- medium term; |
| | PIFCA; | Short- medium term; |
| | PIFCA; | Permanent |
| | PIFCA; | Permanent |
- Amendments of the legal regulations for the inspectorates when overlapping of PIFCA control functions is detected;
- Ministries and Council of Ministers
- Medium-term

**Priority 7: Protection of the State and municipalities financial interests in the legal entities with a blocking quota of state or municipal equity in their capital.**

**Tasks:**
- Performance of internal audit in legal entities with a blocking quota of state or municipal equity in their capital;
- Reporting the internal audit results to the authority executing state and municipal powers;
- PIFCA;
- PIFCA;
- Permanent

**Priority 8: Protection of European Union financial interests in relation to the disbursement within European Union funds and programmes.**

**Tasks:**
- Establishing sound and effective financial management and control systems in the EU funds spending units;
- Implementation of the EU requirements aiming to full absorption of EU pre-accession funds;
- Performance of internal audit by PIFCA
- Certification of the accounts of functional units responsible for EU funds spending units
- PIFC intuitions dealing with EU funds and programmes
- PIFCA
- EU funds spending units
- PIFCA
- Medium-term
- Permanent
- Permanent
for expenditure of EU funds;
  • Reporting the results of performed internal audits in units
    spending EU funds.
| • PIFCA | • Permanent |
| • PIFCA | • Permanent |

**Priority 9:** Effective performance of certification of the functional
structures’ accounts, spending funds under European Union
programmes.

**Tasks:**
  • Implementing the legal regulations and internal acts of
    PIFCA concerning the certification activity;
  • Proceeding with the training of the internal auditors
    performing the certification of accounts of the functional
    units spending funds under EU programmes.
  • Extending the co-operation with the European Commission
    auditors.
| • PIFCA | • Permanent |
| • PIFCA | • Permanent |

**Priority 10:** Co-operation with OLAF in relation to its activities
comprising irregularities and fraud recovery regarding the financial
interests of European Union.

**Tasks:**
  • Establishment of a contact unit for co-operation with
    • Council of Ministers, Ministry of
<table>
<thead>
<tr>
<th>OLAF; Reporting to OLAF mistakes and frauds discovered in compliance with the acquis.</th>
<th>Finance and Ministry of Interior Contact unit</th>
<th>• Short-term • Permanent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Priority 11:</strong> Performance of effective policy for development of human resources accomplishing the main elements of the PIFC system.</td>
<td><strong>Tasks:</strong></td>
<td>• Analyzing the needs of high-qualified staff for performing the functions of PIFC. • Elaboration of training and qualification programmes for the personnel performing control powers in the PIFC system; • Using the experience of the EU Member States in the development of human resources concerning the financial control. • Providing an effective remuneration system for motivating the staff in the PIFC system.</td>
</tr>
<tr>
<td><strong>Priority 12:</strong> Improvement of the Public Procurement and control system</td>
<td><strong>Tasks:</strong></td>
<td>• Elaboration of an entirely new legal framework concerning</td>
</tr>
</tbody>
</table>
the public procurement procedures in compliance with the EU directives

- Discussing the opportunity of establishing a specialized authority which competence is to consider the complaints of the participants in the public procurement procedures
- Elaboration of a training programme on the public procurement procedure concerning the contracting authorities, the public procurement unit staff and the PIFCA internal auditors

<table>
<thead>
<tr>
<th>Priority 13: Implementation of the modern informational technologies in performance of PIFC</th>
</tr>
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<tbody>
<tr>
<td>Tasks:</td>
</tr>
<tr>
<td>• Improving the information technologies of the PIFC;</td>
</tr>
<tr>
<td>• Integrating the internal communication to all structures of PIFCA integrated to unified centralized information technology;</td>
</tr>
<tr>
<td>• Implementing a specialized software during performing internal audit;</td>
</tr>
<tr>
<td>• Training the internal auditors on the modern information technologies aiming to implement them during the performance of internal audit.</td>
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<tr>
<th>Council of Ministers</th>
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<tr>
<td>• Council of Ministers</td>
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<tr>
<td>• Minister of State Administration and PIFCA</td>
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<thead>
<tr>
<th>All institutions in the PIFC system</th>
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<td>• PIFCA</td>
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<td>• PIFCA</td>
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<tr>
<th>Medium-term</th>
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<tr>
<td>• Short-medium term</td>
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<tr>
<td>• Permanent</td>
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</table>
**Priority 14:** Improvement of the communications between the different institutions within the PIFC system and insurance of effective co-operation with European Union control institutions and with the institutions for external audit

<table>
<thead>
<tr>
<th>Tasks:</th>
<th>All institutions in the PIFC system</th>
<th>Medium-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Elaboration of a communication system for all institutions in the PIFC system;</td>
<td></td>
<td>Permanent</td>
</tr>
<tr>
<td>• Developing the co-operation with other audit Bulgarian and foreign institutions;</td>
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</tr>
<tr>
<td>✓ Membership of PIFCA in specialized international audit institutions aiming to improve the staff qualification and to use the best international practices in the field of PIFC;</td>
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<tr>
<td>✓ Cooperation of PIFCA with other relevant institutions in the EU Member states, Candidate countries and other countries concerning the PIFC.</td>
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**Priority 15:** Financial insurance of the functions in performance of PIFC

<table>
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<tr>
<th></th>
<th>Ministry of Finance</th>
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<tbody>
<tr>
<td>• Membership of PIFCA in specialized international audit institutions aiming to improve the staff qualification and to use the best international practices in the field of PIFC;</td>
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REPUBLIC OF BULGARIA
COUNCIL ON PUBLIC INTERNAL FINANCIAL CONTROL

OPERATIONAL PLAN

FOR DEVELOPMENT PUBLIC INTERNAL FINANCIAL CONTROL IN
REPUBLIC OF BULGARIA

1 October 2002 – 30 September 2003
## Priority Objectives and Measures

**Priority 1: Guarantee of legitimacy, effectiveness, efficiency and economy in the process of disbursement of budget funds in Republic of Bulgaria.**

**Measures:**

- Updating the guidelines for establishment and functioning of the Financial Management and Control Systems in relation with Law on the amendments and supplements of the PIFC Act;
- Termination of the delegation process of internal audit teams within the Ministers /with the exception of the Minister of Interior and the Minister of Defense/;
- Delegation of internal audit teams within the Minister of Interior and the Minister of Defense;
- Delegation of internal audit teams in the rest first and second level spending centers under republican and municipal budgets, as well as in the National Health PIFCA.

<table>
<thead>
<tr>
<th>PRIORITY OBJECTIVES AND MEASURES</th>
<th>RESPONSIBLE INSTITUTIONS</th>
<th>TIMETABLE</th>
<th>ACCOMPLISHED YES/NO</th>
<th>PIPELINE OF THE ENGAGEMENT ACCOMPLISHMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority 1: Guarantee of legitimacy, effectiveness, efficiency and economy in the process of disbursement of budget funds in Republic of Bulgaria.</td>
<td>PIFCA</td>
<td>28 February 2003</td>
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<td>Measures:</td>
<td>PIFCA</td>
<td>15 October 2002</td>
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<td></td>
<td>PIFCA</td>
<td>31 January 2003</td>
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<tr>
<td>Date</td>
<td>Priority 2: Improvement of the PIFC legal framework.</td>
<td>Measures:</td>
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<tr>
<td>30 September 2003</td>
<td>Amendment and supplement of the Regulation on the Implementation of the PIFC Act in relation to the adoption of the Law on the amendments and</td>
<td>Ministry of Finance and PIFC</td>
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<td>31 December 2002</td>
<td>31 December 2002.</td>
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</table>

Insurance Fund and State Social Security, on the basis of the need analysis and assessment of the resource insurance,

- Delegation of internal audit teams within the all executive Agencies under the ISPA programme.
- Delegation of internal audit teams to the PHARE programme spending centers.
- Elaboration of documentation in relation to the introduction of audit trail within the spending centers.

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supplements of the PIFC Act;
• Elaboration of regulation/instruction for risk assessment;
• Elaboration of a draft regulation/instruction for certification;
• Elaboration of internal audit standards on the basis the international audit standards;
• Elaboration of Internal audit Charter;
• Elaboration of Code of Ethics of the internal auditors;
• Elaboration of draft manuals concerning different types of audit;
• Signing of an agreement between the PIFC Agency, the National Audit Office and the Minister of State Administration regarding their control authorities in the area of Public Procurements;
• Updating and supplement of the guidelines for establishment and functioning of the Financial Management and Control Systems in relation with the Law on the amendments and supplements of the PIFC Act;
• Elaboration of documentation regarding the introduction of audit trail within the spending centers.

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<tr>
<th>Date</th>
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<td>31 December 2002</td>
<td>PIFCA</td>
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<tr>
<td>December 2002</td>
<td>PIFCA</td>
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<tr>
<td>June 2003</td>
<td>PIFCA, National Audit Office and Minister of State Administration</td>
</tr>
<tr>
<td>December 2002 – January 2003</td>
<td>PIFCA</td>
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<tr>
<td>1 March 2003</td>
<td>PIFCA</td>
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<tr>
<td>Priority 3: Encourage the improvement of the control environment based on the international accounting and auditing standards and applying the achievements of the modern informational technologies.</td>
<td>PIFCA</td>
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<tr>
<td>Measures:</td>
<td>PIFCA</td>
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<tr>
<td>• Updating the guidelines for establishment and functioning of the Financial Management and Control Systems and control in relation with Law on the amendments and supplements of the PIFC Act;</td>
<td>• PIFCA</td>
</tr>
<tr>
<td>• Improvement the Financial Management and Control Systems and continuation the elaboration of written procedures;</td>
<td>• Spending centers under republican and municipal budgets and spending centers under EU programmes, National Health Insurance Fund and State Social Security;</td>
</tr>
<tr>
<td>• Including in the scope of the Unified Spending centers under republican and municipal budgets and spending centers under EU programmes, National Health Insurance Fund and State Social Security;</td>
<td>• Ministry of Finance</td>
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</table>
account the budgets of the judicial authority, the social security, the state institutions of higher education, Bulgarian Academy of Science, Bulgarian National Television, Bulgarian National Radio and extra-budget accounts and funds

<table>
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<tr>
<th>Priority 4: Strengthening the preventive nature of the control through emphasizing over the preventive control function.</th>
</tr>
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<tr>
<td><strong>Measures:</strong></td>
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<tr>
<td>• Appointment of financial controllers in all first level spending centers under republican and municipal budgets and spending centers under EU programmes, as well as in the National Health Insurance Fund and State Social Security;</td>
</tr>
<tr>
<td>• Spending centers under republican and municipal budgets and spending centers under EU programmes, National Health Insurance Fund and State Social Security;</td>
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<td>• PIFCA</td>
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<td>• 30 September 2003</td>
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<tr>
<td>• 31 March 2003</td>
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<td>• 31 October 2002</td>
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</table>

| • Forming a functional unit within the PIFC Agency responsible for the methodology of the Financial Management and Control Systems, which shall be separate from the internal audit |

|  |  |  |
functions;
- Elaboration of a report for the results of the audits of the Financial Management and Control Systems and analysis of their functioning aiming to compose a proposal regarding the preventive control activities;
- Increasing the staff number under the Minister of State Administration, assisting his/her functions in relations to the Public Procurement;
- Elaboration and dissemination of guidelines to the participants in the Public Procurement Procedures regarding their ability to cease the Minister of State Administration for performance of his/her authority on giving obligatory guidelines;

<table>
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<tr>
<th>Priority 5: Development of the internal audit as an independent, permanent and objective instrument for improving the organizations’ activities and assisting in the process of fulfillment of their objectives.</th>
<th>Measures:</th>
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</thead>
<tbody>
<tr>
<td>• Elaboration and approval of a three years strategic plan and one year operational plan for PIFC Agency audit activities;</td>
<td>• PIFCA</td>
<td>• 30 September 2003</td>
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<td></td>
<td>• PIFCA</td>
<td>• 31 December 2002</td>
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<td>• Minister of State Administration</td>
<td>• 30 September 2003</td>
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<td>• 30 September 2003.</td>
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<tr>
<td>Activities</td>
<td>Dates</td>
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<tr>
<td>Elaboration of internal audit standards on the basis the international audit standards; Testing of the elaborated projects for standards during the pilot audits;</td>
<td>December 2002 – January 2003</td>
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<tr>
<td>Elaboration of Internal Audit Charter;</td>
<td>November 2002</td>
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<tr>
<td>Elaboration of Code of Ethics of the internal auditors;</td>
<td>December 2002</td>
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<tr>
<td>Elaboration of a regulation/instruction for risk assessment</td>
<td>31 December 2003</td>
<td></td>
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<tr>
<td>Elaboration of draft manuals concerning the performance of the different types of audit;</td>
<td>June 2003</td>
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</tr>
<tr>
<td>Completion of the delegation process of internal audit teams to the Ministers /with the exception of the Minister of Interior and the Minister of Defense/ Delegation of internal audit teams to the Minister of Interior and the Minister of Defense;</td>
<td>15 October 2002</td>
<td></td>
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<tr>
<td>Delegation of internal audit teams in the others first and second level spending</td>
<td>31 January 2003</td>
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</tbody>
</table>
centers under republican and municipal budgets, on the basis of the need analysis and assessment of the resource insurance,

- Delegation of internal audit teams in the all Implementing Agencies under ISPA programme;
- Delegation of internal audit teams to the spending centers under PHARE programme;
- Training of internal auditors through participation in the pilot audits;
- Elaboration of a three years strategic plan and one year operational plan for training of internal auditors;

<table>
<thead>
<tr>
<th>Date</th>
<th>Priority 6: Clear determination of the inspectorates’ functions within the Ministries and the other authorities where such inspectorates are established aiming the avoidance of overlapping with the PIFC Agency control functions.</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 September 2003</td>
<td>• Council on PIFC,</td>
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<tr>
<td>31 December 2002</td>
<td>• 31 January</td>
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<td>31 December 2002</td>
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</table>
groups with representatives from PIFC Agency and from all authorities, where inspectorates have been established, aiming to review the inspectorates activities and to avoid transfer of inspection functions towards the internal audit;

- Proposals from the working groups to the Council on PIFC for changes in the inspectorates’ legal regulations in cases of overlapping of their functions with these of PIFC Agency;
- Preparation of proposals for amendments of institutions’ Regulations on the structure in case of established overlapping of functions with PIFC Agency.

<table>
<thead>
<tr>
<th>Priority 7: Protection of the State and municipalities financial interests in the legal entities with a blocking quota of state or municipal equity.</th>
<th>PIFCA, Ministries and other authorities where Inspectorates have been established</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measures:</td>
<td>Inter-institutional workgroups</td>
<td>31 March 2003</td>
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<tr>
<td></td>
<td>Council on PIFC</td>
<td>30 June 2003</td>
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<thead>
<tr>
<th>Priority 8: Protection of European Union financial interests in relation to the disbursement within European Union funds</th>
<th>PIFCA</th>
<th>Permanent</th>
</tr>
</thead>
</table>
and programmes.

**Measures:**

- Establishment of adequate and effective Financial Management and Control Systems in the functional spending EU funds structures according to:
  - The established Bulgarian legal requirements;
  - The achieved agreements with the European Union;
  - Performance of the activities laid down in the adopted with the Resolution of the Council of Ministers N: 607/2002 Conception for the transition to the Extended Decentralized Implementation System /EDIS/ for implementation of projects under the programmes PHARE, SAPARD and ISPA;
  - Performance of internal audits within the Implementation Agencies under the PHARE and ISPA according to the approved plan;
  - Performance of certification of functional spending EU funds structures /SAPARD and other/ according to the approved plan;
  - Elaboration of reports to the European Commission for the results of audits of the European Union

- According to Decree N 607/2002 of the Council of Ministers

- The institutions mentioned in Decree N 607/2002 of the Council of Ministers

- Permanent

- According to the agreements

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<td>Measures:</td>
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<tr>
<td>• Elaboration of a draft regulation/instruction for certification;</td>
<td>PIFCA</td>
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<tr>
<td>• Participation in seminars, organized by the European Commission, regarding the performance of certification activities;</td>
<td>PIFCA</td>
<td>31 October 2002</td>
</tr>
<tr>
<td>• Performance of certification in compliance with the annual plan of the PIFC Agency;</td>
<td>PIFCA</td>
<td>Permanent</td>
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<table>
<thead>
<tr>
<th>Priority 10: Co-operation with OLAF in relation to its activities comprising irregularities and fraud recovery regarding the financial interests of European Union</th>
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</tbody>
</table>

82
Measures:
- Defining of contact point for relation with OLAF;
- Council of Ministers, Ministry of Finance and Ministry of Interior
- 31 December 2002

Priority 11: Performance of effective policy for development of human resources accomplishing the main elements of the PIFC system.

Measures:
- Elaboration of three years strategic and one year operational plans for nomination, development, training and promotion the professional qualification of the officers, performing the control authorities within the PIFC system
- Introducing and applying the rules for attestation, according to the Regulation for the rules and the terms of reference for the attestation of the officers within the State Administration
- All institutions within the PIFC system
- All institutions in the PIFC system
- 31 December 2002
- From 1 January 2003

Priority 12: Improvement of the Public Procurement and control system.

Measures:
<table>
<thead>
<tr>
<th>Priority 13: Implementation of the modern informational technologies in performance of PIFC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Measures:</strong></td>
</tr>
<tr>
<td>• Insurance of a high IT WEB assurance to all officers within the PIFC system;</td>
</tr>
<tr>
<td>• Integration of the PIFC Agency IT system within the Ministry of Finance IT system;</td>
</tr>
<tr>
<td>• Introducing of a specialized audit software according to the European Union requirements and work schemes;</td>
</tr>
<tr>
<td>• Starting of internal auditors training in the area of the modern IT in the view of their application during internal audit performance.</td>
</tr>
<tr>
<td><strong>Minister of state administration and Council of Ministers</strong></td>
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<td><strong>Minister of state administration</strong></td>
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<td><strong>Minister of state administration and PIFCA</strong></td>
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</table>
**Priority 14: Improvement of the communications between the different institutions within the PIFC system and insurance of effective co-operation with European Union control institutions and with the institutions for external audit.**

<table>
<thead>
<tr>
<th>Measures:</th>
<th>2003</th>
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<tbody>
<tr>
<td>• Signing of agreement between the PIFC Agency, the National Audit Office and the Minister of State Administration in relation with their control authorities within the area of Public Procurement;</td>
<td>• December 2002 – January 2003</td>
</tr>
<tr>
<td>• Agreement for co-operation between the PIFC Agency and the spending centers, where the internal auditors are delegated;</td>
<td>• 30 September 2003</td>
</tr>
<tr>
<td>• Examination of the possibilities for membership of the PIFC Agency within the specialized international audit institutions for the purposes of the professional qualification and the adoption of the best international practices within the PIFC area;</td>
<td>• 30 September 2003</td>
</tr>
<tr>
<td>• Establishing of contacts with similar institutions from the Countries, members of the European Union, the Candidate Countries and the other countries within the PIFC area;</td>
<td>• Permanent</td>
</tr>
<tr>
<td>• PIFCA, National Audit Office and Minister of State Administration</td>
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<tr>
<td>• PIFC Agency and the spending centers;</td>
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<tr>
<td>• PIFCA</td>
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<tr>
<td>• PIFCA</td>
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</table>
**Priority 15: Financial insurance of the functions in performance of PIFC**

**Measures:**

- Applying for projects under the European Union for funding of training and obtaining technical assistance;
- Insurance of funds for co-financing on behalf of the Bulgarian side regarding the approved projects for funds from the European Union for development the institutions activities within the PIFC system;
- Financial insurance of the activities under para 14.

<table>
<thead>
<tr>
<th>Measures</th>
<th>institutions</th>
<th>Permanent</th>
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<tbody>
<tr>
<td>• All institutions in the PIFC system</td>
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<tr>
<td>• All institutions in the PIFC system</td>
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<tr>
<td>• Ministry of Finance</td>
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<td>• Permanent</td>
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<td>• Permanent</td>
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STRATEGY FOR THE DEVELOPMENT OF THE PIFC AGENCY
INFORMATION SYSTEMS
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Foreword
The current version of this document only deals with the Information Technology support of the core process for the PIFC Agency that is, the Audit process.

Context
Public Internal Financial Control (PIFC) in Bulgaria is managed and exercised by the Public Internal Financial Control Agency. When carrying out its activity, the PIFC Agency is under the authority of the Minister of Finance.

The PIFC Agency operates under the framework of the PIFC Act, Regulation on the Implementation of the PIFC Act and the Regulation on the Structure of the PIFC Agency. The PIFC Agency consists of 1275 civil servants, 1002 of which are auditors. The activity of the PIFC Agency is organised into Central Office and 28 Regional Directorates. The authorities of the PIFC Agency are the Director of the PIFC Agency, the Regional Directors and the Internal Auditors.

The PIFC Agency is responsible for planning, managing and implementing an integrated policy for PIFC and for supervising the overall PIFC activity.

The PIFC Agency executes financial control over all legal entities with a blocking quota of state or municipal equity in their capital, and legal entities whose obligations have been guaranteed with state or municipal property.

The PIFC Agency delegates auditors in selected Administrations to perform ex ante control.

The PIFC Agency is in charge of certification for structures responsible for EU funds.

The PIFC Agency presents an annual report on the results of its activities to the Council of Ministers via the Minister of Finance. The current number of entities to be audited is slightly under 10 000. The number of audits performed each year is around 5 000.

The core process of the PIFC Agency is auditing.

Auditors: State of the Art
The job of the Internal Auditor has had a tremendous evolution during the last 10 years. Risk assessment has become the foundation of audit best practices. Advanced government audit departments have regulatory obligations for strict compliance audit missions. In addition, risk assessment should be performed by sectors when starting a new mission in order to identify the areas where the audit will be more effective.

A common trend in audit best practices is to give to the management a quality assurance review of the audit works (QAR). This will emphasise the effectiveness of the audit team.

Information Technology has brought huge increases in productivity in various processes in different sectors of the economy. It is hardly impossible to find any organisation not supported by an Automated Information System.

The internal controls are now mostly embedded in the IT systems. The SAP system that has been selected by the Ministry of Finance is a good example of audit controls integrated within the software package.

Modern audit practices require specialised audit software to support the effective and efficient performance of the auditor’s work.

The Auditor has therefore two major challenges:

1. Dig in the Information Systems to control the effectiveness of the internal controls;
2. Master the power of the Personal Computers and Information Systems for his own productivity.

The Auditor must adapt by training and learning to practice in this new environment. This evolution requires both time and resources. At present, the whole range of automation levels can be found even in the most advanced countries, where one can find audit departments which still use no tool at all, and others who are on the leading edge, even developing further new tools adapted to specific situations.
PIFC Agency Case

Reasons for updating the PIFC Agency processes

The reasons for a concerted effort to update the operations of the PIFC Agency are as follows:

- The legal framework is changing, adding new regulations;
- Audit techniques and methods have evolved drastically;
- The European Union has standard requirements for Audit performance;
- Entities to be audited, including the Ministry of Finance, are implementing more complex systems using Automated Information Systems;
- Delegated auditors work remotely at the site of their delegation but need to stay in contact with their Regional Directorate;
- The auxiliary activities of the PIFC Agency require the use of contemporary software.

Strategic Objectives

The Strategic plan for the development of PIFC contains the following priorities and tasks:

- Implementation of the modern informational technologies in performance of PIFC
- Improving the information technologies of the PIFC;
- Integrating the internal communication to all structures of PIFC Agency integrated to unified centralized information technology;
- Implementing a specialized software during performing internal audit;
- Training the internal auditors on the modern information technologies aiming to implement them during the performance of the performance of internal audit.
PIFC current state

The PIFC Agency has 1002 auditors located in 28 Regional Directorates. At present, the available equipment (roughly 80 old PC) is not sufficient and with no audit software (CAATTs) by the end of 2002.

The closest things to an application are some Excel spreadsheets that are in use in the various Directorates that help to:

- keep track of staff;
- maintain manually the list of entities to be audited;
- establish the overall planning of audits;
- keep a record of audit missions with name of auditors, date of audit and duration;
- Excel spreadsheets are exchanged through email and consolidated manually for reporting.

Productivity is hindered by the lack of Information Systems supporting the activities of the Agency and the daily work of the auditors. Much time is lost in gathering legal information, documenting findings and producing reports because such tasks are done manually.

The situation is similar in Regional Directorates or even worse because there are less PCs and the auditors have difficulties in writing their reports because of the limited number of PCs.

The Central Office has a LAN with only 48 plugs connected to a switch. There are more PCs but the lack of switches and cabling does not allow connecting them to the LAN.

The Central Office LAN is connected to the Ministry of Finance network. The Ministry of Finance provides the email services for the Central Office and other network services like DNS and Internet connectivity.

The Regional Directorates have no LAN at present. The PCs are not connected together.

The Regional Directorates have opened e-mail accounts at various local private Internet Service Providers in order to be able to exchange emails with the Central Office and other entities. This set-up does not ensure any confidentiality of information exchanged.

4.4 Software requirements

The software requirements for the fourth component have been categorised into the following four sets:

**Group 1: Back office tools:**

- **Document management tool**
  Allows to store all the documents produced by the Agency thus building an history of all missions. It allows building a knowledge repository that any auditor may consult to benefit from the experience of previous missions. The follow up of the recommendations can be automated to give assurance that the agreed actions have been processed.

- **Human resources**
  This module allows to follow up the skills of each auditor. It is the basis for adapted training in order to develop the skills and capabilities of the auditors.

- **Scheduling and planning of missions, including resources allocation**
  This module implements the rules defined in the directives for periodic controls. It automates the process of planning and allocating resources and people, also taking into account the skills required for the mission.

- **Knowledge base for Legal and Public regulations**
  This data, updated regularly to reflect the current legislation, should be available on-line for consultation by the Auditors at the Agency but also on remote sites most

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2 Two examples: The same auditor should not be sent twice to audit an entity. Each entity should be audited at least once every three years.
effectively from a dedicated website. The history has to be maintained on-line as well since the Auditors must apply the regulations in effect at the time of the transactions being audited.

- History of previous audit reports
  This numeric memory of previous missions and related recommendations allow for a quick retrieval as well as a possible benchmarking to alike missions. These histories have proved to be of great help to follow up previous efforts and for the new auditors.

- Templates, models and forms for typical audit programmes
  These allow for improving the auditors’ productivity.

- Risk management and statistics. Helps to optimise the entities to be audited.

- Computation of fines and deficit deeds can be quite complex and tedious. A simple module to help the auditors to perform these computations, including interests, would help efficiency and prevent errors.

**Group 2: Financial audit tools:**

- Financial audit software;
- Standard scheme and models detecting fraud and corruption;
- Audit Quality review;
- Interface with back-office tools.

**Group 3: IT Audit activity tools:**

- Software tools for auditing in IT systems environment and related audit software. It has been of common sense in our days that any audit mission will imply to work at least in an IT environment and sometimes even there is a need to audit the IT system or part of it.
- The various software needed for such an audit could be high tech (network scanning, password weakness detection, etc.) or database data extraction and analysis for audit purpose. Such software known as CAATTs is very efficient and provides exhaustive examination of the data.

**Group 4: Strategic sector audit programmes and software:**

- These tools are designed for a specific audit purpose depending on the area where the audit mission takes place (such as hospital, nuclear power plant, Social security, etc.).
- Most of these applications software is not often used. It is necessary to study carefully the necessity of such software depending on the number of missions needing that software and their recurrence. In addition, the customisation required for usability in Bulgaria may be an overkill compared to the benefits.

4.5 Hardware Infrastructure

4.5.1 Wide Area Network (WAN)
The Ministry of Finance has committed to maintain the WAN services for all offices of the PIFC Agency. This includes the links, the Agency routers, the DNS and DHCP services, the VPN software and services.

4.5.2 Central Services
E-mail will continue to be provided by the Ministry of Finance and will be extended to all Regional Directorates.

4.5.3 Regional Directorates
In each office, a LAN will be available to allow auditors to connect to the Intranet, share information and connect to applications. Auditors will be provided with adequate hardware to support their work.
Strategy for implementing Process reengineering

Process reengineering is necessary to adapt the PIFC Agency organisation to the methods and tools defined. Accompanying change is necessary to reach the objectives and minimise disruption of services, if any.

In most projects, the reason of success has demonstrated that it is most important to organise every project step by step.

The Strategy is built to provide general facilities to all auditors to access information published on the Intranet and to concentrate efforts on a focused set of teams in the Central Office and in a few directorates in order to obtain tangible results in a limited time frame.

The phases of the implementation of the Strategy are:

**Phase 1**
- Implement a solid network architecture, using the services of the Ministry of Finance;
- Implement an Intranet and core audit applications;
- Provide connectivity to the Intranet for information sharing for all Regional Directorates. Minimum connectivity to the Intranet will be provided by the installation of at least one Personal Computer at each Directorate. In the most active Directorates, a small LAN will be installed to provide more access points to the Intranet and communications devices;
- Implement the core process applications in 6 leading pilot Regional Directorates.

At the end of this phase:
All auditors in all Regional Directorates will have access to information posted on the Intranet.
The Pilots will demonstrate the concept and show tangible results brought by the new system.

**Phase 2**
- Implementation of the Strategy in all other Regional Directorates.
- Building of the basic IT infrastructure, procurement of PCs and software, and training of the auditors.
- Extend the scope of audit software applications, based on the findings of first phase.

The benefits of this phased approach are many:
- Build the knowledge in Pilot teams;
- Test and prove the concept in the Bulgarian context;
- Refine and adapt the training packages;
- Fit the first phase in the budget constraints of the current Twinning Project;
- Allow to refine the deployment methodology and the estimates for each phase of the implementation;
- Allow the project to fit with the changes of the PIFC Agency organisational structure.

The Regional Directorates chosen to be part of the first phase of implementation have been selected to maximise the return of the project. They are the most active Regional Directorates, where audit control is most required because of the audited entities activities.

**Training**
The PIFC Agency uses every opportunity to enhance the knowledge of the auditors in the area of IT and skills of the IT staff to support and manage the IT system.
**Infrastructure to support the Information Systems**

A network linking all Regional Directorates together must provide access of all auditors to the common resources of the PIFC Agency and must support sharing information and communications among auditors.

A LAN must also be created or extended in each Regional Directorate to connect all computing equipment together.

The LAN and WAN will provide access to the Intranet for Auditors in all Regional Directorates.

**Security**

Security is a combination of confidentiality, integrity and availability of the information. The PIFC Agency has specific requirements in this area that will be addressed in the specifications of its Information System, in the selection of the System and during its implementation. Auditors will be trained to understand the concepts and the procedures that underline the security of the Information System.

**Back office information systems**

Intranet server and applications.

**Audit software tools**

Auditor’s tools may not be required for each auditor and every mission. A limited number of PCs and licences will be acquired to fulfil the needs. The ideal situation would be for each auditor to have a laptop for a complete autonomy and greatest possible efficiency. Three reasons why this will not be achieved in this phase:

- With the current budget available, there is no way the PIFC Agency can purchase enough laptops.
- The methods and tools that are introduced to support the new practices will require time to be deployed to the whole organisation;
- The organisation will also need to adapt itself to the new methods and processes.

It is therefore more efficient to plan the deployment in phases.

**Information Systems support organisation**

**Current IT Department**

At present, the Central Office hosts the PIFC Agency IT department, comprising 6 people. This department operates a small file server, a LAN and supports the users. The LAN is connected to the WAN of the Ministry of Finance through a router for e-mail services and Internet connectivity.

The Regional Directorates of Plovdiv and Pazardzhik are ready to be connected to the WAN of the Ministry of Finance.

The PIFC Agency IT department implements, operates and supports IT solutions to meet PIFC Agency’s business requirements both at the Central Office and the 28 regional directorates.

**IT Department evolution**

Information Technology Systems require both operations and maintenance in order to deliver a good service. Users also need help in performing their tasks.

According to the changes in the draft Regulation on the Structure in each Regional Directorate an IT expert who will support the IT infrastructure and software and will work with the users, will be appointed.

This function can be built in the PIFC Agency, or better in connection to other administrations in order to guarantee smooth operations and best performance.

Skilled personnel who are trained in the operating systems used by the server and the software supporting the applications, should provide the application operations and support: web server, databases, backup software.

For the LAN and the PCs, a possible support organisation can be proposed with 3 levels:
1. Call centre – Helpdesk: answers telephone calls or questions submitted via e-mail to provide remote support to users;
2. Local support: provides on site intervention to fix problems that cannot be solved by Level 1;
3. Third level is composed of experts who address more complex problems for which skills could not be found at the two previous levels, including the staff of Information Services PLC.

Of course, aggregation of support teams for several administrations has some advantages. It allows a better coverage in time, offering extended opening hours. It extends the skills available in the global team. It provides for a better and more motivating environment for IT professionals as they can exchange information with peers and develop their skills by increased communication with more team members. Achieving a critical mass is essential for the stability and reliability of the systems.

The activities of the IT Department of the PIFC Agency are coordinated with the Ministry of Finance team, taking into account the specific constraints of its activities. In particular, the auditability of the SAP system deployed by the Ministry of Finance should be taken into account in the current SAP project.

Remote support
In the first phase, an evaluation of remote support tools will be made in order to define the best efficient means for solving IT issues with auditors working remotely. These tools should be made available at the call centre and on the auditors’ machines. Sufficient training and precautions should be taken in order to guarantee the level of security required by Government operations.

Axes for Co-operation and Development
PIFC Agency operates under the Ministry of Finance. The Ministry of Finance has already started developing the IT infrastructure for the Bulgarian administration. At present PIFC Agency does not fully master most of the technologies that are required for the development of their IT systems. Their staffing is limited and should be developed. A strong cooperation between the Ministry of Finance and the PIFC Agency would have several advantages:

• Limit duplication of efforts and save resources;
• Enforce standards;
• Make the best use of the limited number of skilled personnel available;
• Build a critical mass of IT personnel that could work as a team and create momentum in training and expertise acquisition.

Networking
Co-operation is well underway in this area between the Ministry of Finance and the PIFC Agency. Agreement is under implementation for the Ministry of Finance to deliver and manage connectivity to all the PIFC Agency Regional Directorates. This cooperation should unload the PIFC Agency from the operation of the WAN, save training, and allow the current PIFC Agency team to concentrate on the core PIFC Agency Information System.

Another area where co-operation is needed, is the provision of dial-up and VPN connections for auditors at remote sites. They should be able to reach the information resources of the PIFC Agency when they are out of their office. The connection to the PIFC Agency servers through the Ministry of Finance dialup network with authentication and encrypted VPN for security would provide the required functionality.
Server hosting and maintenance
The LAN server is besides the IT manager’s desk at the Central Office. A server room is provided in the Central Office. Staff of the Information Services PLC will deliver on-site maintenance of the newly delivered servers.

Monitoring of servers and application should be implemented to provide a high availability of the system to the auditors.

System administration and maintenance
Little experience is available at present at the Regional Directorates of the PIFC Agency in terms of server and system administration. The sheer sum of different expertise area to develop is huge: database software, application software, customisation, back-ups, archiving.

Here again, joining the efforts and skills of the Ministry of Finance, the Bulgarian NAO and the PIFC Agency would help deliver the highest services.

Risks
The following risks have been identified for the implementation of the Strategy:

Ministry of Finance network delayed
The availability of the network connections in the all Regional Directorates is necessary for integration.

Laptops reliability and theft
Auditors spend most of their time out of their office, on the site of the audited entity. Rough transport conditions are a risk for laptops which may break.

Laptops are subject to theft. Loss of laptops would be detrimental both in terms of investment, but also in terms of information leaks.

Confidentiality
Maintaining proper level of security on personal computers requires a sound IT architecture, high-quality operations and proper training and motivation of users. A security policy must be defined for the PIFC Agency. Users must be trained for Information Security.

At present requirements for PKI and encryption are not finalised. Cooperation with the Ministry of Finance and the Bulgarian NAO who have similar requirements, must be enforced.

IT Support
The IT Strategy has high ambitions and the IT team must be developed to deliver the proper level of support to all users.

Although the Central Office will provide them with support and expertise, the Regional Directorates must develop a minimum of LAN, PCs and user support.

Attachments
Phase 1
- Global network access
- Information Sharing

Ministry of Finance Network and Internet

Direct network connection between all sites

22 Regional Directorates

All PIFC Agency sites have access to Information Server

Audit Application Server

Centr
Audit Software

Pilot
Audit Software

Pilot
Audit Software

Pilot
Audit Software

Pilot
Audit Software

Audits

Cent. Office + 6 Pilot Regional Directorates

22 Regional Directorates
Phase 2
- Extend Audit Soft. Pilots
- Extend Soft. Functionality
- Increase Security

Ministry of Finance Network and Internet

Central Office + All Regional Directorates

Direct network connection between all sites

All PIFC Agency sites have access to Information Server

Information Server

Audit Application Server

28 Regional Directorates
Architecture for first phase

Ministry of Finance

WAN

Intranet Server

Server

Standard
Regional
Directorates

Router

Regional Directorates

Switch

LAN Busy

Router

Audit Software

6 Pilot
Regional Directorates

Audit Software

Central Office

Laptops

Audit Software
Annex 8

Needs assessment of the Investment component of the Twinning project
“Further implementation of the new model of Public Internal Financial Control in Bulgaria” under Phare 2003

The Strategy for the development of the PIFC Agency information system was elaborated under the Twinning project BG/2000/IB/FI/04 “Strengthening Public Internal Financial Control” as accomplished since November 2001 to November 2003. According to the Strategy the IT system of the PIFC Agency has been developed in two phases:

**The first phase** is implemented under the Supply contract for the delivery of hardware and specialised software as a part of the Twinning project under Phare 2000.

The results of the first phase are as follows:

- The Central Office and 4 preliminarily selected (pilot) Regional Directorates have installed specialised audit and financial analysis software as well as centralised information base has been established (11 licenses for data analysis software and 47 licenses for the audit software);
- A hardware and software tools are introduced for security, confidentiality, integrity and completeness of the information, access management and control and retaining of the data;
- The Central Office and the Regional Directorates have been connected in a network information structure – virtual private network (VPN) and in WAN through the network for data transfer of the Ministry of Finance;
- The LAN of the Central Office is extended and there is LAN installed at 15 Regional Directorates;
- The PIFC Agency has 105 modern desktop computers, 66 portable computers (at the Central Office and pilot Regional Directorates), two centralised application servers at the Central Office and 7 network servers;
- 60 internal auditors are trained to use the audit software at the Central Office and the pilot Regional Directorates. They are also trained to train the other auditors of the PIFC Agency. A group of IT officers of the PIFC Agency is trained in support and administration of the specialised audit software and database.

The results of this phase enable a small part of the auditors to improve their activities. At each Regional Directorate they could connect to the network of the PIFC Agency in order to exchange information and use the applications and centralised database. At this stage just about 7% of the requirements for a complete and fully functioning automated system of the audit activities of the PIFC Agency are covered.

**The second phase** of the Strategy is planned to be implemented through a Supply contract as a part of the Twinning project of the PIFC Agency “Further implementation of the new model of Public Internal Financial Control in Bulgaria” under Phare 2003. At this stage the IT system will be extended and updated.

The second phase is planned to include:

- Connection of the information structures of the PIFC Agency to the data transfer network of the Ministry of Finance and State Administration;
• Improved access to information through increased access to the Intranet for the auditors at all Regional Directorates. Provision of dial-up access and VPN connection for auditors, working out of their workplaces to informational resources of the PIFC Agency;
• The auditors trained during the first phase will train in succession the other auditors until all are able to use the specialized audit software;
• Establishment of IT Help Desk for flexible and timely provided remote consultation for the user and support of the system;
• Integration of the internal communication for the whole structure of the PIFC Agency in a unified, centralised communication and IT system and establishment of effectively functioning Intranet environment;
• Development of a programme for the modernization of the IT systems for auxiliary and administrative activities in the PIFC Agency aiming to avoid overlapping of activities and to decrease the expenditures.

This will be implemented through:
• Delivery and installation of specialised audit software and certain number of licenses at the Central Office and Regional Directorates of the PIFC Agency – data analysis software and audit software allowing remote access;
• Delivery and installation of an application server to meet the additional requirements because of the increased number of the users of the system;
• Delivery and installation of 256 portable computers with audit software;
• Delivery and installation of 150 modern desktop computers, office equipment (printers, copy machines, projectors) and interpreters’ equipment;
• Installation of LAN in 13 Regional Directorates;
• Delivery and installation of 22 network servers for the Regional Directorates of the PIFC Agency for administering of the LAN and provision of access for the auditors from all Regional Directorates of the PIFC Agency to the centralized data base and Intranet;
• Introduction of hardware and software tools to ensure the completeness and retaining of information – 22 UPS;
• Training of the auditors from the Central Office and Regional Directorates on the innovations in the IT area.

The implementation of the second phase will achieve the following results:
• About 30% of the audit activities of the PIFC Agency will be provided with modern hardware and software tools;
• Considerable improvement of the effectiveness and efficiency of the audit activities will be achieved. The utilization of modern information technologies will considerably decrease the duration of the tasks accomplished. The extension of the scope of the use of specialised software will improve the overall result of the audit activities;
• The activities of the PIFC Agency will be monitored, analysed and managed more effectively.

The implementation of the second phase as defined above will not cover the whole requirements for the IT system of the PIFC Agency, however the extension of the functionality of the IT system in all Regional Directorates will considerably increase the effectiveness of the audit activities.

The implementation of the second phase requires the delivery of the following hardware and software. (See the table 1 below)
Table of the types of equipment and software to be delivered (prices in euro)  
Table 1

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<th>Video Projector</th>
<th>Photo Copier</th>
<th>LAN Server</th>
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<td>1</td>
</tr>
</tbody>
</table>

Price per unit

| 40000 | 4500 | 3000 | 6000 | 4500 | 600 | 1500 | 100 | 650 | 550 | 4950 | 200 | 3000 |

Total cost

| 40000 | 4500 | 15000 | 6000 | 99000 | 13200 | 384000 | 13000 | 97500 | 44550 | 163350 | 17400 | 3000 |

| TOTAL | 900 500 |

- Audit software and installation – sets of financial analysis and audit management software and respective number of licenses
- The prices used are indicative