

# **COMMISSION FOR PUBLIC OVERSIGHT OF STATUTORY AUDITORS**

## **REPORT**

**ON**

### **THE ACTIVITY OF THE COMMISSION FOR THE PERIOD NOVEMBER – DECEMBER 2008**

Commission for public oversight of statutory auditors (CPOSA) is an independent body, exercising public oversight over the activity of statutory auditors and the Institute of certified public accountants (ICPA) concerning its oversight activity of statutory auditors. The Commission is established following the amendments of the Independent Financial Audit Law, adopted in June, 2008 (prom. SG. 67/29 July 2008), transposing the Directive 2006/43/EC of the European Parliament and the Council. For the short period of its election in November to the end of 2008, the activity of the Commission was focused on drafting relevant internal normative documents, formulation of a clear concept of institutional development in 2009 and securing the necessary material foundation and funding.

#### **INSTITUTIONAL BUILDING**

The Commission is acting as a College and consists of a Chairman and six members. On 9<sup>th</sup> October 2008 Dr Nikolay Chatalbashev was elected Chairman of the Commission by the National Assembly. In line with the requirements of art. 35 b, para 5 of the Independent Financial Audit Law, the Chairman had consultations with the Ministry of Finance, Ministry of Economy and Energy, Bulgarian National Bank, Commission for Financial Oversight and the Institute of Certified Public Accountants for nomination of the members of the Commission. The proposed candidates were elected by the National Assembly on 14<sup>th</sup> November 2008.

The Commission held its first regular session on 25<sup>th</sup> November 2008 where functions and assignments of the members were designated. Till the end of 2008 the Commission had three sessions where issues were discussed and decisions taken concerning its future activity.

Following the provisions of art.35d, para 1 of the Independent Financial Audit Law, the Commission drafted and issued Regulations for the Activity of CPOSA, promulgated in the State Gasette issue1from 6th January 2009. The provisions of the Regulation stipulate the activity of the Commission for public oversight of statutory auditors, the structure, functions and activity of its administration.

The Commission discussed and adopted internal rules for wage structuring and, in the beginning of 2009, the other internal normative documents necessary for the functioning of the Commission as an independent administrative unit.

In carrying out its functions and powers the Commission is supported by specialized and general administration, structured in three directorates. The total number of administrative staff is 30 regular appointments, 5 of them employed in 2008.

In December the Commission announced a competition for recruitment of inspectors in the directorates of specialized administration. The applicants meeting the requirements of the law were admitted to a written examination in the beginning of January 2009. Up to the moment 27 employees have been appointed and they have gone through an inception training.

## **INTERNATIONAL AND NATIONAL COOPERATION**

The Commission cooperates with the respective authorities of the European Union, with supervision bodies of the Member States of the European Union and of third countries which are in charge of independent financial audit.

In this regard the Commission assisted the Internal Control directorate of the Ministry of Finance in answering the inquiries of the European Commission concerning the transposition of the Directive 2006/43/EC. Bulgaria is among the 17 member states having completed the full transposition of the Directive.

From December 2008, the Commission participates in the work of the European Group of Audit Oversight Bodies. The Chairman of the Commission Dr Nikolay Chatalbashev and Dr Hristo Mavrudiev, member of the Commission, took part in the organized by the EC International Conference on the interaction with third countries in performing audit public oversight, held on 10 December 2008 in Brussels, Belgium.

At the Conference the first international contacts were established – with some representatives of the EC, the European Group of Audit Oversight Bodies, head of the bodies in member states, regulatory bodies in third countries.

The Commission has established and maintains regular professional contacts with the Managing board and the other bodies of the Institute of certified public accountants (ICPA). The Chairman and members of the Commission took part in the 6<sup>th</sup> Congress of ICPA with the topic “Public oversight and public interest”, held on 17 – 18 November 2008. The Chairman of the Managing board of ICPA took part in a session of the Commission where the rules and procedures for providing and approval of documents, stipulated in the Independent Financial Audit Law, were debated.

## **PUBLICITY OF THE ACTIVITY OF THE COMMISSION**

The Chairman and members presented the Commission in the media and the professional editions, i.e. the grounds of its establishment and main tasks concerning oversight activity of statutory auditors in compliance with the European requirements and recommendations.

Rights and responsibilities of the Commission were presented in a discussion “Functions of Public oversight, priorities and expectations”, conducted during the 6<sup>th</sup> Congress of ICPA. The Chairman of the Round table on accountancy and control in Bulgaria, organized by the World Bank on 12<sup>th</sup> December 2008, also emphasized on the establishment and main assignments of CPOSA.

A paper on the Commission for public oversight of statutory auditors was prepared in English and presented to the participants in the International Conference on the interaction with third countries in performing audit public oversight.

In 2008 started the preparation of the web site of the Commission and it is now functioning.

## **FINANCIAL AND MATERIAL SECURITY**

The activity of the Commission for Public Oversight of Statutory Auditors is supported by the state budget through the budget of the Financial Supervision Commission. The budget of CPOSA for 2008, approved by the Council of Ministers with the Decree № 273/11.11.2008, was in the amount of 210 000 BGN.

Due to the impossibility of providing premises, municipal or state ownership, an agreement with the Ministry of Finance was reached for renting office premises and the necessary funds to be secured in the budget of the Commission.

After reviewing the offers of office rentals for a 5-year period, inspection of the condition of the premises and negotiations on the rent amount and lease terms and conditions, a lease contract was signed for 12 work premises and the correspondent service rooms in a newly-constructed building at 22 Serdika street.

Office furniture, computers and telephone numerator were purchased for the smooth operations of the Commission. Cabling of the premises was completed and telephone posts opened. Alarm technique was installed.

Out of the approved budget 191 756 BGN are spent that equals 91,31%, and the economy realized amounts to 18 244 BGN.

39 523 BGN in total were spent for wages of permanently appointed employees and fees of the members of the Commission for 2008.

For outsourced services 83 344 BGN are paid. Out of them 30 000 BGN are for the office premises rent, including the deposit included in the Contract clauses. The expenses for office equipment are 22 862 BGN. The rest of expenses are made for mailing and telecommunications services, subscription maintenance of software products, competition announcements, office premises cabling, business trips etc.

For the acquisition of long-term assets were spent 65 821 BGN. After a competition on the basis of offers deposited, a contract was signed and 14 computers with monitors, printers, a server and an emergency supply device were procured at the total price of 27 035 BGN. Following the same procedure a car was purchased for 35 974 BGN.

All the expenses are made for securing normal conditions for the operations of the Commission.

After an audit, the National Audit office confirmed the expedience and lawfulness of expenditure of budget resources allotted to the Commission for 2008.

In the adopted by the National Assembly State Budget for the year 2009 1 789 500 BGN are provisioned which is sufficient for the financial security of the activity of the Commission.

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For the short term from the election of the Commission till the end of 2008, the appropriate preconditions for its operations in 2009 were established. Currently the efforts of the Commission are directed to the building of the necessary administrative capacity for performing the designated oversight functions. Rules and procedures, provided in the Independent Financial Audit Law, are approved by the Commission. The first nine audit firms subject to pilot audit service quality reviews have been decided.

**The Report was adopted at the session of the Commission with a decision № 55, Protocol № 12 dated 26<sup>th</sup> May 2009.**