

AUDIT OF EUROPEAN UNION FUNDS EXECUTIVE AGENCY

DEVELOPMENT OF MANAGERIAL ACCOUNTABILITY

The Bulgarian Experience

**Regional Conference on Public Internal
Financial Control for Candidate
and Potential Candidate Countries**

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Hotel Regent Esplanade
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Outline



- Overview of PIFC history in Bulgaria
- Reform of national control system
- CHU – engine of change
- Starting up development of managerial accountability
- Current situation
- Lessons learned

The PIFC system through time



19....	1999	2000	2001	2002	2005	2006	2007....	2010
FINANCIAL INSPECTIONS			TRANSITIONAL PERIOD INTERNAL AUDIT & INSPECTIONS				SEGREGATION OF FMC & INTERNAL AUDIT & INSPECTION		

Overview of PIFC history in Bulgaria



Financial Inspections – centralized control

★ **Laws:**

- Financial Control Law 1961 - 1995
- State Financial Control Law 1996 – 2000

★ **Enforcement Body:**

- Commission for Financial Revision Control
- State Financial Control Department, MoF

Overview of PIFC history in Bulgaria



★ **Authority:**

- Ex post financial checks for compliance with the laws of all public organizations and state owned companies (up to 5000)
- Assets, inventories and expenditures
- Projects and contract procurements and executions

★ **Sanction powers:**

- Fine up to 3 month's salary for financial irregularities
- Fines in cases of administrative violations
- No court appeal - Send a copy of all reports to Prosecutor's office

Reform of national control system



Transitional period – mix Inspection & IA

★ Law:

- Public Internal Financial Control Law 2001-2006
(Financial Inspectors of SFCD became Internal Auditors in the PIFC Agency - January 1, 2001)

★ Enforcement Body:

- Public Internal Financial Control Agency - structure with 28 local offices and up to 1 100 internal auditors
 - *Delegated in all ministries, large agencies and municipalities*
 - *Internal auditors for special tasks*

Transitional period



Inspection

- ex-post checks - mainly yes/no (law compliance)
- from outside (MoF)
- of financial activities
- focused on individuals
- aim to detect violations and to impose sanctions
- focus on reviewing the past and sanctioning - to extort financial and budgetary discipline

Internal Auditing

- ex-post assessment & consulting
- from inside
- of all activities
- focused on systems
- aim to assess systems and to recommend improvements
- reviewing the current situation and past with focus on the future - to support management



Factors for change in PIFC in Bulgaria

- ★ Engagements taken under Chapter 28 “Financial Control” - First Policy Paper of PIFC 2000
- ★ Intense discussions between DG Budget of the EC and Ministry of Finance
- ★ Recommendations from the SIGMA Peer Reviews on the PIFC system in Bulgaria (2002, 2004)

Reform of national control system



Main directions of reform (Strategy 2005)

Segregation of FMC & IA & Inspection

- ★ Strengthening the managerial accountability and FMC
- ★ Establishment of Internal Audit Units within public sector organizations
- ★ Establishment of CHUs for FMC and IA
- ★ Establishment of Financial inspection

New legislation: *Financial Management and Control in the Public Sector Law, Internal Audit in the Public Sector Law, Public Financial Inspection Law*

Reform of national control system



Subjects	2005	2010
Budgeted Costs	10 467 241 BGN	18 916 488 BGN
Budgeted Income	10 432 241 BGN	15 232 292 BGN
Number of first Spending Units	301	307
Number of Ministries	16	15
Number of Municipalities	264	264
Number of financial inspectors	1100	130
Number of Internal auditors	22	550
Number of CIA	-	1021
Number of in Ministries IAUs	4	15
Number of in Municipalities IAUs	-	112
Number of in other IAUs	1	18

CHU – Engine of Change



CHU – support the minister in the implementation of PIFC Policy

- **Objective 1:** To analyze control systems and introduce the new laws and regulations

★ *Co-ordinate and harmonize the enforcement of the legislation on FMC*

★ *Involvement in budget, treasury and accounting reforms*

★ *Elaborate Strategic and Annual plans for FMC in the public sector*

★ *Elaborate and disseminate methodologies, guidelines, manuals*

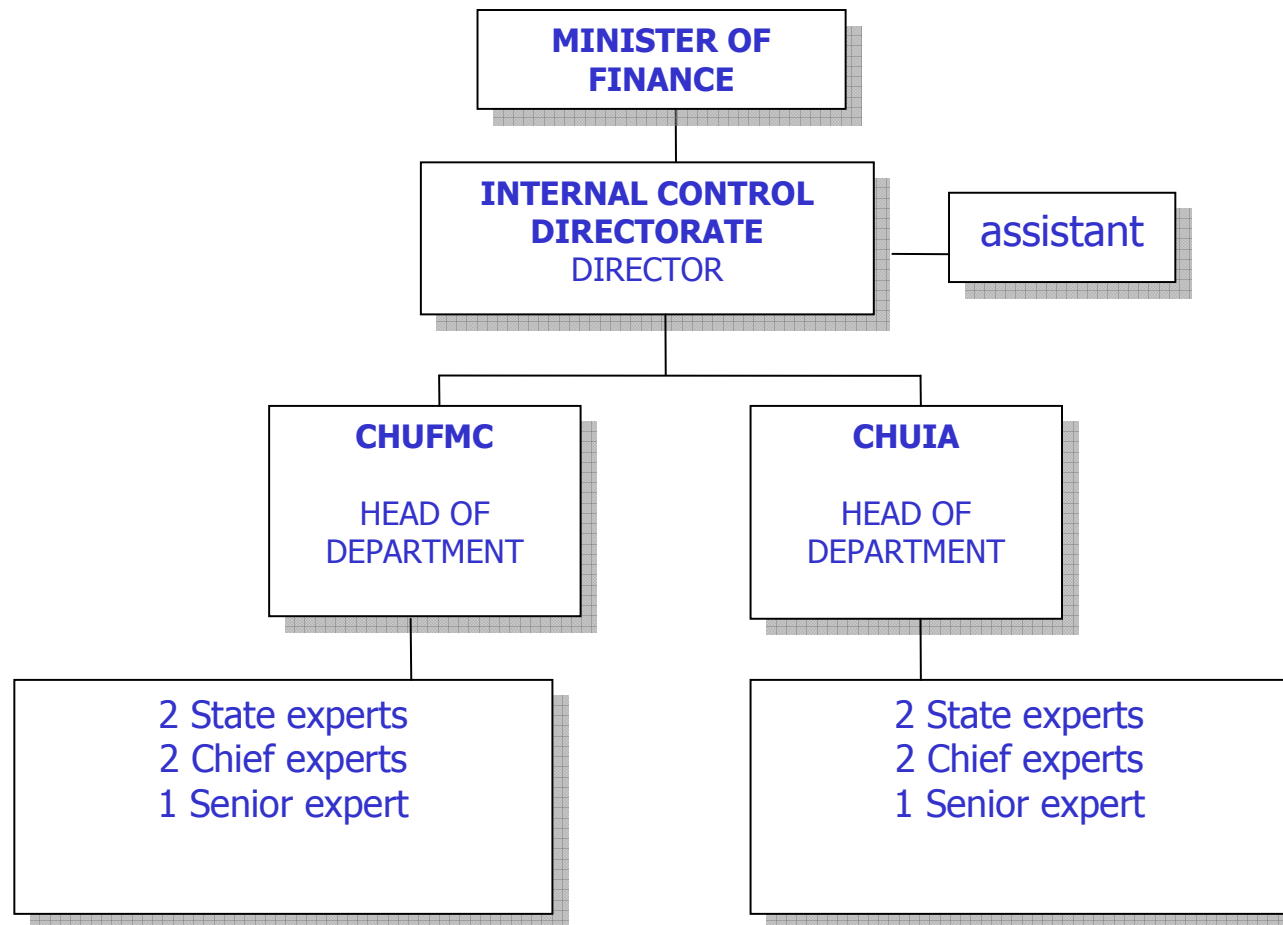
- **Objective 2:** Ongoing staff development of PIFC

- **Objective 3:** Monitoring

★ *Prepare a Consolidated Annual Report on the state of FMC in the public sector and submit it to the Council of Ministers, NAO and National Assembly*

- **Objective 4:** Networking

CHU – Engine of Change



Process of development of MA



CHU/FMC

- ★ Inventory of legislation and regulations
- ★ Introducing a definition for “managerial accountability”
 - *Managerial accountability guidance*
 - *Guidance on FMC components*
 - *Ex-ante control guidance*
- ★ Introducing a "new" concept of control - strengthening the preliminary, preventive control at the expense of “ex-post”
- ★ Obligatory annual reports on the status of FMC
 - *FMC annual reporting questionnaire and guidance*
 - *Annual reporting ordinance*

Challenges for implementation MA



- ★ Many reforms with different drivers of change, difficulties in coordinating
- ★ Need for a new Organic Budget Law and right management structure for introduction of the managerial accountability
- ★ Difficulties in defining the principles of good governance in legislative texts and regulation and insufficient understanding of the concept of financial management and control
- ★ Lack of understanding of risk management as a key factor for good governance and of delegation of managerial responsibilities
- ★ Reluctance to describe the processes (insufficient audit trail)
- ★ Many levels of control and unnecessary signatures
- ★ Improper application of rules – “bought FMC systems”

Current Situation



- ★ New legislation - improved understanding of managerial accountability but still no modern OBL
- ★ Introduced new internal regulations and procedures
- ★ Increased attention towards reporting on the state of FMC
- ★ Better understanding of the role of internal auditing as a consultancy activity
- ★ Increased audit activities by the NAO – audit of FMC in all public sectors for compliance with laws, guidelines and standards
- ★ Conducted numerous training for managers from different levels
- ★ Project “Strengthening FUK and MA in the public sector”
 - Beneficiary: MF/CHUFMC & CHUIA; Value: 1.5 million euro ESF
 - Results: initial implementation of strategy for risk management in two ministries and two municipalities; 6 courses – 180; publication of good practice; trainers

Lessons Learned



- ★ A broad discussion of the reform at the highest level is needed – deeper understanding of the phrases “good governance”, “managerial accountability” and “FMC” rather than change the legislation
- ★ PIFC reform is part of an overall public finance reform - budget, treasury, accounting reforms – altogether, not one by one
- ★ CHU/FMC should not be isolated, but must be correctly incorporated in the MoF system
- ★ Managerial accountability – way of thinking, not just rules and procedures – the public needs time to understand it and seek it from the managers in the public sector managers



THANK YOU FOR YOUR ATTENTION!

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