

---

# FROM INSPECTION TO INTERNAL AUDIT - the Bulgarian experience -

---

PEM-PAL workshop

Chisinau 20-22 June 2007

Ludmila Rangelova – Director CHU, MoF

Stefan Belchev – CAE, MoF

# THE PIFC SYSTEM THROUGH THE TIME

19....	1999	2000	2001	2002	2003	2004	2005	2006	2007	200...
PURE INSPECTIONS			TRANSITIONAL PERIOD					TOTAL SEGREGATION		

---

# Pure inspection 1

- Law and Enforcement Body
  - Financial Control Law **1961 - 1995**
  - Commission for Financial Revision Control

- Authority

Total ex post financial checks of all public organizations and state owned companies

- Sanction powers
    - “denejnii nachiot” – possibilities for fine up to 3 month salaries for financial irregularities, no court appeal
  - Send a copy of every report to the Prosecutor's office
-

# Pure inspection 2

- Law and Enforcement Body
    - State Financial Control Law **1996 - 2000**
    - State Financial Control Department, MoF
  - Authority
    - Ex post financial checks for compliance with the laws of all public organizations and state owned companies
    - Assets, inventories and expenditures
    - Projects and contracts procurements and executions
  - Sanction Powers
    - fines in cases of administrative violations stipulated in the laws
  - Send a copy of every report to the Prosecutor's office
-

---

# Transitional period

In the January the 1-st 2001 Former Financial Inspectors of State Financial Control Department became **Internal Auditors** in the PIFC Agency

- Law and Enforcement Body
  - Public Internal Financial Control Law **2001-2006**
  - Public Internal Financial Control Agency
  - Authority
  - **Internal auditing** – special assessment of organization activities aiming at recommendations for improvements, mixed with
  - **Imposing sanctions** (fines) for law violations
-

---

# What was PIFC Agency

- Centralized structure with local offices
  - Up to 8 000 numbers of auditee organizations (Ministries, Agencies, Commissions, Municipalities, State owned companies etc.)
  - Up to 1 100 internal auditors
  - Decentralized – in the ministries, big agencies and big municipalities
  - For Special Tasks
  - Role of CHU for IA - special directorate (January 2004 – September 2005) transferred to MoF
-

---

# Different Approaches

## Inspection

- Checks of documents, inventory and assets (detailed testing)
- All (100 % from the chosen period)
- Results – each error – even insignificant – must be included in the revision report
- Responsible persons are pointed, but not reasons

## Internal Auditing

- Check of control systems (control testing)
  - Based on control test results IAr decides whether he will do detailed testing and the volume of this testing
  - Results – the report includes all checks – negative as well as positive
  - Reports includes reasons (causes), conclusions and recommendations
-

# Different Approaches (cont.)

## Inspection

- ex post checks - mainly yes/no - for law compliance
- from outside (MoF)
- of financial activities
- focused on individuals
- aim: detecting violations and imposing sanctions
- reviewing for the past to assure financial and budgetary discipline

## Internal Audit

- ex post checks for assurance, but also consulting
- from inside
- of all activities
- focused on systems
- aim: assessing systems and recommending improvements
- reviewing for the future to help management



# Legislation Reform

PIFC Law  
(2001-2006)

Law on Financial  
Management  
and Control in the  
Public Sector  
(March 2006)

Law  
on Internal Audit  
in the Public Sector  
(April 2006)

Law  
on State Financial  
Inspection  
(April 2006)

---

# Structural Reform

- Establishment of IA Units within 4 ministries - pilot decentralization – November 2005
  - Full decentralization – May 2006:
    - IA Units in each ministry, big agencies and municipalities
    - More than 550 auditors transferred from PIFC Agency
-

---

# Implementation phase – difficulties and challenges

- **Management** misunderstanding of FMC/IA

Management should learn to be  
accountable and to benefit from FMC/IA

- **IAs** – communication, competence, CPE,  
enthusiasm

- **CHU**

- strategic development, methodologies,
  - training, certification procedure,
  - monitoring
-

---

THANK YOU!

---