

Internal Control Working Group

Internal Control System in Big vs Small organizations

Bulgarian experience

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According the FMC and IA legislation

The Public Sector Financial Management and Control Act does not distinguish between large and small organizations

According **the Internal audit in the Public sector act** SMALL ORGANIZATIONS are:

- ❑ Municipalities which budget is less than 5 million Euro
- ❑ All agencies and other second level budget units excluding 6 big agencies and Prosecution listed in the law
- **Small organizations** don't have separate regime of IC, they have the same obligations regarding establishing, functioning and reporting of FMC system as the big organizations
- WITH ONE EXCEPTION: They are not obliged to establish IA units
- These small organizations could create IA on voluntary base in different ways described in the law:
 - ✓ To establish IA unit after approval of the Minister of finance; or
 - ✓ Two or more small municipalities can create shared IA under an agreement; or
 - ✓ the IA activity may be carried out by persons who are not employees of the organization and meet the requirements for Internal auditors.

According the Methodology

- ❑ No specific methodology for the **small organizations**
- ❑ They are not addressed by the common methodological documents, no special provisions concerning them
- ❑ There is some small relative remarks, for example – notes, that the principle of separation of duties couldn't be fully performed in the organizations with small administrative capacity
- ❑ They are fully obligated to have in place all elements of FMC system
- ❑ They face a big difficulties in the implementation of all requirements

Annual Consolidated Report – data

- ❑ As for 2021, the organizations that are considered **large** (all Ministries, other first level budget spenders, municipalities with a budget over EUR 5 million, or 7 agencies and the prosecutor's office explicitly specified in the law) and are obliged to have an IA are 238, of which 188 (out of a total of 265) are municipalities
- ❑ Remaining 77 organizations, of which 54 are municipalities, are considered **small** according to the criterion used by the Law on Internal Audit in the Public Sector
- ❑ Among the small ones only 7 municipalities have been created own IA unit, 2 other municipalities have hired external persons to perform internal audit function

Conclusions and Recommendations

- The legal provisions and the methodology are not enough to help the **small organizations** to maintain effective IC system
- In the consolidated annual report on FMS, no space is allocated for information and analysis of FMC systems in small organizations
- It could be recommended that a special attention has been paid to small organizations and the challenges they face
- In this regard, it can be proposed to the CHU to draft a legal provisions, or a special part/chapter in the methodology and in the consolidated annual report on FMC, which would reflect the specifics of small organizations
- This would help them being in conformity with common IC requirements regardless of the small capacity

THANK YOU!

