

The new circumstances in the management of the Bulgarian National Audit Office and the control of the audit quality

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Annotation The rationalization of the theoretical issues of the audit through the prism of its quality is not an aspiration towards originality in the science, but an attempt for a more complete and complex revelation of the specific sides of this specific process. The good theory and the modern auditor's framework are necessary conditions for the audit quality. The consideration of the management of the audit through the prism of its quality is not an aspiration towards originality in the science, but an attempt for a more complete and complex revelation of the specific sides of this unique process called audit.

Index Terms: audit, control, quality, management

JEL: D53, G32.

I. INTRODUCTION

The changes in the constitutional laws of the control bodies are always causing a polarization in the opinions and motives of their makers and opponents. But irrespective of that, the science has to contribute for the introduction of rational ideas and to motivationally criticize the flaws and weaknesses. The presented changes in the new National Audit Office Act are approbated, in their greater part, during the operation of the Act since 2010. The accent has been put on the new legal norms which are regulating management and organizational approaches.

The presentation of the quality control is encompassing its essence and the requirements towards the structure of the quality control system which are regulated in the applicable auditing standards.

The goal of the present article is to make an analysis of the transformations in the management of the National Audit Office's activity during the last five years, caused by the political decisions, while accentuating on the requirements towards the audit quality control.

II. NEW CIRCUMSTANCES IN THE ACTIVITY OF THE NATIONAL AUDIT OFFICE

The last three National Assemblies are drafting with priority and adopting new acts for the National Audit Office. Most of the politicians and experts are estimating the "lawmaking" in this specific area of the social governance as a reason for substitution of the members of the National Audit Office. Irrespective of the political fore-shortenings, this process deserves a scientific rationalization and evaluation of its positive and weak sides. The scientific issues, to which answers can be sought for, are linked with the dynamics of the legislation as a process, in the analysis of which can be found arguments for improvement of one or another part of the management, structure and the activity of the Supreme Audit Institution.

The first National Audit Act from 1995, with which has been restored the Supreme Audit Institution in the state governance system after its liquidation and in 1948, introduced the collective governance model – president and ten members.

This model has been established and further developed with the National Audit Office Act from 2001, as it existed throughout 2010, when with a new act has been constituted a membership of the audit office consisting of a president and two vice presidents. The new management model of the institution moved closer to those of the comptroller general. But in practice despite that everyone of the membership has separate powers; the three of them formed a college for taking explicit decisions. The audit activity in the National Audit Office is organized in directorates. Units have been formed to the directorates, as well as distant working positions on the country's territory, and the territorial divisions have been closed down. This way the management of the audit activity is being centralized. The Consulting committee was a new body in this management model. It has been compared in its statute and powers with an audit committee in the meaning of art. 18 of the Act of the internal audit in the public sector. (Dimitrov, V. The new National Audit Office Act – a balance of a sustained reform, Audit in Bulgaria, Sofia, 2012) The Audit committee has been constituted by experts from the financial control, finance and bookkeeping field with the goal to support the work of the National Audit Office in submitting advices and recommendations on a wider topic area, but most of all in the field of audit quality. The scope

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of the audit activity has been extended with this act. It involved the state enterprises and trade companies with over 50 percent state and/or municipal participation in the joint stock, as well as the privatization, concession granting and granted public resources and public assets to people outside the public sector.

In the beginning of 2014 has been adopted a new National Audit Office Act. With it the National Audit Office has been constituted again as a collective body in the membership of 9, including president. Every member has been directorate manager and entirely responsible for the quality of the audit activity. The power of the National Audit Office on inflicting administrative penalties for infringements of the Public Procurement Act has been waived. The Consulting committee has been closed down.

The legislative dynamics in this area turned into a precondition in the society for rise of mistrust and the impression that the frequent change of laws is not lead by motives for improvement of the external audit in the public sector, but solely by the political will of the governing parties or coalitions to elect an administration of the National Audit Office nominated by them.

The main circumstances in the management of the National Audit Office, introduced with the entering into force of the National Audit Office Act from 2015 (National Audit Office Act, State Gazette vol. 12//2015), are entirely based on the established models in the world practice. It is an improved version of the act from 2010. A new structure of the institution's membership is regulated in it. It is consisting of president, two vice presidents and two members, who are elected by the National Assembly. In compliance with the principles of publicity and transparency has been conducted informed election of the membership of SAI after conducted public procedure. In this regard the National Assembly, with its resolution, has adopted procedure rules for the conditions and order for proposing candidates for president, vice presidents and members of the National Audit Office, presenting and public announcement of the documents and hearing of the candidates in the Budget and finance committee. The Parliament has also adopted the procedure for the election of the institution's membership. A proposal for a candidate for NAO president is made by the parliamentary groups or by Members of Parliament, who are not members of a parliamentary group, in written to the Budget and finance committee through the president of the National Assembly. The candidates for vice presidents are proposed by the president of the National Audit Office. The proposal for vice presidents and members is submitted in written by the NAO president to the Budget and finance committee through the president of the National Assembly. For the argumentation of a good professional reputation of the candidates for president, for vice presidents and for members of the NAO, written motives are attached to the proposal. The proposal, together with the documents attached to it, is posted in a specialized subject site in the internet homepage of the National Assembly not later than 7 days prior to the hearing.

It is given the opportunity for non-profit legal persons, who are registered for the conducting of social welfare activity, and professional organizations to submit to the Budget and finance committee statements for the candidate, which are including also questions to be posed to him during the hearing. Representatives of the media can send questions too in the parliamentary committee, which are to be addressed to the candidate during his hearing.

The statements and the questions are published in the specialized subject site in the internet homepage of the National Assembly in keeping the requirements of the Act for protection of personal data and the Act for protection of the classified information.

During the introduction of the candidate there are laid out data for the specific preparation, the motivation, the public reputation and the support of the society for him.

The hearing of the candidate is conducted in an open hearing of the Budget and finance committee, which is broadcast in real time in internet through the internet homepage of the National Assembly. Those rules are approving the publicity as a leading principle in the election of the candidates.

An input for reinforcement of the professionalism and introduction of good audit practices is the requirement one member to be proposed by the Governing Board of the Institute of the Certified Public Accountants, and one member proposed by the Governing Board of The Institute of Internal Auditors Bulgaria. With this decision definitions like „populous“ collective body are eliminated and is introduced a lesser number of the membership of the National Audit Office, while keeping the collegiate model for increasing the capabilities for a greater operativeness and effectiveness in the senior management of the institution. It is regulated a requirement for the NAO to adopt its resolutions with open voting and majority of 4 votes, while not admitting abstention (art. 20, para. 2). The method of voting of every voter and the motives of everyone voted against are entered in minutes and posted in the internet homepage of the National Audit Office together with the audit report.

The audit activity is organized again in directorates, specialized in the conducting of concrete type of audit, instead of the former practice of outlining of the units compared to the audited organizations.

With the last law are introduced new circumstances in the field of the financial audit. The stipulated annual financial audits of the Annual financial statements (AFS) of all municipalities are cancelled. Each year there will be audited AFS of municipalities for which the total sum of the accounted expenses under the budget, the accounts for the European Union funds and the accounts for the foreign funds for the preceding year are exceeding 10 MI n. The statements of the municipalities, which are under this substantial threshold for the preceding year, are audited with periodicity appointed by the National Audit Office or on the basis of risk assessment.

As an intermediary stage from the implementation of the financial audit of the Annual financial statement is re-established the preliminary study, risk assessment and the

current control of the periodic (quarterly) accounts of the budget execution, of the accounts for European union funds and of the accounts for foreign funds of the budget organizations, whose AFS are audited annually.

In compliance with the internationally renowned audit standards* are regulated the types of audit and opinions with statement of assurance, of statement of assurance with disclaimer thereof or of expression of opinion with disclaimer thereof on the respective financial statement. The audit opinion for statement of assurance can be:

- audit statement of assurance with unqualified opinion (unmodified opinion)
- audit statement of assurance with unqualified opinion with remark (unmodified opinion);
- audit statement of assurance with qualified opinion (qualified opinion).

The procedure of the reporting of the financial audit is approaching closer the one of the other types of audit. The draft of audit report and of the audit statement of assurance are handed out to the manager of the audited organization or to persons authorized by him. There is foreseen a possibility that the manager of the audited organization and/or authorized by him persons to give written statements on the handed out draft audit report and audit opinion, as well as to submit additional evidence and/or additional written explanations in 14-day term as of the day of the handing out. In case of written request of the manager of the audited organization and/or of authorized by him persons the responsible vice president can prolong the term with 7 days. This way is ensured a legal opportunity for the audited organization to submit opinion, additional evidence and explanations, with which are kept one of the basic principles of the administrative process in the financial audit too.

In the law are regulated two procedures for approval of the final audit report and statement of assurance, depending on the type of the opinion. When the audit statement of assurance is unmodified, i. e. for statement of assurance with unqualified opinion and for statement of assurance with remark, the vice president of BNAO in charge, as well as in the other types of audit, is drafting a motivated conclusion on the statements of assurance in 14-day term from their receiving, with which approves the final audit report and the audit opinion, which are sent to the audited organization in 7-day term.

The second procedure is applied when the audit statement of assurance is for qualified opinion, for statement of assurance with disclaimer thereof or for

opinion denial. In this case the vice president is also drafting a motivated conclusion on the opinions. After this he is submitting for consideration on a meeting of the National Audit Office the report, the audit opinion, the opinions of the audited organization, as well as the motivated conclusion. The National Audit Office can with its resolution adopt or reject completely or partially the conclusion and the proposals made to it and to adopt, amend or cancel in whole or partially the conclusion and the proposals made to it and to adopt, amend or cancel in whole or partially findings, conclusions, assessments and recommendations in the audit report and the form of the audit statement of assurance.

The National Audit Office sends to the manager of the audited organization the final audit report and the audit statement of assurance in 7-days term as of the day of their adoption.

This way regulated, through the second procedure, will be enhanced the objectivity and impartiality of the Supreme Audit Institution in implementing the financial audit in the cases of expressing a modified opinion and will be prevented the emerging of conflict situations with the stakeholders.

With the new law has been re-established the administrative-penal competency of the president of the National Audit Office for malpractices under the Public Procurement Act (PPA), found by bodies of the BNAO. This power of the National Audit Office is assigned in its capacity of a body, which - together with the State Financial Inspection Agency, is implementing the control on the implementation of PPA, as well as the control on the implementation of public procurements contracts and of the frame agreements (para 9 from the preceding and concluding orders from the National Audit Office Act, with which is re-established art. 127c from the Public Procurement Act). The Acts for establishing infringements are drawn up by authorized auditors, and the penal ordinances are issued by the president of the National Audit Office or by persons authorized by him.

III. THE EXTERNAL AUDIT QUALITY CONTROL IN THE PUBLIC SECTOR

The audit activity quality control is a priority for the institution's management. The study of the nature and circumstances of the quality as a category for the audit goals can be based on the known theories, but also on the rules, requirements and definitions, given in the international and national quality standards. The audit quality in general and in particular of the separate types of audit is imposing the application of a conceptual approach towards it from the point of view of the specifics of the studied object. The quality is defined as a level up to which totalities of inherent characteristics are satisfying requirements (Bulgarian State Standard BDS EN ISO 9000:2007). The characteristic is representing a feature. It could be inherited or attributed, but also quantitative or qualitative.

* According Para 1, p. 13 from the additional Rules of the National Audit Office Act „international renowned audit standards“ are:

- a) The audit standards, issued by the Auditing Standards Committee of the International Organization of the Supreme Audit Institutions – INTOSAI (ISSAI);
- b) The International Standards on Auditing, issued by the Board of the International Federation of Accountants – IFAC, appropriate for financial audit under tasks with included additional questions, which are specific for the budget organizations in the public sector.

Usually the public sector audit in the sense of ISSAI 100 Basic principles of the public sector audit is including at least three separate parties: auditor, responsible party and target users. The relationships between them are regulated legally, but they have to be considered also in the context of the specific requirements toward the audit quality. As long as the auditors are directly responsible for the audit quality they are conducting, the parties in charge are bearing responsibility for the information for the entity, for the management of the audited entity, or for the implementation of the recommendations. In the sense of the standard responsible parties can be separate persons or organizations. The target users are separate persons, organizations or groups and some of them, for which the auditor is drafting the audit report. They can be bodies of the legislative, supervision bodies or those, which are entrusted with the general governance, or the society. The good quality of audit allows them to be sure in the reliability and relevance of the information, which they use as a decision making basis.

The mission of the National Audit Office is to work for ensuring of quality external audit in the public sector. In this sense it is responsible for the design and maintaining of an adequate quality control system, which has to encompass its entire activity and to respond to the risks, linked to the quality.

As to have an effective the quality control system, it is necessary that it is a part of the strategy, culture and politics of the National Audit Office. In this sense the quality lies in the grounds of the management of the institution's activity, and is not an additional process, which follows the procedures until the audit report's drafting.

The quality control in the management system of the National Audit Office has to be based on ISSAI 40 Quality control for SAIs. This standard is based on the key principles of the International Standards on Quality Control – ISQC 1 Quality control for companies conducting audits and reviews of financial statements, and other assignments for expressing assurance and content linked services, the International Federation of Accountants (IFAC), and this way is adapted to be applied for SAIs. ISQC - 1 is involving some specific topics for the audit organizations in the public sector. ISSAI 40 is reflecting the SAI's mandate, which in many cases is broader than those of the registered auditors in conducted audits and reviews of the financial accounts, and other assignments for expressing assurance and content linked services. It supports SAIs to apply the basic principles of ISQC – 1 in its entire work. This standard is describing quality control measures, different requirements from those for ISQC – 1 and is regulating a common framework for quality control in SAIs. This framework is applied in the quality control system of the entire audit activity, conducted by the National Audit Office. In this sense the framework is applied in the separate types of audit – financial audits, compliance audits, performance audits, specific audits, as well as any other work performed in the institution.

ISSAI 40 is focused on on the organizational aspects of the audit quality in the entire National Audit Office. It

ensures a framework as well, which supplements other guides of INTOSAI, including those for quality control on the level of a particular assignment.

Instructions for quality control of the separate types of audit, performed by the National Audit Office, are given in:

- ISSAI 1000, ISSAI 1220 and ISSAI 1620 regarding the quality control for financial audits;
- ISSAI 3100, section 2.5 for the quality control for performance audits;
- ISSAI 4100, section 5.2. and ISSAI 4200, section 5.2 regarding the quality control of compliance audits.

The basic elements of the quality control system of the National Audit Office, described in ISQC – 1 and recommended in ISSAI 40, are as follow:

1. Management's duties for quality. The National Audit Office is creating policies and procedures, whose aim is to encourage the internal culture on the grounds of the fact that quality is of substantial importance in the performance of its whole activity. Those policies and procedures have to be defined by the institutions' engagement, which is bearing the entire responsibility for the quality control system. According to art. 21, p. 2 from the National Audit Office Act the president is defining powers in management, organization and control of the audit activity and its quality to the vice presidents. On their side the vice presidents, in the sense of the arrangement of art. 22, para 1, p. 5, are responsible for the audit activity organization and its quality. The importance of the quality has to be underlined by competent and consistent actions on all levels of the institution's management.

2. Applicable ethical requirements. The National Audit Office has to design policies and procedures, which to ensure a reasonable level of confidence that the institution and its personnel and other persons, to whom is entrusted the activity performance, are keeping the respective ethical requirements. It has to develop policies and procedures, which to reinforce the basic principles of professional ethics.

3. Adoption and continuing the customer relationships and specific agreements. For the purposes of the NAO activity the term „agreement“ means the performed work at exercising the functions of the Supreme Audit Institution. In regard to applying of this principle in p. 5, „c“ of ISSAI 40 is defined that SAI has to design policies and procedures, which to ensure for it a reasonable level of confidence, that it will perform audits and other activity. For all performed audits and other arrangements the National Audit Office has to develop systems, which to assess the risk for the quality, which arises in performing its activities. Those systems differ, depending on the art of the work performed. As usually the resources are limited, it has to be assessed if the programmed scope of activities can be implemented at the necessary quality level.

4. Human resources. An important goal, linked with the reinforcement of the administrative capacity of the National audit Office, is conducting of quality audit activity under keeping the principles for professionalism and good faith.

The National Audit Office is ensuring policies and procedures in regard to the human resources, which have to guarantee the quality and commitment with the ethical principles of the SAIs. These policies and procedures, linked with the human resources, involve:

- recruitment of staff (and the qualification of the assigned staff);
- performance assessment;
- professional development;
- possibilities (including sufficient time for task completion under keeping the necessary quality standard);
- competence (including ethical and technical competence);
- career development;
- promotion;
- compensations; and
- assessment of personal needs.

5. Implementation of arrangements. In the Strategy for development of the National Audit Office in regard to the presentation of the principles for independence, objectivity and good faith is appointed that the professional skills, applied during every audit, are ensuring the achievement of the necessary quality level (Strategy for Development of the Bulgarian National Audit Office for the period 2013 – 2017). The policies and procedures should involve here:

- a) questions, which are appropriate for encouraging of the consistency from the point of view of the quality of the activity performance;
- b) responsibilities for supervision activity; and
- c) responsibilities for conducting review.

6. Current monitoring. The National Audit Office is establishing a current monitoring process aiming to ensure a reasonable level of confidence, that the policies and procedures, linked with the quality control system, are appropriate, adequate, and are working effectively.

The quality control of whichever activity involves the use of the universal rules of the International and national quality standards. The comparison between the structure of the audit quality control system and the one for quality management after the rules of ISO 9001:2008 can be presented in the Table 1.

In the standardized framework is defined the requirement to document the policies and practices of the quality control institutions and to announce them to the staff.

The elements of the quality control system, contained in the ISQC – 1, are applicable to the scope of work, performed by the SAIs, which can be broader than the arrangements in the sense of ISQC – 1. In the sense of ISSAI 100, p. 29 in the practice of the SAIs is included two types of arrangements, namely:

- arrangements for statement of assurance where the responsible party, i.e. the persons in charge for the management of the audited entity, is measuring it against the criteria and is submitting information to the auditor. For this information the auditor has to collect afterwards

sufficient and relevant audit evidence, to get a reasonable base for expressing an opinion. Arrangements for statement of assurance always are the financial audits, as the financial statements are drafted and submitted by the responsible party in the sense of ISSAI 100.

TABLE 1
COMPARISON BETWEEN THE BASIC ELEMENTS OF THE QUALITY CONTROL SYSTEM IN THE SENSE OF ISSAI 40 QUALITY CONTROL FOR SAIs AND OF THE QUALITY MANAGEMENT SYSTEM ACCORDING TO BDS EN ISO 9001:2008.

Elements of the system for quality control according to ISSAI 40 Quality control for SAIs	Elements of the system for quality control according to BDS EN ISO 9001:2008 Elements of the system for quality control
Duties of the management for the quality in the company;	Responsibility of the management
Applicable ethical requirements	
Adopting and continuing of the relationships with the clients and specific arrangements	
Human resources	Resource management
Performance of arrangements	Design of the product (service) in compliance with the requirements and the satisfaction of the clients
Current monitoring	Measuring, analysis and improvement

Main audit principles in the public sector.

- arrangements for direct reporting, where the auditor is the one which is measuring and assessing the audited entity against the criteria. The auditor is choosing the audited entity and the criteria based on the risk assessment and the materiality. The result from the audited entity's measuring against the criteria is presented in the audit report under the form of findings, consequences/conclusions and the linked with them recommendations or opinions. Such type of arrangement is the performance audit.

It must be born in mind that the compliance audits can be arrangements for statements of assurance as well as arrangements for direct reporting or both together. This is imposed by the circumstance that the compliance audit can be conducted in three forms – as separate audit task, in connection with performance audit or in connection with the financial statement audit.

The goal of the National Audit Office is to pay attention to the risks which are threatening the quality of its work and on the ground of this to create a quality control system, which one to respond adequately to those risks. The risks

for the quality can arise on different occasion and on every stage of the audit process. They depend on its stipulated powers and functions, as well as on the environment where it is working. Those risks can arise with many different aspects from the SAI's work depending on the conditions and the environment. For instance risks for the quality can arise at applying the professional assessment, planning and performing of policies and procedures or the methods, used by the National Audit Office, for announcing the results from its activity.

The quality control has to give a reasonable confidence that the planning, organizing and the conducting of the audit is performed in a way ensuring an effective use of the resources and achieving the audit goals. In this sense it is pointed out correctly in specialized literature that in the National Audit Office the quality control is accomplished on all stages of the audit process and is organized on all management levels (Tzvetkov, Tz. *The seven axioms of financial audit in the public sector. Audit in Bulgaria, Sofia, 2012*).

IV. CONCLUSION

In conclusion, it should be noted that the audit quality control will continue to develop and to contribute to the accurate implementation of the auditing procedures to minimize the risk from incorrect findings, consequences and recommendations, i.e. the auditor's reports to correspond with the circumstances.

Undoubtedly the qualities and effectiveness of the institutional **policy in regard to the maintaining and development of the quality control system include** the common intentions or directions, as well as the concrete resolutions and management skills of NAO's management, which are supporting the accomplishment of this policy. Being acquainted with it, not only for the auditors, but also for all stakeholders, allows the maintenance and development of the control system in compliance with the leading international practices.

It is necessary to apply a complex of scientifically based efforts of scientists and practitioners for the development of the quality management of the Supreme Audit Institution, so that the society to undoubtedly take the audit as a superior from of confidence.

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