During the year 2013 the Commission of Public Oversight of Statutory Auditors has passed 5 years since its creation. The main challenge facing the Commission as a young Regulatory Body is to establish itself as an effectively working organization.

During the year the Commission’s efforts were aimed to increase the efficiency of quality control activities of statutory auditors certifying the annual financial statements of public-interest entities; to actively participate in the development, adoption and defending the position of our country in relation to the proposed by the European Commission drafts for amending the Directive 2006/43/EC and Regulation for audit of public-interest entities; institutional approval and development of the Commission.

The actions undertaken by the Commission in January 2013, were aimed at classifying the information about the activity of public-interest entities and as a result it was made a list with these organizations. In the process of making the list, the Commission faced some problems related to two of the already discussed shortcomings of the Independent Financial Audit Act – one of them is related to the legal definition of the term “telecommunication services” and the criteria for identifying companies as public-interest entities. A very small part of the companies providing telecommunications services, as well as those which produce, transmit and sell electricity and/or heat might be considered significant for society with the volume of their activities or the impact they have on the market or the society as a whole. The Commission prepared a suggestion for creating criteria for identifying companies as public-interest entities, which will be discussed in the forthcoming change of the Independent Financial Audit Act, needed for transposition of the Directive 2014/56/EC. The determination of the population of the firms was assessed as useful by the registered auditors, whose are subject of control by CPOSA. In case of need were defined by the Commission objective criteria for evaluating the adequacy of time and human resources, invested in performing audit engagements and during the year under review were undertaken to perform a statistic analysis of the relevant information from the Annual Activity Reports of the statutory auditors for the professional year which ended 30.06.2013. In this connection, it was made a suggestion to the professional organization for change in the content of the annual reports of the statutory auditors and it will be discussed soon.

In 2013 inspectors of CPOSA fulfilled the plan for oversight activity for the first time without assistance of external inspectors and with
reduced staff of the professional organization. As a result of more effective and efficient actions of the inspectors of CPOSA were carried out 73 inspections for quality control over the activity of statutory auditors and 17 investigations, in comparison with the activity in 2012 – respectively 62 inspections and 10 investigations.

The conclusion from completed quality control audit services is that despite the higher evaluation criteria, judging on the outcomes, it doesn't change the trend of improving the quality of the activity of statutory auditors during the last years. The outcomes of the inspections showed that 89% of practices were assessed with positive grades, while the unsatisfactory grades were only 11% of checked statutory auditors and audit companies.

CPOSA conducts investigations on received upon signals for alleged violations and suggestions from stakeholders, and also in other cases – at its discretion.

In 2013 CPOSA received 22 signals, 7 of which refer to the activities of statutory auditors and were related to the quality of audit services and violations of ethical requirements; 15 requests or appeals were against decisions of the ICPA in connection to the acquisition of a diploma for a Certified Public Accountant, respectively registration of independent auditors.

The positive trend of reduction in the number of received signals in CPOSA continues – in 2012 CPOSA received 27 signals, 13 of which refer to the activities of statutory auditors, in 2011 the signals were 16, 9 of which were related against the work of the auditors. Whistle blowers were mostly governmental institutions, candidates for acquisition of a diploma for a Certified Public Accountant, audit committees and shareholders. Four signals were received by the Financial Supervision Commission.

Following the decisions of CPOSA in 2013 were carried out 17 investigations. It was found out that 6 of the received signals were justified, while in the 11 rest the facts have not been confirmed by the investigating teams. The basic violations found in the undertaken investigations were related to the professional standards and ethical requirements and reporting the activities of auditors to ICPA. As a result of carried out investigations the reasons for the imposition of administrative penalty of one statutory auditor have been established, while three certified auditors were planned for the quality control inspections by CPOSA.
As a result of an investigation, which was carried out during the annual period in connection with a signal by Financial Supervision Commission of Bulgaria in 2012, there was an issued penalty decree and the sanction was a deprivation from right to carry out independent financial audit of financial accounts for a term of two years. There was a complaint against this penalty decree before the court and the court upheld it. The penalty decree was enforced in 2014. The Commission filed a complaint to the prosecutor about illegal actions of the investigated statutory auditors.

The CPOSA has been continuing the active cooperation with respective EU bodies. Furthermore, due to the fact that in the 2013 many active projects in European legislation amendments were completed, international interaction was significantly improved.

In May and June 2013 our country with the participation of the Commission prepared their position in an official document, which was sent and presented in the section „Audit legislation“ of the meeting of Committee of Permanent Representatives (COREPER) with the intention to reach a compromise on the overall texts the Directive and the Regulation and it held negotiations with the European Parliament. After the introduction of different views of Member States, CPOSA as a representative of Bulgaria presented its position regarding the restrictions for provision of related audit services and a prohibition of other services except audit; mandatory rotation of auditors and audit firms in relation with the activity of public-interest entities, as well as cooperation with the national regulators for oversight of statutory auditors.

During the year the Commission expanded its activities in the field of publicity and transparency, establishing framework cooperation agreement with the University for National and World Economy, which provides a cooperation in connection with the student practices, participation of representatives of the Commission in lectures, seminars and conferences organized by the University. University lecturers provided assistance in internal CPOSA trainings. In the process of cooperation, the Commission presented its main activities. As part of the cooperation is the practical training of students within the program "Student practices".

The Faculty “Finance and Accountancy” of the University of National and World Economy organized a round table on “Projections in the
development of accounting regulations in Bulgaria” with the participation of representatives of CPOSA. The topics were related to the development of modern accounting and legal basis for the transposition of Directive 2013/34/EC for annual financial statements, consolidated financial statements and related reports of some types of companies. It was discussed the question regarding the legal basis of the existence and activities of the ICPA and maintaining of the professional qualifications of its members.

The Commission held 35 meetings in 2013 during which were rewired 138 topics connected to the oversight of ICPA’s activities and the activities of statutory auditors, 13 topics were related to international cooperation; 14 topics were related to the adoption of internal documents and 15 other questions.

The number of CPOSA’s personnel is 24 full time employees. More than 92% of the specialists with higher education – Master Degree, including 85% have a higher qualification, 13% with a scientific degree or second legal education, 8% with secondary education, 20% of the officers are certified internal auditors, and 13% have a second major in Audit. The average age of staff of the Commission is 45 years.

The inspectors demonstrated a higher level of professional qualification as a result of continues, which was proven by received feedback information from audit companies.

The development of specialized software will result in a less time and human resources consumption.

The Commission needs to improve the quality of its supervisory activities, despite the achieved positive results during the year, as well as in the five-year period of its creation.

In 2014 the main priorities of CPOSA are limited to: risk analysis concerning the determination of the subjects to verification and determining the size of the sample of engagements that should be reviewed and quality of the activity by improving the tools in the field of quality control over the activity of statutory auditors.

During the year the Commission developed a Standard of determining the size of the sample of engagements. It has proven as effective tool in the area of risk-based approach, which was one of the priorities of the Commission for 2013. This methodology should be presented to the Council for Quality Control of Audit Services of Institute of Certified...
Public Accountants and to be reached an agreement for its application in the inspections, which are outside of public-interest entities.

In 2014 CPOSA will continue its cooperation with the regulatory authorities of the EU Member States towards the implementation of best practices in the oversight activities regarding independence and implementation of the risk-based approach in its planning activities.

The development of a methodology for evaluating the adequacy of audit fees is top priority, which opinion is also shared by the General meeting of the Institute of Certified Public Accountants.

Last but not least in importance is institutional strengthening and development of CPOSA. The role of the supervisory authority for external quality assurance and objectivity of statutory audits is enhanced by the adopted Directive and Regulation. The Commission has additional responsibilities for monitoring the changes of the market for audit services in relation to the risks posed by high market concentration, tracking of possible threats to the continuity of operations of large audit firms and monitoring the activities of audit committees of public-interest entities. Expanding the functions of the Commission as a competent body responsible for the supervision of audit work requires adequate financial resource provided by the state budget according to the provisions of the Directive and the Regulation.

The upcoming legislation changes are expected to increase the confidence of investors and stakeholders, raising confidence of users of financial statements and eventually would reduce the concentration of audit market services. These expectations are the reason for the recommendations of the European legislation to strengthen public oversight of statutory auditors, in order to reinforce the independence of the national competent authorities and providing them with adequate powers to perform their supervisory functions.

The position of CPOSA is very well placed among the competent supervisory authorities of the other Member States. The Commission ensures its independence due to the fact that it is a primary budget officer and the members of Commission are elected by the National Assembly. CPOSA is able to follow the principles of adequate and reliable financing of the system of public oversight for statutory auditors due to the fact that its budget is autonomy - requirement of the Directive 2006/43/EC.
CPOSA’s place in the public administration, the structure and organization of its activities are estimated as the best practice within the EU.

The priority of CPOSA for 2014 is maintaining the current status, as well as its institutional strengthening and development.