

**COMMISSION FOR PUBLIC OVERSIGHT  
OF STATUTORY AUDITORS**



*2011 Annual Activity  
Report*

**SOFIA**

**MAY 2012**

## **SUMMARY**

The main priority pursued by the Commission for Public Oversight of Statutory Auditors (hereinafter referred to as ‘the Commission’ or ‘CPOSA’) in its 2011 activities is the implementation of effective oversight over the activity of the newly elected governing bodies of professional organization to continue and expand the positive changes for acquisition of a legal capacity; establishment of an electronic system for evaluation of examination results; improvement of the Rules and procedures for quality control of the activity of statutory auditors; extending the scope of inspections to include other requirements of the Independent Financial Audit Law.

The Commission supported the aims and tasks of the Mandate program of the newly elected management of the Institute of Certified Public Accountants (hereinafter referred to as “the Institute” or ICPA). CPOSA positively assesses the achievements during the first year: the implementation of an electronic system for evaluation of the examinations; the stipulated changes in the activities of the Council for Quality Control of Audit Services and in the remuneration of the controllers. At the same it is reported that the simultaneous change in the composition of all the bodies of the ICPA and with the change carried out in the activity of the administration there was a temporary obstacle for the coordination and the information exchange between the Commission and the bodies of the professional organization.

Significant efforts have been made to complete the first full three-year cycles of inspections of the quality of the activities of the registered auditors and specialized auditing enterprises that carrying out independent financial audit of public interest entities. A summary evaluation was drawn up for the level of quality of audit services, the compliance of the audit activity with the requirements of the Independent Financial Audit Law, Directive 2006/43/EC, the International Standards on Auditing (ISA) and the Code of Ethics for Professional Accountants.

The outcome of first three-year cycle is 65 inspections conducted in regard to the quality of audit services provided. The practices of 89% of the inspected auditors and auditing enterprises are assessed with a positive evaluation rank and 11 % are assessed with unsatisfactory evaluation ranks. Although the relative share of complex evaluation ranks by types is similar for the three previous years, CPOSA recognizes that the quality of the activity of the statutory auditors have improved considerably given the annual extension of the scope of inspections and increase the assessment criteria of the audit practice.

In 2011 in the Commission were filed 16 signals and proposals from stakeholders, which is a 25 % increase in comparison to 2010. Seven of them are related to the activities of the bodies of ICPA and after inspections carried out with Commission Decisions are given the appropriate recommendations. Nine signals concern the quality of the activity of statutory auditors and breaches of ethical requirements. Grounds for imposing penalty of five auditors have been established during the investigations carried out. However, due to the expired one-year limitation period no administrative penal actions have been taken, and with a Commission Decision they are included for an inspection of their activity in 2012.

In connection to the omissions in the activity of statutory auditors and the specialized auditing enterprises that were found during the inspections and investigations, in 2011 four written statements ascertaining administrative violations have been drawn up, while 28 were given the appropriate recommendations whose implementation will be verified in 2012.

A peculiarity in the activity of the CPOSA during the reporting year is the active participation in the development, adoption and defending the position of our country in relation to the proposed by the European Commission drafts for a Directive amending Directive 2006/43/EC and Regulation for audit of public-interest entities

The commission continued developing the cooperation with the oversight and regulatory bodies of EU Member States, as well as with competent bodies of third countries. It actively participates in the activity of the European Group of Auditor's Oversight Bodies; it represents and defends the positions of Bulgaria in the Audit Regulatory Committee of the European Commission with regard to developing measures in the field of audit regulation. The participation in the activity of the International Forum of Independent Audit Regulators contributed to the adoption of best practices in the oversight activity in respect of the independence, the professional skepticism and the implementation of risk-based approach.

During the reporting year, on the basis of the experience already gathered, the Commission developed and adopted a Development Strategy for the period 2011-2014, taking into account international best practices and emerging guidelines for future activities of the EU supervisors. The Commission adopted amendments to the Regulation for the Activity of the Commission. With the aim of improving the effectiveness of the administration a new department "Methodology and Internal Control" was created. The basic principles for implementing the risk-based approach in the control activity were adopted.

The Commission held 31 meetings in 2011 during which 228 questions were discussed, including 203 questions in relation to the oversight of ICPA's activity and the activity of statutory auditors. Five new internal documents were adopted, while in eight

amendments and supplements were introduced. The CPOSA administration is optimized for maximum number of 24 full time employees.

The already established website of the CPOSA ensures the publicity and transparency of its overall activity. The information materials are structured in compliance with the basic guidelines of the activity of the Commission and the recent trends in the information accessibility and consumer-oriented environment.

In order to improve the effectiveness of the oversight over the activity of statutory auditors and ICPA, by taking into account the international best practices, the Commission includes in its priorities for 2012:

- A balanced approach to regulation, taking into account costs and benefits;
- Transition to risk-based oversight;
- Active interaction with other oversight bodies;
- Automation of processes for handling information collected during inspections and/or investigations, as well as their results.

With their implementation will increase the contribution of CPOSA to protect the public interest and to enhance confidence in the objectivity of the audited financial statements.

## **. OVERSIGHT ACTIVITY**

In carrying out the assigned responsibilities of the Independent Financial Audit Law (IFAL), in 2011 CPOSA undertook actions to improve the effectiveness of its oversight activity, taking into account the achieved during the first two years, the risks from the impact of the ongoing global financial crisis as well as the changes introduced to the governing bodies of the professional organization.

Under these conditions, the Commission undertook actions for:

- keeping the positive trends in the activity of the bodies of ICPA and the quality of audit services provided;
- improving the existing rules and procedures related to the oversight activity;
- expanding the scope of inspections;
- studying the experience of other regulatory bodies from EU Member States in regard to professional skepticism, independence and risk-based approach;
- increasing the professional qualification of the inspectors and the requirements for the submitted reports for the outcomes of the inspections and investigations carried out;
- control and strictness of implementation of the recommendations issued by the Commission.

### **1. Oversight over the activities of the Institute for Chartered Public Accountants**

In April 2011 the professional organization held a general meeting during which a new management was selected – Chairman, Board of Directors, Supervisory Board, Council for Quality Control of Audit Services, Disciplinary Board and Ethics Board. A mandate program was adopted to implement the strategic objectives of the Institute for the period 2011-2014, which includes:

- thorough perception and application of ethical principles of the profession in the organizational work; promotion of the profession as a model for independence, integrity and ethical behaviour;
- increasing the training quality and maintaining the qualification of certified public accountants, as well as of the candidates for acquisition of a legal capacity;
- achieving public transparency of the process of acquisition of a legal capacity through the establishment of adequate procedures as a part of the ICPA program for the development of the profession;

- supporting small and medium audit practices for the development of its professional capacity to provide higher quality audit, accounting and consulting services to the audited enterprises;
- organizational strengthening of the Institute and implementing the administrative reform in order to develop the administrative capacity and achieving qualitatively new level of management.

In June 2011 CPOSA and ICPA held a round table on “Professional skepticism in the work of statutory auditors – challenges related to the crisis”. Special attention was paid to the need to achieve a common understanding of the nature of professional skepticism and its role for conducting audits, disclosure of facts that influence the level of professional skepticism and consequently the quality of audit services and the necessary actions to achieve the level of professional skepticism which should be adopted and applied by the auditors. The participants were introduced to the outcomes of the discussion of the document “Audit skepticism – raising the bar” of the Financial Reporting Council of the United Kingdom, as well as with the outcomes of the discussion of issues raised in the Green Paper “Audit Policy – Lessons from the Crisis”.

In June 2011 the Commission approved the amendments to the rules and procedures for conducting examinations for acquisition of a legal capacity of a Certified Public Accountant with the introduction of online examination which is one of the best results. The main change is in the organization of the examinations as tests and results are done electronically which completely eliminates the subjective factor in evaluating the candidates’ knowledge.

### **1.1. Acquisition of a legal capacity and registration of Certified Public Accountants and auditors**

As a result of a review and analysis of the activity of ICPA, as well as received signals and complaints about the acquisition of a legal capacity and registration of Certified Public Accountants and auditors in 2009 and 2010 with the active participation of representatives of the Commission it was proceeded to substantial changes in the rules and procedures for conducting and evaluating the results of examinations for the acquisition of a legal capacity of a Certified Public Accountant.

Publicity and objectivity for the examination procedure are ensured by these amendments, regulated procedures guarantee that only persons that meet the requirements of the Independent Financial Audit Law will acquire a Certified Public Accountant qualification

and exams are carried out electronically via an information system for electronic examinations. The system was developed in compliance with the recommendations given by the Commission to the previous Board of Directors of ICPA and it was completed and put into operation as a software product, property of the Institute, for the session beginning in June 2011. The information system covers the activities of conducting examinations for acquiring a Certified Public Accountant qualification and ensures security and reliability in the generating, processing and disclosure of examination results.

In 2011 were held four exams for the acquisition of a legal capacity of a Certified Public Accountant while the primary requirements of the IFAL and the relevant rules and procedures are met. The organization and conduct of examinations are defined as very good in contrast to the accuracy of the formulated questions and the correct answers which are confirmed by the signals and complaints received.

In regards to the acquisition of a legal capacity of a Certified Public Accountant and entry in the register of statutory auditors of persons from third countries the Commission instructed the Institute to develop specific rules to be laid in 2012.

A number of flaws and inconsistencies in the annual reports for the activity of statutory auditors and the specialized auditing enterprises were found in the scheduled by the Commission inspections and investigations in 2011. Thus, CPOSA will devote the necessary attention and efforts and will require the authorities of the professional organization to undertake actions to ensure the adequate, full and precise information in the annual reports submitted by statutory auditors or specialized auditing enterprises.

## **1.2. Organization and effectiveness of the activity of the Institute of Certified Public Accountants for the quality control of audit services**

The Commission supports the ambitions and efforts of the newly elected composition of the Council for Quality Control of Audit Services aimed at increasing the effectiveness of control over the activity of auditors and non-PIEs.

Given the changes in the IFAL from 2010 further changes in the rules and procedures for quality control have been approved during the reporting year. The amended rules and procedures together with the questionnaires and the other forms for carrying out inspections have been accepted by the Board of Directors of ICPA on June 27<sup>th</sup> 2011 and have been approved by CPOSA on July 12<sup>th</sup> 2011. The major changes in these rules and procedures are as follows:

- changes in the contents of the working papers to carry out inspections;

- change in the procedures when opening and conducting inspections;
- shortening the deadlines for carrying out inspections;
- developing a procedure to solve disputes between the inspected auditor and the controllers (inspectors) in regard to the conclusions of the inspection;
- developing procedures for the inspections on the implementation of the recommendations and plans to eliminate the omissions and inconsistencies in previous inspections;
- preparing comprehensive reports (appendices) on the outcomes of the carried out inspections for quality control of the provided audit services.

The approved by the Commission amendments and supplements in the rules and procedures create the necessary conditions for exercising a more effective quality control of audit activity, respectively for analysis of its results and taking adequate decisions in order to increase the quality of the provided audit services.

The annual plan, approved by CPOSA, stipulates that the Council for Quality Control of Audit Services of ICPA is to carry out 152 inspections for quality control over the activity of statutory auditors who have performed independent financial audit only of non-PIEs, including 139 inspections of sole practitioners and 13 inspections of specialized auditing enterprises. At the Commission's discretion in five of the inspections CPOSA included its inspectors while the others were performed only by controllers of the Institute.

### **1.3. Improving the qualification of Certified Public Accountants and statutory auditors**

In 2011 the Commission approved the amendments to the existing rules for continuous training which have become imperative because of the new statutes of the Institute and the update of the International educational standards.

In order to improve the regulatory framework and enhance the effectiveness of the continuous training of statutory auditors, the Commission addressed to the management of ICPA the following recommendations for a change in the existing rules:

- creating a procedure for mandatory assessment of the needs of certified public accountants and statutory auditors and defining the guidelines for their training;
- On the basis of summarized information of identified omissions and inconsistencies in the field of independent financial audit, mandatory inclusion of specific topics/areas in the annual training plan for auditors.

From the analysis of the identified during the reporting year omissions and inconsistencies when performing audit activity, the Commission believes it necessary to make

changes related to the need of additional training of statutory auditors who have received an unsatisfactory evaluation rank of the quality of their activity. In this regard, a priority of CPOSA for the next year is the application of adequate actions to fulfil these objectives.

## **2. Quality control of the activity of statutory auditors performing audit of PIEs**

In accordance with the powers under Art. 35d, para. 1 and the requirements of Chapter VIII “A” of IFAL the main task of the Commission is exercising quality control of the provided audit services.

In conjunction with the requirements of Art. 40d, para. 1 of Chapter VIII “A” of the mentioned law, 2011 was the last year of the first three-year cycle of inspections of the quality of the audit practice of statutory auditors who have performed an independent financial audit of PIEs. The work of the Commission in the field of quality control of the activity of statutory auditors was carried out in accordance with the accepted methodology.

In 2011 the scope of inspections regarding statutory auditors, performing audits of PIEs, has been expanded, including an implementation of the following statutory requirements:

- continuous training of Certified Public Accountants and statutory auditors;
- notification for any change in circumstances to be recorded in the public register of statutory auditors as well as replacement of the auditor;
- insurance against the risk of the professional activity;
- providing additional services not related to audit;
- preparation and publication of transparency reports.

### **2.1. Execution of the annual program for quality control of the activity of statutory auditors**

67 inspections for quality control of audit services provided were scheduled for 2011. The reasons for including the relevant auditors and specialized auditing enterprises in the annual plan are the following:

- a sample from the register of auditors (under the inspections requirements – at least once in three years) – 54 inspections;
- newly registered auditors (a year after the date of registration) – 1 inspection;
- received inadequate evaluation of the previous year – 1 inspection;
- Commission Decision – 9 inspections.

65 inspections have been carried out for the reporting year – or reporting period for auditors – from June 1<sup>st</sup> 2010 until June 30<sup>th</sup> 2011. The inspections included 14 specialized auditing enterprises and the individual practice of 51 statutory auditors.

From the inspected statutory auditors and specialized auditing enterprises 2821 audit engagements have been executed – 288 out of which of PIEs.

## **2.2. Overall evaluations for the quality of the activity of the inspected statutory auditors and specialized auditing enterprises**

The overall evaluations are formed on the basis of assessments of audit practices in the four main areas of quality control:

- compliance with the requirements of the International Standards on Auditing in the performance of individual audit engagements;
- establishment and operation of the internal quality control system;
- adequacy of time and human resources used for the audit in accordance with its scope and complexity;
- adequacy of audit fees received for audit.

65 reports containing the outcomes of the planned inspections have been accepted by Commission Decisions. The outcomes of the inspections of the quality of the audit services provided show that 89% of the practices are given a satisfactory evaluation rank (“A” or “B”), while an unsatisfactory evaluation rank (“C” or “D”) is given to the activity of 11% of inspected practices. In comparison, in 2009 and 2010 the inspected practices with unsatisfactory evaluation ranks were 13% and 10% respectively. This indicates a desire by statutory auditors to increase the quality of their work.

The most common significant omissions and inconsistencies with ISA in performing audit engagements are:

- *at stage of acceptance of engagement and preliminary planning* – some auditors have not provided sufficient and appropriate audit evidences related to statements and conclusions regarding the auditor’s preliminary assessment for the financial situation; analysis and discussion with the management of the client of future cash flows and other important forecasts in cases where there are events and conditions which raise doubts on the going concern assumption; preparation of working documents for communication with the previous auditor when there is a change in auditors; the understanding of the auditor for the common characteristics of the

engagement and the firm in connection to the specific requirements of the sector, including regulatory requirements;

- *at stage of planning the audit engagement and risk assessment* – in the inspection of certain audit engagements was found that the auditors' programs do not contain a statement of planning or refusal to carry out tests for the operating effectiveness of controls;
- *at stage of implementation of the audit plan* the most common omissions are:
  - in regard the substantive procedures – there are a lack of sufficient audit evidences for the availability of related parties transactions; reporting the results of stocktakings of fixed assets and inventories; external confirmations of receivables, liabilities and cash positive in bank current and deposit accounts at the end of the reporting year;
  - Sufficient and Appropriate audit evidences are not found for a proper valuation of financial assets at the end of the reporting year: the audit procedures for testing the accounting estimates at fair value are not applied;
  - compliance with the accounting policy for revenue recognition; tracking transactions based on primary documents to record revenue and signed contracts; reporting revenue and expenses from operations with securities and their revaluation.
- *at stage completion of the audit engagement* are established cases of unprepared audit evidence to evaluate the relevance and to test the measurements and disclosures of fair value; assessing the risks of significant misstatements due to fraud; conclusions on the principle assumption of going concern.

For 2011, as well as in the inspections for the previous two years, it was found that the auditors not always exercise the expected professional skepticism in the audit of financial assets measured at fair value. There is no professional judgment whether the approach, used by the audit clients, for assessment at fair value of financial assets is the most appropriate, whether it meets the statutory requirements and whether it is justified by the evidence required. There is still a misunderstanding by the auditors of the need to use experts in the audit regarding specific areas.

### **2.3. Follow up inspections for the elimination of significant omissions and inconsistencies**

In 2011 were carried out nine inspections for the implementation of the given recommendations for the elimination of omissions and inconsistencies, identified during inspections for quality control in 2010.

The work of the Commission and its inspectors has been appreciated positively by the inspected auditors and auditing enterprises. The analysis of the information from the filled in questionnaires for “Feedback” shows that the inspected auditors are satisfied by the way the inspections are carried out, by the conclusions and the recommendations given, as well as by the objectivity of the evaluations. More than 60% of them declare that, as a result of the inspections, they will introduce changes concerning: improving the quality control system; introduction of a register for time spent on audit; procedures for validation by external sources of the receivables and liabilities of the audited company; the adequacy of the disclosures of transactions with related parties; the specialized training of personnel on problematic issues, etc.

As recommendations to the activity of CPOSA are indicated the need to: improve the contents of the questionnaires, approve sample audit files; initiate legislative changes to increase the penalties for directors of trade enterprises who fail to submit their accounts for audit; to timely inform for the newly introduced requirements and criteria for the quality of audit services, increasing the number of hours under ISA within the annual compulsory training. Support is expressed for the possibility of “feedback”, as well as for the idea of applying a risk-based approach.

### **3. Investigations regarding signals and proposals from stakeholders received in the Commission for Public Oversight of Statutory Auditors**

In compliance with the provisions of Art. 35d, para. 2, p. 5 from the IFAL, the Commission conducts investigations on signals received for alleged violations and suggestions from stakeholders, as well as in other cases at its discretion. The procedure for conducting investigation is regulated in the Rules for conducting investigations on signals and suggestions of CPOSA.

Sixteen signals have been received in the Commission in 2011. Nine of them concern the activity of statutory auditors and are related to the quality of performing the audit services and breaches of the ethical requirements. The rest are related to the activity of bodies of ICPA

and represent requests or complaints regarding the acquisition of a legal capacity of a Certified Public Accountant, respectively the registration of independent auditors.

Submitters of the signals are mostly government institutions or candidates for acquisition of a legal capacity of a Certified Public Accountant. Four signals come from the Financial Supervision Commission and one comes from the Ministry of Finance. Three signals are from shareholders of trade enterprises, and submitters of the rest of the signals are candidates for a certified public accountant.

The main breaches, identified while carrying out the investigations, are related to the ethical requirements and the reporting of the activity of the statutory auditors before the Institute.

In the last two years there is an increase in the number of signals received in the Commission – for 2011 the increase is 25% in comparison to 2010. There are a larger number of signals related to suspected violations of the IFAL. There is an increase in the number of signals for suspected breaches of the ethical requirements – mainly independence and conflict of interests.

The increase in the number of signals could be explained, on one hand, with an increase of the public confidence in the Commission's activities and, on the other, with the existing financial and economic problems in the activity of the enterprises. The negative financial results raise doubts in individual shareholders for the objectivity of the information in the annual financial statements, respectively for the quality of the audits performed.

#### **4. International cooperation**

In 2011 CPOSA continued developing its international cooperation with the oversight and regulatory bodies of EU Member States, as well as the competent authorities of third countries.

Representatives of the Commission exchange experience and best practices regarding the approach for carrying out inspections for quality control of audit services during the meetings of the European Group of Auditor's Oversight Bodies (EGAOB), as well as the representatives of the independent audit regulators from the newly formed in 2011 European Audit Inspection Group (EAIG). This contributed to the development of methodology, policies and procedures for the conduct and management of inspections in order to improve the quality of audit services.

Based on the studied international experience, the Commission organized a roundtable "Professional Skepticism in the Work of Statutory Auditors – challenges related to the crisis"

with the participation of representatives of the European Commission, the World Bank, the Ministry of Finance, statutory auditors and specialized auditing enterprises, as well as the Members and inspectors of CPOSA.

Thanks to a European project for institution building, the Commission held a three-day training of colleagues from the Capital Markets Board of Turkey. The training was aimed at applying ISAs; the transposition of Directive 2006/43/EC for the statutory audit of annual accounts and consolidated accounts; introduction to the activity of and practice of the Commission for Public Oversight of Statutory Auditors, as well as the experience gained during its operation.

The Commission continues to maintain its cooperation with the Institute of Chartered Accountants of England and Wales (ICAEW). A seminar on quality control of audit services was held in Sofia in which took part lecturers from ICAEW, as well as controllers from ICPA, inspectors and experts from the Commission. Special attention was paid to the new moments in the revised ISAs, the measures against money laundering, the application of ISQC 1, as well as issues related to the Code of Ethics of the International Federation of Accountants (IFAC).

Thanks to the participation of representatives in the Fifth Annual International Auditor Regulatory Institute in Washington the Commission was acquainted with the structure, powers and prospects of the supervisory authority of the USA (PCAOB) which was the host.

In 2011 representatives of the Commission regularly took part and defended the position of our country in the meetings of the Audit Regulatory Committee which assists the European Commission in the development and application of measures related to audit legislation. A focal point of the discussion is devoted to issues related to the proposal for Directive of the European Parliament and the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts and the proposal for Regulation of the European Parliament and the Council on specific requirements regarding statutory audit of public-interest entities. The aim and the fundamental aspects of the proposals are related with strengthening of independence and creating more dynamic market of audit services.

## **. INSTITUTIONAL BUILDING AND ADMINISTRATIVE CAPACITY**

### **1. Changes in the regulation**

In the reporting period the National Assembly adopted amendments in the Independent Financial Audit Law (SG. 99 of December 16<sup>th</sup> 2011), and the Commission adopted changes in the Regulation for its activity (SG. 75 of September 27<sup>th</sup> 2011). The changes encompass the activity of the Members of the Commission and the organizational structure of the specialized administration.

Three important documents have been developed and adopted by the Commission: Development Strategy for 2011-2014, Risk Management Strategy, and Rules for Selection and recruitment of personnel.

### **2. Organizational structure**

The Commission hears and decides upon matters within its competence during meetings and meets at least twice a month on a pre-announced agenda.

In performing its functions, the Commission is assisted by a General and a Specialized Administration which initially were organized in one Directorate and two Departments, and from September 2011 – in one Directorate and three Departments. Moreover, the total number of personnel remains the same – 25.

### **3. Human resources**

In 2011 the Commission continued its policy to develop human resources in order to strengthen the administrative capacity and achieve institutional sustainability.

The personnel structure in terms of educational level and education type is in compliance with the objectives and functions of CPOSA. More than 30% of the specialists with higher education have also a higher qualification – a scientific degree or second legal education, 8% of the officers are certified internal auditors, and 12% have a second major in “Audit”.

A main priority in the activity of the Commission is the continuous improvement of the knowledge and the skills of the personnel. For the purposes of the educational process CPOSA is a partner with various institutions and organizations, including: the Institute of Certified Accountants of England and Wales, the Institute of Certified Public Accountants (Bulgaria), the University of National and World Economy (Bulgaria) and etc.

### **III. PRIORITIES IN THE ACTIVITY OF CPOSA FOR 2012**

The main priorities in the activity of the Commission for 2012 are:

- preparation and beginning of the new three-year cycle of quality control of audit services provided;
- oversight over the activity of the bodies of ICPA to fulfill the tasks given to them by CPOSA and the set out in the Mandate program goals and objectives;
- active participation in the activity of the relevant bodies of the European Union and defending the position of our country when discussing the proposals for amendments in Directive 2006/43/EC and the Regulation;
- adoption of changes in the Regulation of the activity of CPOSA and in the internal documents in order to optimize and enhance the effectiveness of the activity.

The changes are aimed at enhancing the effectiveness of the Commission's activity and its administration through:

- a balanced regulation approach which takes into account costs and benefits;
- transition to a risk-based approach;
- active interaction with other supervisory bodies;
- automation of processes for processing of information gathered during inspections and/or investigations as well as the outcomes of them.

With a Decision of the Commission and the Board of Directors of ICPA are established and operate relevant teams who prepare the proposals for amendments and supplements to the Rules for quality control of audit services provided. Special attention is paid to expanding the scope of inspections regarding the independence of auditors, application of professional skepticism, introduction of the risk-based approach in the selection of auditors and engagements for inspection. It remains to discuss the criteria for comprehensive evaluation of the audit practice and the requirements for receiving it. Changes in the volume and contents of the files from inspections carried out are needed.

Rules for recognition and registration of auditors who have acquired rights for audit activity in third countries will be presented by the Board of Directors of ICPA and approved by CPOSA in 2012.

Representatives of the Commission actively participate in the discussions that started in the beginning of 2012 about the proposals for Directive amending Directive 2006/43/EC and the Regulation in the European Group of Auditor's Oversight Bodies (EGAOB), the Audit Regulatory Committee of the European Commission and in the working group of the

Council of the EU. CPOSA defends the position of Bulgaria, described in the Framework Position, adopted by the Council for European Affairs to the Council of Ministers on a proposal by the Commission. For the course of discussions and specified positions on the various issues the relevant authorities are regularly informed.

The proposals for Directive and Regulation are expected to be submitted for adoption by the European Parliament and the Council in the fall of 2012. The ultimate goal for 2012 is the successful completion of the first four-year mandate and approval of CPOSA as an effective oversight authority working in the public interest in the field of independent financial audit.

The report was adopted at the session of the Commission with a decision 97 dated 21st of May 2012.