

# Independent Financial Audit Act

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Text in Bulgarian: Закон за независимия финансов одит

## PART ONE GENERAL PROVISIONS

### Chapter one SUBJECT MATTER, APPLICABILITY SCOPE AND DEFINITIONS

Subject matter

**Article 1.** This Act shall regulate:

1. the objective, scope and principles of the independent financial audit performed by registered auditors, hereinafter referred to as "financial audit";
2. the professional standards of organising, documenting and executing, as well as certifying the results from the financial audit, hereinafter referred to as "applicable auditing standards";
3. the acquiring of a right to practice as a certified public accountant;
4. the acquiring of a right to practice and the practicing of the auditor's profession by the registered auditors;
5. the rights and obligations of the registered auditors;
6. the statute and functions of the Commission for Public Oversight over Registered Auditors, hereinafter referred to as "the Commission";
7. the statute and the functions of the Institute of the Certified Public Accountants (ICPA);
8. the activity of the audit committees in the public interest entities.

Objective of the financial audit

**Article 2.** The objective of the financial audit is to increase the degree of confidence of the financial statements users by expressing an auditor's opinion on whether these statements were prepared in all material aspects in accordance with the applicable framework for financial reporting.

Financial audit

**Article 3.** (1) The financial audit boils down to implementation of a multitude of necessary and interrelated procedures stipulated by the applicable auditing standards, on the basis of which an auditor's opinion is formed.

(2) The type of the applicable financial reporting framework shall be taken into consideration when expressing an auditor's opinion.

## Subject matter and substance of the financial audit

**Article 4.** Financial audit shall be performed on:

1. annual or interim, individual or consolidated financial statements prepared in accordance with the applicable financial reporting framework;
2. other financial statements or financial information.

## Applicable reporting frameworks

**Article 5.** (1) The applicable financial reporting frameworks shall be as follows:

1. general financial reporting framework regulating financial statements with general intended use by a broad circle of users;
2. specific financial reporting framework regulating statements for specific users.

(2) The general financial reporting frameworks shall be as follows:

1. reporting framework for truthful presentation, which shall contain at least one of the following confirmations:
  - a) it confirms explicitly or by implication that the achievement of a truthful presentation of the financial statements can necessitate from the management team of the audited entity to provide additional disclosures;
  - b) it confirms explicitly that the achievement of a truthful presentation of the financial statements can necessitate from the management team of the audited entity to deviate from a specific requirement of the general framework;
2. general compliance framework, which does not contain the confirmations referred to in Item 1.

## Compulsory audit and voluntary audit

**Article 6.** (1) The financial audit shall be either compulsory or voluntary.

(2) The compulsory audit shall be the audit of the annual financial statements to the extent that this is required by law or by the legislation of the European Union.

(3) Any audit other than the compulsory one shall be a voluntary audit.

## Registered auditors

**Article 7.** (1) The financial audit shall be performed by registered auditors who have been entered into the register referred to in Article 20.

(2) Registered auditors within the meaning of this act shall be:

1. natural persons;
2. audit companies.

(3) "Audit company" is a commercial company registered under Article 64, Paragraph 1, Items 1, 2 or 3 of the Commerce Act, or under the legislation of another Member State of the European Union, with financial audit of financial statements of enterprises as the principal subject of activity, with three-fourths of its management body being registered auditors under this act or registered auditors from other Member State of the European Union, with good reputation and which is:

1. a general partnership in which more than half of the partners are registered auditors under this act or under the legislation of other Member State of the European Union;
2. a limited partnership in which more than half of the partners with unlimited liability are registered auditors under this

act or under the legislation of other Member States of the European Union;

3. a limited liability company in which more than half of the votes in the General Meeting of the Partners and of the capital belong to registered auditors, auditors and/or audit entities from other Member States of the European Union.

#### Methods of practicing the audit profession

**Article 8.** (1) The right to practice the audit profession shall be exclusive and shall be exercised:

1. directly:

a) as a natural person;

b) through participation in the commercial company meeting the requirements to be an audit company under Article 7;

c) by virtue of an employment contract with an audit company or with a commercial company meeting the requirements to be an audit company under Article 7;

d) by virtue of an obligation contract with an audit company or with a commercial company meeting the requirements to be an audit company under Article 7;

2. through participation in an audit company which has been entered as a registered auditor into the register referred to in Article 20;

3. through participation in a civil company under the Obligations and Contracts Act.

(2) A registered auditor cannot practice the audit profession through participation in more than one commercial company and/or audit company.

#### Professional standards

**Article 9.** (1) The registered auditor shall practice his or her professional activity on the territory of the country, while applying the principles and requirements of the applicable auditing standards as of the date of undertaking the respective audit engagement.

(2) "Applicable auditing standards" shall be the International Auditing Standards, the International Quality Control Standard and the other international standards issued by the International Accountants Federation through the Council on International Auditing Standards and Assurance Expression Standards.

(3) The registered auditor can perform services other than compulsory financial audit and the services related thereto, while applying the requirements of other auditing standards, when the audit engagement has been undertaken in application of these other standards.

#### Professional ethics

**Article 10.** When practicing his or her profession, the registered auditor shall apply the principles and the requirements of the Code of Ethics of the Professional Accountants issued by the International Federation of Accountants through the Council on International Ethics Standards for Accountants and adopted by the Institute of Certified Public Accountants, hereinafter referred to as "Code of Ethics".

#### Professional secret

**Article 11.** The registered auditor, the members of the audit teams and all the persons who work for him or her shall comply with the obligation for professional secrecy of the information that came to his or her knowledge in the course of or in connection with the implementation of the audit engagement, unless the disclosure of this information is required for the purposes of court proceedings or by law.

**Article 12.** (1) The public oversight over the registered auditors shall be implemented by the Commission.

(2) The oversight under Paragraph 1 shall be implemented according to the requirements of this act and of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 regarding Specific Requirements in regard to the Compulsory Audit in Public Interest Entities and repealing Decision 2005/909/ of the Commission (OJ, L 158/77 of 27 May 2014), hereinafter referred to as "Regulation (EU) No. 537/2014" over:

1. the professional activity of the registered auditors;
2. the activity of the Institute of Certified Public Accountants in the cases stipulated in this act;
3. the activity of the audit committees in the public interest entities.

(3) The Commission shall be the competent authority to perform regulation and oversight over the registered auditors in the Republic of Bulgaria.

## **Chapter two**

# **ACQUISITION OF THE RIGHT TO PRACTICE AS A CERTIFIED PUBLIC ACCOUNTANT AND AS A REGISTERED AUDITOR. RECOGNITION OF THE RIGHT TO PRACTICE TO REGISTERED AUDITORS FROM THE EUROPEAN UNION AND TO AUDITORS FROM THIRD COUNTRIES**

### Application requirements

**Article 13.** (1) Only a person with good reputation can apply to become a certified public accountant or a registered auditor.

(2) A person who possesses the following attributes can apply to acquire the right to practice as a certified public accountant:

1. higher education in Accounting or Economics with the educational qualification degree of "Master" and 4 years of professional work experience;
2. higher education in Accounting or Economics with the educational qualification degree of "Bachelor" and 5 years of professional work experience;
3. another higher economic education and 7 years of professional work experience;
4. another higher education and 10 years of professional experience;

(3) The professional work experience referred to in Paragraph 2 shall be work experience in the field of accounting, internal audit, external audit and financial inspection, as an authority of the National Revenue Agency, as an inspector with the Commission or as a lecturer at a school of higher education in the field of accounting, control and finance.

### Requirements for preliminary passing of exams to become a certified public accountant

**Article 14.** (1) In order to acquire the right to sit for the exams under Article 15, the candidate for certified public accountants must have passed examinations at a school of higher education in the following subjects:

1. general theory of accounting;
2. financial accounting;
3. managerial accounting;

4. financial statement analysis;
5. financial control and auditing standards, including the International Auditing Standards;
6. commercial law;
7. tax law;
8. labour and insurance law;
9. finance of the enterprise;
10. mathematics and statistics;
11. micro-economics;
12. fundamental of financial management of the enterprises;
13. information systems and technologies;
14. risk management and internal control;
15. professional ethics and independence.

(2) When the candidate for a certified public accountant has not sat for an exam in any of the fields specified in Paragraph 1, the candidate shall sit for such an exam in accordance with the rules under Article 71, Paragraph 3, Item 4.

#### Exams for a certified public accountant

**Article 15.** (1) A diploma of a certified public accountant shall be acquired after successfully passing the following written exams:

1. accounting, including the International Accounting Standards;
2. commercial law;
3. tax and insurance law;
4. independent financial audit, including the International Auditing Standards.

(2) The exams under Paragraph 1 shall be held in accordance with the rules under Article 71, Paragraph 3, Item 4.

#### Practical training for admission to an exam in independent financial audit of a candidate for certified public accountant

**Article 16.** (1) In order to be admitted to the exam in independent financial audit, the candidate for certified public accountant must have undergone at least 1 year of practical training in the field of audit of financial statements or of other financial reports.

(2) The requirement under Paragraph 1 shall not be applied when the candidate proves that he or she has performed effectively an activity analogous to financial audit for not less than 3 (three) years.

#### Diploma and registration of a certified public accountant

**Article 17.** The candidate who has successfully passed the examinations under Article 15, shall receive a diploma of a certified public accountant and shall be entered in a register of the certified public accountants with the Institute of the Certified Public Accountants.

#### Acquiring a right to practice as a registered auditor

**Article 18.** (1) A certified public accountant shall acquire the right to sign auditor's reports with an opinion on financial statements after 3 (three) years of practical training in the field of audit of annual financial statements or other financial reports and after being entered into the register under Article 20.

(2) In the cases under Article 16 (2), the practical training under Paragraph 1 must be not less than 2 (two) years.

(3) The requirement for practical training under Paragraph 1 shall not be applied when the training under Article 16 (1) is not less than 3 (three) years.

#### Practical training

**Article 19.** (1) The practical training under Article 16 (1), Article 18 and Article 25 shall be conducted with a registered auditor.

(2) The terms and procedure for certification of the practical training under Article 16, 18 and 25 shall be stipulated by the rules under Article 71, Paragraph 3, Item 4.

#### Register of the registered auditors

**Article 20.** (1) The Institute of the Certified Public Accountants shall organise and maintain a Register of the registered auditors.

(2) Only natural persons or audit companies of good reputation shall be entered into the register.

(3) In order to be entered into the register, the certified public accountant shall submit an application, where a certificate of no criminal convictions shall be attached thereto.

(4) The entry of audit companies into the register shall be effected on the basis of an application by the persons who represent the company, attaching thereto the following: a certificate of no criminal convictions of the partners, the registered auditors and the persons who manage or represent the company; data on the names and addresses of the other partners; a declaration by the managing directors stating that the company meets the requirements of this act; a declaration by the natural persons who are partners or members of management or supervisory bodies of the audit company stating that they have a good reputation.

(5) The Management Board of the Institute of Certified Public Accountants shall pass judgement on the application under Paragraphs 3 and 4 with a reasoned opinion within 30 days from the date of submission thereof. The decision for registration shall be notified in writing to the stakeholders.

(6) In the case of a refusal to make the registration, the decision of the management board can be appealed within a 14-day time limit from the notification thereof to the stakeholder, before the Commission, which shall pass judgement on the appeal within a 30-day time limit of the receipt thereof. By its decision, the Commission can reaffirm the refusal or can revoke the refusal and can order that entry into the register be made. The order for entry into the register shall be fulfilled by the Institute of Certified Public Accountants within a 3-day time limit from the notification.

(7) The decision of the Commission under Paragraph 6 shall be subject to appeal before the court under the procedure of the Code of Administrative Procedure.

(8) The terms and procedure for drawing up and maintaining the register shall be stipulated by the rules under Article 71, Paragraph 3, Item 4.

#### Information in the register

**Article 21.** (1) The register under Article 20 shall be public, where the information contained in it shall be stored in electronic format in Bulgarian and shall be accessible on the official internet pages of the Commission and of the Institute of Certified Public Accountants.

(2) For registered auditors who are natural persons, the register under Article 20 shall contain the following information:

1. the names according to an identity document, a mailing address, a registration number and information about the internet page (if applicable);

2. name, seat, registered office and internet page (if applicable) of the commercial company through which the audit profession is being practiced;

3. name, seat, registered office, internet page (if applicable) and registration number of the audit company in which the person participates as a partner, practices the audit profession or is associated with in some other manner;

4. any other registration as a registered auditor in another EU Member State and/or as an auditor in a third country, including the registration number and the name of the competent authority in the country that registered the person;

5. the auditors and audit companies from third countries who/which are entered under Article 23 (1) shall be denoted explicitly as auditors and audit companies from third countries and not as registered auditors.

(3) For registered auditors which are audit companies, the register under Article 20 shall contain the following information:

1. name and registration number;

2. legal form;

3. data on each and every partner, on the amount of his or her shares and on the type of his or her liability;

4. contact persons, contact details and internet page (if applicable);

5. seat and registered office;

6. the addresses of all the offices of the company in the country;

7. the names, the mailing addresses and the registration numbers of all partners who are registered auditors;

8. the name, the mailing addresses and the registration numbers of the registered auditors who are in contractual relations with the audit company;

9. the names and the addresses of the members of the management and supervisory bodies of the audit company, who are registered auditors;

10. the names and the addresses of all registered auditors who are related in some other manner with the audit company;

11. membership of an audit network and a list of the names and addresses of the member companies of the network or the companies related to the network or an indication of the place where such information is publicly available;

12. any other registration as a registered auditor in another EU Member State and/or as an auditor in a third country, including the registration number and the name of the competent authority in the country that registered the person.

(4) In the case of a change in the circumstances subject to entry, the persons under Paragraph 2 and 3 shall notify the Institute of Certified Public Accountants within a 7-day time limit of the occurrence thereof and the Institute of Certified Public Accountants shall record the change within a time limit of 3 business days from the receipt of the notification.

(5) Information on the following shall also be entered into the register under Article 20:

1. deregistration from the register, as well as the grounds therefor;

2. the penalties imposed on the registered auditors;

3. the decision of the Commission, which has entered into force, on the imposed supervisory measure under Article 89, Paragraph 2, Items 5, 6, 7 or 8, including the time limit for its application;

4. the decision which has entered into force on the imposed disciplinary measure under Article 40, Paragraph 3, Items 5 or 6, including the time limit for its application;

5. temporary interruption in practicing the profession, other than the one referred to in Items 3 and 4.

Entry of registered auditors from other Member States of the European Union

**Article 22.** (1) A natural person, who has acquired in another Member State of the European Union the right to sign auditor's reports with an opinion on financial statements, shall be entered into the register under Article 20 after

successfully passing before the Institute of Certified Public Accountants examinations in Bulgarian commercial, tax and insurance law in Bulgarian. The exams shall be held in accordance with the rules under Article 71, Paragraph 3, Item 4.

(2) An audit company registered in another Member State of the European Union, which wants to perform financial audit in the country, shall be entered into the register under Article 20 provided that each and every natural person performing financial audit on behalf of the audit company has been entered into the register.

(3) In order to be entered into the register under Article 20, the persons under Paragraphs 1 and 2 shall submit an application attaching thereto a certificate of registration issued not earlier than 3 (three) months before the date of submission of the application by the competent authority of the Member State of origin.

(4) The professional activity of the registered auditors entered according to the procedure laid down in this article shall be subject to public oversight according to the procedure of this act.

#### Entry of registered auditors from third countries

**Article 23.** (1) Any third-country auditor that is a natural person and that presents an auditor report from a compulsory audit of annual financial statements of a company established outside the European Union, whose transferrable securities are admitted to trading on a regulated market in the country, except where the company issues only debt securities within the meaning of Article 100j, Paragraph 2, Item 4 of the Public Offering of Securities Act, admitted to trading on a regulated market, with single nominal value of not less than the lev equivalent of EUR 50,000, or in the cases of debt securities denominated in currency other than the EUR, with nominal value at the issue date thereof of not less than the lev equivalent of EUR 50,000, shall be entered into the register under Article 20.

(2) Subject to reciprocity, any third country auditor who is a natural person shall be entered into the register under Article 20 upon the latter's furnishing proof that he or she complies with the requirements equivalent to those laid down in Articles 13 - 19 and Article 20 (2) and after successful passing of the examinations under Article 22 (1).

(3) Subject to reciprocity, any third country audit company who furnishes the following proof shall be entered into the register under Article 20 as a registered auditor:

1. proof that three-fourths of the members of the management bodies and the registered auditors performing compulsory financial audit on behalf of the company meet requirements equivalent to those referred to in Articles 13 – 19 and Article 20 (2);

2. proof that the audit company performs independent financial audit in accordance with the requirements for independence and objectivity and rules equivalent to those provided for in Articles 31 and 54;

3. proof that the audit company publishes on its internet page an annual transparency report meeting the requirements of Regulation (EU) No. 537/2014.

(4) The professional activity of auditors from third countries entered into the register under Article 20 shall be subject to public oversight according to the procedure of this act.

(5) The requirements of Regulation (EU) No. 537/2014 shall also be applied to the auditors from third countries entered into the register under Article 20.

(6) The Commission shall notify the European Commission of the performed assessment of reciprocity under Paragraphs 2 and 3, as well as of the main arrangements for collaboration with the systems for public oversight, quality assurance and penalties imposition.

(7) The auditor reports from compulsory financial audit issued by auditors or by audit companies from third countries, which have not been registered in the country according to the appropriate procedure, shall not generate any legal consequences on the territory of the country.

#### Deregistration from the register

**Article 24.** (1) A registered auditor shall be deregistered from the register under Article 20 in the following cases:

1. filing an application for deregistration;

2. entry into force of a sentence for a committed premeditated crime of general nature;



3. temporary deprivation of the right to practice the audit profession;
4. entry into force of a decision for temporary expelling from the Institute of Certified Public Accountants;
5. when an audit company no longer meets the requirements of Article 7 (3);
6. death of a natural person.

(2) Upon deregistration or upon temporary deprivation of the right to practice the audit profession imposed on a registered auditor approved also in another Member State of the European Union and entered into the register of such Member State, the Commission shall notify thereof the competent authorities of the relevant Member State, indicating the reasons therefor.

(3) In the cases under Paragraph 1, Items 1, 2, 4-6, at the discretion of the Commission or of the Institute of Certified Public Accountants, the audit practice of the registered auditor can be checked through an inspection, investigation or audit.

#### Second entry into the register

**Article 25.** (1) A registered auditor deregistered from the register under Article 20 on the grounds of Article 24, Paragraph 1, Item 1 can be entered anew into the register after undergoing practical training of 1-year duration conducted according to the procedure of Article 19 over the length of the last 2 (two) years before the second entry.

(2) In order to be entered anew into the register, the certified public accountant shall submit an application attaching thereto a certificate of no criminal convictions, a documents certifying the fulfilment of the requirements under Paragraph 1, as well as a declaration stating that the he or she meets the requirements of this act.

#### Fee for entry into the register

**Article 26.** A fee, the amount of which shall be stipulated by the rules under Article 71, Paragraph 3, Item 4, shall be collected for entry into the register under Article 20.

#### Oath

**Article 27.** Each registered auditor who is a natural person shall take an oath and shall sign an affidavit with the following content before being entered into the register under Article 20: "I swear in the name of knowledge and lawfulness, that I will fulfil in good faith, independently, responsibly, impartially and with professional competence my obligations as a registered auditor. I will be guided by the laws of the Republic of Bulgaria, the accepted professional auditing standards and the ethic standards and principles of conduct adopted by the Institute of the Certified Public Accountants. In case of violation of this oath let me be sanctioned according to the provisions of the law and the professional ethic standards of the Institute of the Certified Public Accountants."

#### Professional seal

**Article 28.** (1) The professional seal of a registered auditor who is a natural person shall be of elliptical form. The first name, the family name and the number of the registered auditor in the register under Article 20 shall be inscribed onto the seal.

(2) The professional seal of a registered auditor which is an audit company shall be of elliptical form. The words "Audit Company", the company name and the seat of the company, as well as the number in the register under Article 20, shall be inscribed onto the seal.

(3) The seals under Paragraphs 1 and 2 shall be issued by the Institute of Certified Public Accountants after their entry into the register under Article 20.

(4) The seals under Paragraphs 1 and 2 shall be used to certify the audit of the financial statements or in other cases envisaged by a law.

## **Chapter three**

# **PRACTICING THE AUDITOR'S PROFESSION**

### Rights of the registered auditor

**Article 29.** (1) The registered auditors shall have the exclusive right to perform financial audit under the terms and according to the procedure stipulated in this act.

(2) When performing a financial audit, the registered auditor shall have the right:

1. to request and receive full cooperation from the management team of the audited entity on issues that have a bearing on the preparation of the financial statements;
2. to get unrestricted access to any information related to the activity of the audited entity and having a bearing on the preparation of the financial statements;
3. to be present at the inventory taking of the assets and liabilities of the audited entity;
4. at his or her discretion, to monitor processes related to the activity and management of the audited entity.

### Continuing professional development

**Article 30.** (1) Each registered auditor who is a natural person shall undergo training for maintaining and developing his or her professional qualification, where such training shall have a duration of not less than 40 hours per professional year.

(2) The terms and procedure for conducting and reporting on the training for maintaining and developing the professional qualification of the registered auditors shall be stipulated by the rules under Article 71, Paragraph 3, Item 4.

### Obligations of the registered auditor

**Article 31.** (1) When practicing the auditor's profession, the registered auditor shall be obligated:

1. to comply with the fundamental principles of the professional ethics - integrity, objectivity, professional competence and due attention, confidentiality and professional conduct in accordance with the requirements of the applicable auditing standards and the Code of Ethics;
2. to implement the audit engagement undertaken in accordance with the applicable auditing standards;
3. to protect in an appropriate manner the professional secrecy as regards the information and documents accessible to him or her, not only during the implementation of the auditing engagement, but also after its completion;
4. to provide, upon request, to a registered auditor, filling in for him or her, access to the pertinent information possessed by him or her about the audited entity and the financial audit performed by him or her for previous years according to the requirements of the applicable auditing standards and the Code of Ethics and take advantage of the right to certify the fact that he or she has provided to the registered auditor filling in for him or her access to such information;
5. to inform the management team of the audited entity of established and possible material violations of the currently effective legislation, of constituent and other internal acts of the entity, to the extent that such violations came to his or her knowledge in the process of implementation of an auditing engagement;
6. to explain to the management team of the audited entity the nature and the grounds for modification of the auditor's opinion in the auditor's report, as well as of the paragraphs for drawing attention to other issues that were not included in the modified auditor's opinion;
7. to report on an annual basis his or her activities in accordance with the rules under Article 71, Paragraph 3, Item 4;

8. to take on insurance for the risks associated with his or her activity for damages that have arisen as a consequence of non-fulfilment of his or her obligations, with the exception of the time during which he or she does not practice his or her activity;
9. to assist the Commission and the Institute of Certified Public Accountants in exercising their powers;
10. to store the audit documentation for period of 5 years after the date of the auditor's report;
11. to be a member of the Institute of Certified Public Accountants and to comply with its Articles of Association;
12. to provide on an annual basis to the Commission information on the entities audited by him or her and on the total revenues earned by them under the terms and according to the procedure stipulated by the Commission.

(2) In addition to the obligations under Paragraph 1, when performing a compulsory financial audit at a public interest entity, the registered auditor shall be obligated:

1. to inform the management team and the audit committee of the entity about all circumstances that would infringe on his or her independence in carrying out the audit engagement;
2. to provide access to the supplementary reports under Article 60 and to any other information submitted to the competent authorities according to Article 61, in his or her capacity of a former registered auditor;
3. to inform the audit committee of the audited entity of established and possible material violations of the currently effective legislation, of constituent and other internal acts of the entity, to the extent that such violations came to his or her knowledge in the process of implementation of an auditing engagement;
4. to explain to the audit committee of the audited entity the nature and the grounds for modification of the auditor's opinion in the auditor's report, as well as of the paragraphs for drawing attention to other issues that were not included in the modified auditor's opinion.

(3) The requirements under Paragraph 1, Item 11 shall not be binding on the registered auditors from other Member States of the European Union and from third countries.

(4) The minimum insurance amount under a compulsory "Professional Liability" insurance for registered auditors who do not audit public interest entities shall be BGN 20,000 for each insured event and BGN 60,000 for all insured events over an year and for registered auditors who audit public interest entities - BGN 250,000 for each insured event and BGN 1,000,000 for all insured events over an year.

(5) Upon termination of the practicing of the auditor's profession and upon deregistration from the register under Article 20, the respective person shall not be obligated to take on supplementary insurance coverage according to Article 469 (6) of the Insurance Code.

## Financial Liability

**Article 32.** (1) The registered auditor shall bear financial liability for the damages that he or she has inflicted, if they are a direct and immediate consequence of his or her guilty action or omission to act.

(2) When a financial audit is performed jointly by more than one registered auditors, the financial liability of the registered auditors shall be joint and several.

(3) The liability under paragraph 1 shall be enforced according to the Obligations and Contracts Act and to the rules of the general action proceedings.

(4) The liability of the registered auditor to the entity mandator shall be limited to the triple amount of his or her agreed remuneration but shall be not less than the amounts specified in Article 31 (4) per one insured event. The limitation of liability shall not be applicable in the case of premeditated unlawful conduct of the registered auditor, including in the case of declaring the entity mandator bankrupt.

## Exemption from liability

**Article 33.** The registered auditors shall not bear liability for violations committed by the management team and by the employees of the audited entities, as well as for the exposure of fraud in the audited entities.

Liability of the management team of the audited entity

**Article 34.** The financial audit shall not relieve of liability the management team of the audited entity for the lawfulness and expediency of their actions during the audited period, including for the financial statements and/or other financial or non-financial information prepared thereby, as well as for the control system of the entity.

## **Chapter four**

# **INSTITUTE OF THE CERTIFIED PUBLIC ACCOUNTANTS**

Statute of the Institute of Certified Public Accountants

**Article 35.** (1) The Institute of the Certified Public Accountants shall be a self-financed legal entity with headquarters in Sofia.

(2) The Institute of Certified Public Accountants is a professional organisation of the certified public accountants and of the registered auditors, which ensures the practicing of the professional activity by its members, including the performance of financial audit in the best interests of society subject to compliance with the standards for professional and ethical conduct.

Functions of the Institute of Certified Public Accountants

**Article 36.** (1) The Institute of the Certified Public Accountants shall organise, govern and supervise the professional activity of its members by:

1. organising and conducting the examinations of the candidates for obtaining a diploma of a certified public accountant and for acquiring the right to practice as a registered auditor;
2. organising and conducting the examinations for acquiring the right to practice as a registered auditor by candidates from other Member States of the European Union and from third countries;
3. organising and conducting training of the candidates for certified public accountants, for raising the professional qualification of its members and for the continuing professional development of the registered auditors;
4. performing the activities for registration of the auditors who obtain the right to practice and to perform financial audits, as well as maintaining the register under Article 20;
5. organising and maintaining the register of the certified public accountants;
6. developing and proposing for endorsement by the Commission the rules for performing the activities under Items 1 - 5;
7. developing, implementing in practice and maintaining the functionality of the internal control system for the professional activity of its members and for compliance with the requirements of the Code of Ethics;
8. performing inspections of the professional activity of its members in response to signals provided by the stakeholders or upon the initiative of the authorities of the Institute of Certified Public Accountants; inspectors from the Commission can participate in the teams performing the inspections;
9. providing methodological instructions and developing professional auditing rules and techniques, practical manuals and technical means for assisting the activity of its members;
10. publishing professional literature, study aids, scientific research papers and other materials related to the practice, development and promotion of the profession of the certified public accountants and of the registered auditors;
11. organising, assisting and implementing research activities in the field of the financial audit, of the accounting and of the financial analysis and management, as well as in other fields pertinent the auditor's profession;

12. imposing disciplinary measures on its members.

(2) The authorities and employees from the administration of the Institute of Certified Public Accountants, who are involved in the implementation of the activities under Paragraph 1, Item 8 and of the functions under Article 85 (3), shall be obligated to comply with the requirements for safeguarding the professional secrecy according to Article 82.

Powers of the Chairman of the Institute of Certified Public Accountants

**Article 37.** The Institute of the Certified Public Accountants shall be represented by its chairman.

Bodies of the Institute of Certified Public Accountants

**Article 38.** (1) The bodies of the Institute of Certified Public Accountants shall be as follows:

1. the General Meeting;
2. the Management Board;
3. the Supervisory Board;
4. the Professional Ethics Board;
5. the Board for Quality Control of the Auditors' Services;
6. the Disciplinary Board.

(2) The General Meeting shall consist of all the members of the Institute of Certified Public Accountants and shall adopt the Articles of Association, shall elect a Chairman of the Institute of Certified Public Accountants and members of its other bodies.

(3) The Management Board shall organise and manage the entire activities of the Institute of Certified Public Accountants for achievement of its objectives and shall report to the General Meeting. The Chairman of the Institute of Certified Public Accountants shall be a member of the Management Board and shall preside over its sessions.

(4) The Control Board shall control the fulfilment of the resolutions of the General Meeting and of the Management Board, the fulfilment of the budget of the Institute of Certified Public Accountants and the compliance with its Articles of Association and with the internal rules.

(5) The Professional Ethics Board shall exercise control over the compliance with the requirements of the Code of Ethics by the members of the Institute of Certified Public Accountants.

(6) The Board for Quality Control of the Auditors' Services shall exercise control over the quality of the professional activity of the members of the Institute of Certified Public Accountants through regular inspections.

(7) The Disciplinary Board shall review the findings of the Supervisory Board, of the Board for Quality Control of the Auditors' Services and of the Professional Ethics Board and shall pass judgement on them.

(8) The Supervisory Board shall develop rules for its work which shall be endorsed by the General Meeting.

(9) The Professional Ethics Board, the Board for Quality Control of the Auditors' Services and the Disciplinary Board shall develop rules for their work which shall be endorsed by the Management Board. These Boards shall coordinate their activity with the Management Board, where they shall be independent in their professional judgement as regards the cases/files considered by them.

(10) The members of the bodies of the Institute of Certified Public Accountants shall be members of the institute. The members of the Management Board, the Supervisory Board, the Professional Ethics Board, the Board for Quality Control of the Auditors' Services and the Disciplinary Board shall be elected based on criteria for eligibility developed by the Management Board and endorsed by the General Meeting and aimed at ensuring the expertise and experience of such bodies.

(11) The organisation and the activity of the bodies under Paragraph 1 shall be stipulated by the Articles of Association of the Institute of Certified Public Accountants.

## Financing of the activity of the Institute of Certified Public Accountants

**Article 39.** The financing the activity of the Institute of Certified Public Accountants shall be provided by:

1. upfront and annual fees by the members;
2. revenues from fees for conducting courses and examinations;
3. revenues from subscriptions and publishing activity;
4. revenues from rendering consultancy services;
5. revenues from penalties imposed by the ICPA;
6. revenues from grants;
7. other revenues.

## Disciplinary accountability

**Article 40.** (1) The registered auditors and the certified public accountants shall bear disciplinary accountability for violations of the Articles of Association of the Institute of Certified Public Accountants.

(2) In the event of violations established by the Professional Ethics Board, the Board of Quality Control of the Auditors' Services and the Supervisory Board, the respective files shall be submitted to the Disciplinary Board, regarding which the Management Board of the Institute of Certified Public Accountants shall be notified.

(3) The following disciplinary measures shall be imposed for the violations of the Articles of Association of the Institute of Certified Public Accountants:

1. mandatory prescription to rectify a violation found;
2. publishing on the internet page of the Institute of Certified Public Accountants the violations found over a period of 1 (one) year;
3. depriving of the right to be elected in the bodies of the ICPA for a period of up to 3 (three) years;
4. warning of potential expelling from the ICPA;
5. temporary expelling from the ICPA for a period of up to 3 (three) years;
6. temporary expelling from the ICPA for a period of 5 (five) years;
7. a fine from BGN 1,000 to BGN 15,000.

(4) When, as a result of an inspection performed according to the procedure of Article 36, Paragraph 1, Item 8, violations committed by a registered auditor in practicing his or her professional activity, which are in contravention of the provisions of the law and/or of Regulation (EU) No. 537/2014, are found, the Management Board shall send to the Commission the report from the inspection. The Commission shall perform an investigation and shall notify the ICPA of the results thereof, the imposed administrative penalties and the applied supervisory measures. In this case, the ICPA shall not impose any disciplinary measures.

## Disciplinary proceedings

**Article 41.** (1) Disciplinary proceedings shall be initiated by a resolution of the Disciplinary Board of the ICPA.

(2) The Disciplinary Board shall consider in a closed session the files from the inspections performed by the bodies of the ICPA with the participation of the inspected registered auditor or certified public accountants.

(3) The Disciplinary Board shall admit all the evidence which is of any significance for elucidation of the case.

- (4) The Disciplinary Board shall pass judgement within a 14-day time limit from the last session at which the respective file under Paragraph 2 was considered.
- (5) The Disciplinary Board shall impose disciplinary measures under Article 40, Paragraph 3, Items 1 - 4 or 7 and shall propose to the Management Board to impose the measures under Article 40, Paragraph 3, Items 5 or 6.
- (6) The Management Board shall adopt by a majority of 2/3 (two thirds) of its members a resolution for imposing the measures under Article 40, Paragraph 3, Items 5 or 6 within a 14-day time limit of receiving the proposal.
- (7) The provisions of the Chapter Five, Section I of the Code of Administrative Procedure shall be applied in the disciplinary proceedings.
- (8) No disciplinary proceedings shall be initiated and the already initiated disciplinary proceedings shall be terminated, when two years have elapsed from committing of the violation.

#### Appealing against an imposed disciplinary measure

- Article 42.** (1) The resolution to impose a disciplinary measures under Article 40, Paragraph 3, Items 1 - 4 or 7 can be appealed against within a 14-day time limit from its notification to the party concerned, before the Management Board of the ICPA. The Management Board shall pass judgement with a decision on the appeal within a 1-month time limit of receiving it.
- (2) The decision of the Management Board to impose a measure under Article 40, Paragraph 3, Items 1, 2 or 4 shall be final. The decision of the Management Board to impose a measure under Article 40, Paragraph 3, Item 3 or 7 shall be subject to appeal before the Administrative Court of the City of Sofia according to the procedure of Chapter Ten, Section I of the Code of Administrative Procedure.
- (3) The decision of the Management Board to impose a measure under Article 40, Paragraph 3, Items 5 or 6 on a registered auditor shall be subject to appeal before the Commission within a 14-day time limit from its notification to the party concerned. Within a 1-month time limit from receiving the appeal, the Commission shall pass judgement, by virtue of which it shall confirm or repeal the decision of the Management Board of the ICPA. The decision of the Commission shall be subject to appeal before the Administrative Court of the City of Sofia according to the procedure of Chapter Ten, Section I of the Code of Administrative Procedure.
- (4) The decision of the Management Board to impose a measure under Article 40, Paragraph 3, Items 5 or 6 on a certified public accountant shall be subject to appeal before the Administrative Court of the City of Sofia according to the procedure of Chapter Ten, Section I of the Code of Administrative Procedure.

#### Compulsory enforcement of a fine as a disciplinary measure

**Article 43.** The compulsory enforcement of the resolution, which has entered into force and by virtue of which a fine as a form of disciplinary measure is imposed, shall be permitted upon request by the Management Board of the ICPA according to the procedure of Article 418 of the Code of Civil Procedure.

## **PART TWO FINANCIAL AUDIT**

### **Chapter five FINANCIAL AUDIT OF FINANCIAL STATEMENTS - GENERAL REQUIREMENTS**

#### Objective

**Article 44.** (1) The objective of the financial audit shall be to obtain reasonable assurance that the financial statements do not contain any materials inaccuracies, deviations and discrepancies due to errors or fraud so that an auditor's opinion can be expressed by the registered auditor on whether these financial statements were prepared in all material aspects in accordance with the accounting basis applicable to the entity.

(2) For the general frameworks of financial reporting adopted as applicable accounting basis, the auditor's opinion shall state whether the financial statements were truthfully presented in all material aspects or whether they provide a true and fair picture of the financial status, operating results and cash flows of the audited entity as of the date of the financial statements in accordance with the applicable accounting basis.

(3) An auditor's opinion shall be expressed by virtue of a written auditor's report.

## Scope

**Article 45.** (1) The financial audit shall encompass procedures for achieving reasonable assurance:

1. of compliance with the accounting principles according to the applicable accounting basis;
2. of the extent to which the accounting policy of the audited entity is appropriate for its activity and is consistent with the applicable accounting basis and with the accounting policies used in the specific sector;
3. of the consistence of the application of the announced accounting policy according to the applicable accounting basis;
4. of the effectiveness of the internal control system, limited to the achievement of the objectives of the audit;
5. of the process of accounting closing and of the preparation of the financial statements;
6. of the reliability and the necessary for the users comprehensiveness of the information presented and disclosed in the financial statements according to the applicable accounting basis.

(2) When required by the law, the registered auditor shall express an opinion regarding the consistence between the information in the financial statements and the information in the activity report of the management team of the audited entity, as well as regarding any other information provided by the management bodies of the entity together with the audited financial statements.

(3) Without prejudice to the reporting requirements under this act and under Regulation (EU) No. 537/2014, the scope of the financial audit shall not include any expression of assurance regarding the future viability of the audited entity, nor regarding the effectiveness or efficiency with which the management team of the audited entity managed or will manage the activity of the entity.

## Ethical requirements

**Article 46.** Before undertaking an audit engagement and during its implementation, the registered auditor shall assess and document in writing the compliance with the requirements of the applicable auditing standards and of the Code of Ethics as regards his/her/its independence and the fundamental ethical principles.

## Professional scepticism and professional judgement

**Article 47.** (1) When performing a financial audit, the registered auditor shall act with a degree of professional scepticism and shall use professional judgement in compliance with the requirements of this act and in accordance with the applicable auditing standards.

(2) Paragraph 1 shall also be applied when the registered auditor performs a review of the approximate estimates made by the management team of the audited entity regarding the fair values, the devaluation of assets, the provisions and the future cash flows which are of significance for determining the ability of the audited entity to continue functioning as a going concern.



## Undertaking a financial audit engagement

**Article 48.** (1) The undertaking of a financial audit engagement shall be made by a letter for accepting the audit engagement signed by the entity mandator and by the registered auditor according to the requirements of the applicable auditing standards. The letter of undertaking the audit engagement shall state the name or designation of the registered auditor in charge of performing the audit.

(2) The remuneration and the terms of payment of the audit service shall be negotiated between the persons under paragraph 1. The remuneration for performing a financial audit cannot be conditional or determined on the basis of providing additional services to the audited entity.

(3) The selection of a registered auditor to perform a compulsory financial audit of annual financial statements shall be implemented by a resolution of the General Meeting of the Partners/Shareholders, by the unlimitedly liable partners or by the sole owners of the equity capital of the entity mandator. The selection of a registered auditor to perform a voluntary financial audit can be implemented by other bodies of the entity mandator as well.

(4) Any covenant, by virtue of which the choice of the General Meeting of Shareholders or of the Members of the entity mandator is restricted to certain categories or to lists of registered auditors in connection with the appointment of a registered auditor to perform a compulsory financial audit of such entity shall be prohibited. All similar clauses shall be null and void.

## Dismissal of a registered auditor from implementing an undertaken financial audit engagement

**Article 49.** (1) A registered auditor, who has been selected and with whom there is a letter signed under Article 48, cannot refuse to issue an auditor's report and cannot be dismissed prematurely from the engagements without good reasons; A difference in opinions regarding the accounting treatment or scope and nature of the audit procedures shall not be a valid reason to refuse to issue an auditor's report or to be dismissed prematurely from an engagement.

(2) A valid reason under Paragraph 1 shall be any of the following circumstances:

1. existence of facts and circumstances which infringe on the independence or objectivity of the registered auditor;
2. compelling impossibility to implement the undertaken financial audit engagement;
3. other circumstances specified in the applicable auditing standards and/or in other statutory instruments, in the case of audit engagements which are other than compulsory financial audit, which are other than services associated with the audit and which are not provided to public interest entities. In these cases, the registered auditor shall document all the circumstances justifying a premature dismissal from the engagement.

(3) In the case of premature dismissal or refusal to implement an undertaken compulsory financial audit engagement, the audited entity and the registered auditor shall notify in writing within a 7-day time limit the Commission and the ICPA of the dismissal or of the refusal, while stating the grounds thereof. In the case of a compulsory financial audit of financial statements of a public interest entity, the respective authorities with regulatory and supervisory powers as regards the activity of the audited entity shall also be notified according to the same procedure.

(4) When a compulsory financial audit of financial statements of a public interest entity finds that there is a valid reason under Paragraph 2, Item 1, the partners accounting for 5 percent or more of the voting rights or of the capital of the audited entity, as well as the Commission, can file a claim before the court for premature dismissal of the registered auditor from the engagement.

## Documenting

**Article 50.** (1) The documenting of the financial audit and the procedures for its implementation shall be performed in accordance with the provisions of the currently effective legislation and in accordance with the requirements of the applicable auditing standards.

(2) The management team of the audited entity shall provide to the registered auditor the financial statements to be audited, as well as a signed cover letter by the management body according to the requirements of the applicable auditing standards.

(3) In the cases of compulsory financial audit, the management team of the audited entity shall provide to the registered

auditor not only the items specified in Paragraph 2, but also the resolution of the respective management body for approval of the financial statements and of the activity report.

(4) The management bodies of the audited entity shall be obligated to provide also any other information necessary to the registered auditor in order to perform the financial audit and to issue the auditor's report.

Certification of the results from a performed financial audit

**Article 51.** (1) The registered auditor shall present the result from the performed financial audit in an auditor's report.

(2) The auditor's report shall be prepared in writing according to the applicable auditing standards.

(3) In the case of a compulsory financial audit, the auditor's report shall meet the requirements of Paragraph 2 by containing at least the following:

1. addressee/addressees;

2. date of preparation;

3. name of the entity whose financial statements are subject to the financial audit; statement of the type of the financial audit, the date and time period covered; specification of the accounting basis applied for its preparation;

4. description of the financial audit, wherein the applicable auditing standards in accordance with which the audit was performed shall be stated as a minimum;

5. an auditor's opinion which can be non-modified, qualified or negative and which shall clearly express the opinion of the registered auditor on whether the financial statements provide a true and fair picture according to the applicable accounting basis and on whether they meet the legislative requirements, where applicable, or which shall express a refusal to express opinion if the registered auditor cannot express an auditor's opinion;

6. other issues to which the registered auditor has drawn attention with a paragraph, without qualifying the auditor's opinion;

7. an opinion on whether the activity report is consistent with the financial statements for the same financial year and on whether it was prepared in accordance with the applicable legislative requirements;

8. a statement whether there are instances of significantly false presentation of information in the activity report of the audited entity and a statement on the nature of the false presentation of information;

9. findings of any significant uncertainty associated with events or terms which can cause serious doubts regarding the ability of the entity to continue its activity as a going concern;

10. mailing address - for a natural person or registered office - for a company, specified in the register under Article 20.

(4) In the case of a compulsory financial audit of the financial statements of a public interest entity, the auditor's report shall meet the requirements of Paragraph 3, as well as the requirements of Article 10 of Regulation (EU) No. 537/2014 where necessary.

(5) When the financial audit was performed jointly by more than one registered auditors, the registered auditors shall achieve consensus on the results from the financial audit and shall present a joint auditors' report and auditors' opinion. In case no consensus is reached, each registered auditor shall present its own auditor's opinion in a separate paragraph from the auditors' report and shall state the reason for the lack of consensus.

(6) The auditor's report in the case of a compulsory financial audit shall be certified by:

1. the registered auditor's name, personal signature and professional seal - when the financial audit is performed directly by the registered auditor as a natural person or through the commercial company through which the registered auditor practices the auditor's profession;

2. the company's name, the name and personal signature of the representative of the audit company and the seal of the audit company, as well as by the name and personal signature of the registered auditor put in charge of the audit on behalf of the audit company - when the financial audit is performed by an audit company.

(7) When the compulsory financial audit is performed jointly by more than one registered auditors, the auditors' report

shall be certified by:

1. the registered auditor's name and personal signature - for each registered auditor who participated in the performance of the joint audit in his or her capacity of a natural person;
  2. the company's name, the name and personal signature of the representative of the audit company and the professional seal of the audit company, as well as by the name and personal signature of the registered auditor put in charge of the audit on behalf of the audit company - for each audit company participating in the joint audit.
- (8) The auditor's report in the case of a compulsory financial audit of consolidated financial statements shall meet the requirements of Paragraphs 1 - 6. When there is a requirement for consistence between the activity report and the financial statements according to Article 45 (2) at the level of a group of companies within the meaning of § 1, Item 2 of the Supplementary Provisions of the Accountancy Act, the registered auditor shall express an opinion on the consistence of the consolidated financial statements with the consolidated activity report.
- (9) In the case of a compulsory financial audit, the registered auditor's personal signature and professional seal shall be affixed onto the auditor's report and onto each one of the components of the annual financial statements, excluding the appendix, according to the applicable accounting basis, that an auditor's opinion was expressed on.

Financial audit of other financial information

**Article 52.** The provisions of this chapter shall also be applied to the engagements to perform a financial audit of some other financial information.

## **Chapter six**

# **SUPPLEMENTARY REQUIREMENTS TO THE PERFORMANCE OF COMPULSORY FINANCIAL AUDIT OF FINANCIAL STATEMENTS**

Preparation of the financial statements and assessment of the threats to independence

**Article 53.** In addition to the obligations under Chapter Five, when undertaking and extending a compulsory financial audit engagement, the registered auditor shall assess and document in writing whether:

1. the requirements for independence and objectivity under Article 54 have been met;
2. there are threats to the registered auditor's independence and what preventive measures have been applied to mitigate these threats;
3. the registered auditor has the competent employees, time and resources necessary for performing the financial audit.

Independence and conflict of interests

**Article 54.** (1) The registered auditor, as well as any natural person, who is capable of exerting, directly or indirectly, an influence on the result from the compulsory financial audit, must be independent of the audited entity and must be independent of the process of decision making in the audited entity. The independence requirement shall be complied with both during the period covered by the financial statements to be audited, and during the period in which the financial audit is performed.

(2) The registered auditor shall undertake the necessary preventive measures so that his or her independence in the process of the financial audit is not influenced by an existing or a potential conflict of interests or by economic or other, direct or indirect, interrelations. These requirements shall be also applied to:

1. his or her auditor's network, where applicable, and
2. all persons working for the registered auditor or under the control of the registered auditor or all persons related

directly or indirectly to the registered auditor through control interrelations.

(3) The registered auditor shall not perform a compulsory financial audit, if an objective, reasonable and informed third party could draw a conclusion, by taking into consideration the preventive measures undertaken by the registered auditor, that the registered auditor's independence is compromised by the existence of risk of an inspection of his or her own activity, existence of a vested interest, defence, close relations or threats as a consequence of financial, personal, economic, labour or other interrelations between:

1. him/her, his/her audit network and any natural person who is capable of exerting an influence on the result from the audit; and
2. the audited entity.

(4) The registered auditor shall document in the audit working papers all significant threats to his independence, as well as the safeguards applied to mitigate these threats.

(5) The registered auditor shall not participate in the performance of a compulsory financial audit and shall not influence in any way the results from it, if:

1. the registered auditor holds financial instruments of the audited entity other than shares held indirectly through diversified collective investment vehicles;
2. the registered auditor holds financial instruments of an entity related to the audited entity, the possession of which may generate or may be perceived to generate a conflict of interest, where such financial instruments are other than shares held indirectly through diversified collective investment vehicles;
3. the registered auditor was in labour or economic relations or in some other type of relations with this audited entity during the periods referred to in Paragraph 1, where these relations can generate or may be perceived to generate a conflict of interest;
4. a circumstance under Item 1 - 3 exists for a spouse or a relative of direct or collateral lineage up to and including the second degree of kinship or for persons related to the registered auditor.

(6) The persons under Paragraph 2 shall not demand and shall not accept gifts or services in the form of cash or in some other form from the audited entity or from any other entity related to the audited entity, unless an objective, reasonable and informed third party could make an assessment that the value of such gifts or services is insignificant or does not entail any consequences.

(7) When the auditee entity is acquired by another entity, merges with another entity or acquires another entity within the periods under Paragraph 1, the registered auditor shall establish and shall subject to an assessment all past or present interests or relations with such entity, including services other than audit services provided to such entity and capable of compromising his or her independence and the possibility to continue performing the compulsory audit after the date of the transformation. As soon as a possibility arises and within a time limit of 3 (three) months from the date of the transformation at the latest, the registered auditor shall undertake the necessary actions for termination of all present interests and relations which could compromise his or her independence and shall undertake measures, when possible, for reducing to a minimum any threat to his or her independence stemming from past or present interests and relations.

Internal organisation of the work of the registered auditor

**Article 55.** (1) The registered auditor who is performing a compulsory financial audit shall be obligated to meet the following requirements:

1. shall apply policies and procedures which guarantee that the owners of the capital, as well as the members of its management, supervisory or control bodies do not interfere in the implementation, have no access to the audit information and cannot undertake actions which jeopardise the independence and objectivity of the registered auditor who is performing a financial audit on behalf of the audit company - when the registered auditor is an audit company;
2. shall have available reliable procedures, internal quality control mechanisms, effective risk assessment procedures and effective control and protection mechanism as regards the information processing systems;
3. shall apply quality control mechanisms, which ensure compliance with the decisions and procedures at all levels in the audit company or in the organisation of work built by the registered auditor;

4. shall apply policies and procedures, which guarantee that all the people who work for it and participate in the audit, possess the necessary knowledge and experience for implementation of the tasks assigned to them;
5. shall apply policies and procedures, which guarantee that the assignment to subcontractors of functions for implementation of a financial audit is effected in a manner which does not impair the internal quality control and which does not hamper the Commission in exercising effective oversight for the compliance of this act and of Regulation (EU) No. 537/2014;
6. shall apply effective organisational and managerial mechanisms for prevention, rectification, detection or management and disclosure of all possible threats to its independence under Article 54;
7. shall apply policies and procedures for performing compulsory financial audit, mentoring, oversight over and review of the employees' activities and for creating and filling out the audit dossier in accordance with the requirements of Article 56;
8. shall build and maintain an appropriate internal quality control system, which guarantees the quality of the compulsory financial audit and which encompasses at least the policies and procedures under Items 1 - 7. In the case of an audit company, the responsibility for the internal quality control system shall be born by a person who is a registered auditor;
9. shall apply and use appropriate systems, resources and procedures in order to guarantee uninterrupted and regular performance of its activity;
10. shall create and apply appropriate and effective organisational and managerial mechanisms for registration of violations which have or may have serious consequences for the quality of its activity, as well as for rectification thereof;
11. shall apply appropriate policies regarding the remunerations, including a profit sharing policy, which provides sufficient incentives for achieving results for the purpose of ensuring a high-quality compulsory financial audit; the amount of revenues received by the registered auditor from the offering of services to the audited entity, other than the audit ones, shall not be part of the assessment of the work and of the remuneration of any person participating in the performance of a compulsory financial audit and should not be capable of exerting an influence on the performance of the audit;
12. shall monitor and assess the adequacy and effectiveness of its internal quality control systems and mechanisms, as well as their compliance with the requirements of this act and, where applicable, of Regulation (EU) No. 537/2014 and shall undertake appropriate actions for rectification of the omissions; the registered auditor shall document the findings from such assessment, as well as all the proposed changes in the internal quality control system in connection therewith;
13. shall apply appropriate internal procedures for reporting according to a specific procedure by its employees of potential or actual violations of this act or of Regulation (EU) No. 537/2014.

(2) The policies and procedures under Paragraph 1 shall be documented and provided to all the persons who work for the registered auditor.

(3) The assignment to a subcontractor of functions for performing a financial audit under Paragraph 1, Item 5 shall not result in relieving of or in limiting the liability of the registered auditor.

(4) The registered auditor must, at any time, be able to prove before the Commission that the policies and procedures under Paragraph 1 are appropriate and consistent with the scale and complexity of its activity.

#### Organisation of the performance of a compulsory financial audit

**Article 56.** (1) When fulfilling a compulsory financial audit engagement, the registered auditor shall ensure sufficient time and resources in order to be able to fulfil its obligations in an adequate manner and in order for the audit to be performed in a high-quality manner.

(2) When the compulsory financial audit is performed by an audit company, it shall appoint a registered auditor who is a natural person in charge of the audit. The audit company shall provide to the registered auditor in charge of the audit sufficient resources, including personnel with the necessary knowledge and skills, so that the registered auditor in charge of the audit can fulfil his or her obligations in an adequate manner and so that the audit can be performed in a high-quality manner.

(3) The registered auditor shall store information on all violations of the provisions of this act, and where applicable, of Regulation (EU) No. 537/2014. This information shall also include data on the consequences of the violations, on the actions undertaken for their rectification, as well as on the changes made in the internal quality control system in

connection therewith. The registered auditor shall also prepare an annual report on all the actions for rectification of the violations and shall disseminate this report within its audit practice.

- (4) When the registered auditor uses external experts for consultation, the registered auditor shall document the request made and the advice received.
- (5) The registered auditor shall store all data and documents, which corroborate the findings stated in the auditor's report under Article 51 and, where applicable, in the reports under Articles 10 and 11 of Regulation (EU) No. 537/2014.
- (6) The registered auditor shall create an audit dossier on each compulsory financial audit performed, where the data under Article 53 and, where applicable, under Article 6 - 8 of Regulation (EU) No. 537/2014 shall obligatorily be documented therein. The audit dossier shall be completed and filed into the archives not later than 60 days after the date of signing the audit report.
- (7) The registered auditor shall create and maintain a dossier on each audited entity, which shall contain at the least the following information:
  1. name, UIC, seat and registered office of the audited entity;
  2. names of the auditor in charge and of the person who performed a quality control review before the issuing of the auditor's report, where applicable;
  3. the remunerations received for each financial year from the audited entity for the financial audit performed, as well as for all the other services provided to such entity.
- (8) The registered auditor shall store in a register information on each appeal or complaint filed in writing regarding the performance of a financial audit.

#### Specific requirements in the case of a compulsory financial audit of consolidated financial statements

**Article 57.** (1) When performing a compulsory financial audit of consolidated financial statements of a group of entities, the auditor of the group shall bear the entire responsibility for the opinion expressed in the auditor's report regarding the consolidated financial statements, including in accordance with the requirements of Regulation (EU) No. 537/2014.

- (2) The group's auditor shall prepare documentation on the work performed by the registered auditors, auditors and/or audit companies from other Member States of the European Union or from third countries for the purposes of the group's audit.
- (3) The group's auditor shall make an assessment of the work performed by the other auditors for the purposes of the group's audit and shall document the nature, time of performance and scope of the work, performed by these auditors, including, where applicable, of the review performed by the group's auditor of the documentation of these auditors. In order to be able to rely on their work, the group's auditor shall request the consent of these auditors for submission of the respective documentation when performing the audit of the consolidated financial statements.
- (4) The group's auditor shall perform an inspection of the work performed by the other auditors for the purposes of the group's audit and shall document such inspection. The documentation stored by the group's auditor must afford a possibility for the Commission to perform inspections of the group's auditor's work. When the group's auditor is not able to perform this inspection, it shall perform additional work on the audit, directly or by assigning these tasks to a subcontractor, and shall notify the Commission of this fact.
- (5) When the group's auditor is subject to an inspection for quality assurance or is subject to an investigation regarding a compulsory financial audit of consolidated financial statements of a group of entities, the group's auditor shall, upon request, provide to the Commission the respective documentation stored with it on the work performed by the other auditors for the purposes of the group's audit, as well as all other working documents.
- (6) The Commission can request from the respective competent authorities of the Member States of the European Union additional information on the work performed by the other auditors for the purposes of the group's audit.
- (7) When a parent company or a group's subsidiary company is audited by an auditor or by an audit company from a third country, the Commission can request additional documentation on the work performed by the other auditors for the purposes of the group's audit, from the respective competent authorities of such third country through the currently effective arrangements specified in Article 104.

(8) When a parent company or a group's subsidiary company is audited by an auditor or by an audit company from a third country, with which no arrangements have been concluded in accordance with the requirements of Article 104, the group's auditor shall also be responsible to ensure due and proper submission of additional information on the work performed by the auditors from such third country, including on the working documents related to the group's audit. In order to ensure the submission, the group's auditor shall store a copy of this documentation or shall make an agreement with the auditors from the third country to obtain, upon request, authorised and unimpeded access to the documentation, or shall undertake other appropriate actions. When the working documents on the audit cannot be submitted by the auditor from the third country, the group's auditor shall certify through documentation at its disposal that it has undertaken the necessary actions for obtaining access to these documents, where the documentation shall include evidence of its existence in the case of a reason other than reasons related to the legislation of the third country.

(9) When a registered auditor performs compulsory financial audit at an entity, which is part of a group, the parent company of which is established in a third country, the rules for professional secrecy stipulated in this act shall not prevent the registered auditor from submitting the respective documents on the work performed by the group's auditor, which is located in that third country, if these documents are necessary for performing an audit of the consolidated financial statements of the parent company.

(10) A registered auditor, performing a compulsory financial audit at an entity which has issued securities in a third country or which is part of a group which prepares consolidated financial statements in a third country, can submit the working or other documents held by it in connection with the audit of this entity, to the competent authorities of the respective third countries only subject to the terms and conditions stipulated in Article 105.

(11) The submission of information to a group's auditor located in the third country shall be effected in compliance with the requirements of the Personal Data Protection Act.

#### Restrictions on holding a position after completion of a compulsory financial audit

**Article 58.** (1) A registered auditor, who performs a compulsory financial audit, cannot be elected or appointed in an audited entity - prior to the expiration of 1 (one) year and, in the case of a compulsory financial audit of a public interest entity - prior to the expiration of 2 (two) years from the date of completion of the audit, at the following positions:

1. managerial position;
2. member of an audit committee or of a body performing the functions of an audit committee;
3. member of a management or supervisory body.

(2) The restriction under Paragraph 1 shall be applied to all registered auditors who are natural persons, to the auditors in charge from the audit company, as well as to all employees, partners or other natural persons who participated in the performance of the respective compulsory financial audit.

## Chapter seven

# COMPULSORY FINANCIAL AUDIT OF THE FINANCIAL STATEMENTS OF PUBLIC INTEREST ENTITIES

#### Auditor's report

**Article 59.** A registered auditor, who performs a compulsory financial audit of the annual financial statements of a public interest entity, shall present the audit's results in an auditor's report, which shall be drawn up in accordance with the provisions of Article 51 of the this Act and of Article 10 of Regulation (EU) No. 537/2014.

#### Supplementary report to the audit committee

**Article 60.** (1) A registered auditor, who performs a compulsory financial audit of the financial statements of a public

interest entity, shall prepare and present to the audit committee a supplementary report to the report under Article 59.

(2) In the case of a compulsory financial audit of consolidated financial statements, the group's auditor shall prepare and present to the parent company's audit committee a supplementary report to the report under Article 59.

(3) The supplementary reports under Paragraphs 1 and 2 shall be prepared in accordance with the requirements of the applicable auditing standards and the provisions of Article 11 of Regulation (EU) No. 537/2014.

(4) Upon request from a competent authority exercising oversight over the public interest entity, the registered audit shall immediately present the respective supplementary report under Paragraphs 1 and 2.

#### Report to a competent authority exercising oversight

**Article 61.** (1) A registered auditor, who performs a compulsory financial audit of a public interest entity's financial statements, shall be obligated, within a 7-day time limit from the date of the auditor's report, to notify in writing the competent authority exercising oversight over this entity, as well as the Commission, of any information about this entity, which the registered auditor has established in the course of performing the compulsory financial audit and which has caused or may cause one of the following consequences:

1. significant violation of the statutory provisions, which stipulate the terms and conditions for licensing or which stipulate in specific the performance of activities by the public interest entity;
2. significant threat or significant doubt regarding the continuation of the activity of the public interest entity;
3. refusal to express an auditor's opinion, negative or qualified auditor's opinion under Article 51, Paragraph 3, Item 5.

(2) The registered auditor shall be obligated to announce also any information, corresponding to the one specified in Paragraph 1, which the registered auditor has established in the course of performing a compulsory financial audit of an entity, which is in close connections with a public interest entity audited by that same registered auditor.

#### Transparency report

**Article 62.** (1) A registered auditor, who performs a compulsory financial audit of a public interest entity's financial statements, shall publish on an annual basis on its internet page a transparency report, which shall include at least:

1. a description of the legal form, as well as of the stakes and partners, when the registered auditor is an audit company;
2. when the audit company is a member of an audit network:
  - a) a description of the audit network, the legal and structural arrangements with it;
  - b) the name/designation of each registered auditor, who practices the profession as a natural person or as an audit company;
  - c) the countries, in which every registered auditor, who practices the profession as a natural person or as an audit company, is qualified as a registered auditor or in which his/her/its seat and main place of activity is located;
  - d) the total turnover of the registered auditor from compulsory financial audit of annual financial statements, whether individual or consolidated.
3. a description of the management structure of the audit company;
4. a description of the internal quality control system and an declaration by the registered auditor, who is a natural person, or by the persons managing the audit company, on the effectiveness of its functioning;
5. the date of performance of the last inspection aimed at quality assurance according to Article 85;
6. a list of the public interest entities, of which the registered auditor performed compulsory financial audit during the previous year;
7. a description of the independence practices of the registered auditor; the report should confirm that in the preceding year an internal inspection for compliance with the requirements related to independence has been conducted;
8. a description of the policy applied by the registered auditor as regards the training in connection with the continuing



professional development under Article 30;

9. data about the basis of formation of partners' remunerations – for an audit entity;

10. a description of the registered auditor's policy for rotation of the auditors in charge of audits and of the employees in accordance with Article 65;

11. information regarding the registered auditor's total turnover broken down into the following categories:

a) revenues from compulsory audit of annual financial statements - individual ones and consolidated ones of public interest entities and of entities which are part of a group and the parent company of which is a public interest entity;

b) revenues from compulsory audit of annual financial statements - individual ones and consolidated ones - of other entities;

c) revenues from permitted services other than audit provided to the audited entities;

d) revenues from services, other than audit, provided to other clients.

(2) The transparency report shall be signed by the registered auditor who is a natural person and by the persons managing the audit company.

(3) The transparency report shall be published annually by 30 March and shall be accessible on the internet page of the registered auditor at least 5 (five) years after the date of its publication.

#### Information provided to the Commission

**Article 63.** (1) A registered auditor, who performs a compulsory financial audit of the financial statements of a public interest entity, shall provide annually to the Commission the following information:

1. a list of the public interest entities audited by this registered auditor with information on the revenues received from them; the information on the revenues shall be broken down into:

a) revenues from compulsory audit;

b) revenues from services other than audit and other than the services specified in Article 5, Paragraph 1 of Regulation (EU) No. 537/2014, which are required by the legislation of the European Union or by the national legislation;

c) revenues from services other than audit and other than the services specified in Article 5, Paragraph 1 of Regulation (EU) No. 537/2014, which are not required by the legislation of the European Union or by the national legislation;

2. a list of all services provided to the audited entities by the members of the audit network, when the registered auditor is a member of an audit network.

(2) The terms and procedure for providing the information under Paragraph 1 shall be stipulated by rules adopted by the Commission.

#### Prohibited services

**Article 64.** (1) The provisions of Article 5, Paragraphs 1, 4 and 5 of Regulation (EU) No. 537/2014 shall be applied to a registered auditor, who performs a compulsory financial audit of the financial statements of a public interest entity. The registered auditor can provide the services specified in Article 5, Indent 1, Paragraph 2, Letter "a", Sub-item "vii" provided that:

1. the services do not exert an influence or exert an insignificant influence, separately or jointly, on the audited financial statements;

2. the assessment of the influence on the audited financial statements has been documented and explained comprehensively in the supplementary report for the audit committee;

3. the registered auditor complies with the independence requirements.

(2) Paragraph 1 shall also be applied to the persons under Article 54, Paragraphs 1 and 2, as well as to a spouse or a

relative of direct or collateral lineage up to and including the second degree of kinship or to persons related to the registered auditor.

(3) The registered auditor and the persons under Paragraph 2 can provide the services permitted under Paragraph 1 outside of the compulsory financial audit after the approval of the audit committee, regarding which the registered auditor shall notify in writing the Commission within a 7-day time limit from the date of receiving the approval.

#### Appointment and rotation of the registered auditors

**Article 65.** (1) The appointment of a register auditor to perform a compulsory financial audit of a public interest entity's financial statements shall be implemented also in accordance with the requirements of this Act and of Article 16 of Regulation (EU) No. 537/2014.

(2) The minimum term of a contract for compulsory financial audit of a public interest entity's financial statements cannot be less than 1 (one) year,

(3) A registered auditor, who performs a compulsory financial audit of a public interest entity's financial statements, shall withdraw from the engagement after performing it over a time period of 7 consecutive years from the date of being appointed. This registered auditor shall be prohibited from performing compulsory financial audit engagements at this entity for a time period of 4 (four) years from the date of the withdrawal.

(4) An auditor in charge of an audit, who performs a compulsory financial audit of a public interest entity's financial statement on behalf of an audit company, shall be replaced after having carried out compulsory financial audit engagements for a time period of 4 (four) consecutive years from the appointment of the audit company by such entity. This registered auditor shall be prohibited from carrying out compulsory financial audit engagements at this entity in the capacity of an auditor-in-charge for a time period of 3 (three) years from the date of his or her withdrawal.

(5) The time periods under Paragraph 3 and 4 shall start to elapse from the year when the first compulsory financial audit engagement was undertaken during the respective period.

(6) The provision of Paragraph 3 shall also be applied in respect to the commercial companies under Article 8, Paragraph 1, Item 1, Letter "b".

#### Auditor remuneration

**Article 66.** (1) When over a period of 3 (three) or more consecutive financial years a registered auditor provides to a public interest entity audited by him or her, to its parent company or to its subsidiary companies services outside the audit other than those specified in Article 5, Paragraph 1 of Regulation (EU) No. 537/2014, the total amount of the remunerations for these services cannot exceed 70 percent of the average amount of the remunerations for the last three consecutive financial years for the compulsory financial audit of the audited entity and, if applicable, of its parent company, of its subsidiary companies and of the consolidated financial statements of this group of companies. This restriction shall not be applied to services outside of the audit, which are other than those specified in Article 5, Paragraph 1 of Regulation (EU) No. 537/2014 and which are required by law.

(2) When the total amount of the remunerations paid by a public interest entity during each of the last 3 (three) consecutive financial years exceeds 15 percent of the total amount of the remunerations received by the registered auditor and, where applicable, by the group's auditor performing the compulsory audit, during each of these financial years, the auditor shall notify of that fact the audit committee and shall discuss with the audit committee the threats to its independence and the preventive measures undertaken for mitigating these threats. In such a case, the audit committee shall make an assessment of whether the audit engagement must be subjected to a quality assurance review by another registered auditor picked by the audit committee prior to the issuance of the auditor's report.

(3) When the remunerations paid by the public interest entity continue exceeding 15 percent of the total revenues of the registered auditor or, where applicable, of the group's auditor performing the compulsory audit, the audit committee shall make a decision based on objective criteria of whether the respective auditor can continue performing compulsory financial audits over an additional time period after the occurrence of these circumstances, which cannot exceed 2 (two) years.

#### Preparation of a compulsory audit and assessment of the threats to independence

**Article 67.** Prior to undertaking or continuing a compulsory financial audit engagement for a public entity's financial statement, the registered auditor, in addition to the actions specified in Article 54, shall perform additional actions for assessing the threats to the independence according to the provisions of Article 6 of Regulation (EU) No. 537/2014.

#### Quality control review of the engagement

**Article 68.** (1) Prior to the issuance of the reports under Articles 59 and 60, a quality control review shall be performed as regards the compulsory financial audit in order to assess whether the registered auditor justifiably reached the opinion and conclusions expressed in the drafts of these reports.

(2) The quality control review as regards the compulsory financial audit engagement shall be performed according to the provisions of Article 8 of Regulation (EU) No. 537/2014.

#### Irregularities

**Article 69.** (1) When a registered auditor, who performs a compulsory financial audit of a public interest entity's financial statements, has doubts or reasonable grounds to suspect that irregularities may happen or have happened, including fraud as regards the audited entity's financial statements, the said registered auditor shall notify the audited entity and shall recommend thereto to investigate the case and to undertake appropriate measures in order to rectify these irregularities and in order to prevent their re-occurrence in the future.

(2) If the audited entity fails to investigate the case or fails to undertake appropriate measures, the registered auditor shall be obligated to report immediately to the competent authority exercising oversight over this entity.

(3) The good-faith notification of the bodies of the audited entity by the registered auditor of any of the irregularities referred to in Paragraph 1 shall not constitute a violation of a contractual or legal restrictions regarding the disclosure of information.

## **PART THREE PUBLIC OVERSIGHT**

### **Chapter eight COMMISSION FOR PUBLIC OVERSIGHT OVER REGISTERED AUDITORS**

#### Statute of the Commission

**Article 70.** (1) The Commission shall be a specialised state authority for regulation of and oversight over the activity of the persons under Article 12 (2).

(2) The Commission shall be a legal entity financed by the budget with a seat in Sofia. The Chairman of the Commission shall be a budget authoriser by delegation.

(3) When performing its activity under this act and under Regulation (EU) No. 537/2014, the Commission shall be independent and cannot accept instructions by other authorities, institutions and persons.

(4) The Commission shall report on its activity to the National Assembly.

#### Responsibility and functions of the Commission

**Article 71.** (1) The Commission shall bear the ultimate responsibility for the oversight over:

1. acquiring the right to practice as a registered auditor, registration of the auditors, including of the auditors from other Member States of the European Union and from third countries and temporary depriving auditors of the right to practice as registered auditors;
2. adoption of standards for professional ethics, for internal quality control over the registered auditors' activities and for performing compulsory financial audits and the services related thereto;
3. continuing professional development of the registered auditors;
4. quality assurance system for the registered auditors' professional activity;
5. application of compulsory administrative measures and imposing administrative penalties.

(2) The Commission shall exercise oversight through:

1. performing inspections and investigations;
2. passing judgement on refusal to enter specific registered auditors into the register under Article 20;
3. application of compulsory administrative and other measures under Article 89 (2), hereinafter referred to as "oversight measures";
4. launching proceedings for seeking administrative penal liability;
5. performing inspection on compliance with the statutory requirements in the functions performed by the ICPA under Article 36, Paragraph 1, Items 1 - 5 and under Article 85 (3).

(3) The Commission:

1. shall adopt its Rules of Procedure which shall be promulgated in the State Gazette;
2. shall adopt the rules for performing inspections and investigations;
3. shall adopt the rules under Article 31, Paragraph 1, Item 12 and under Article 63;
4. shall adopt rules and methodological instructions on the terms and procedure for the functions performed by the ICPA under Article 36, Paragraph 1, Items 1 - 5 and under Article 85 (3);
5. shall adopt other rules, guidelines and methodological instructions on the application of the public oversight.

(4) The Commission shall be a competent authority for the application of Regulation (EU) No. 537/2014.

#### Composition of the Commission and requirements to the Chairman and the Members

**Article 72.** (1) The Commission shall be a collective body and shall consist of a chairman and 4 (four) members. In the absence of the chairman, his functions shall be performed by a member of the Commission appointed by the chairman for every specific case.

(2) The chairman and the members of the Commission may be Bulgarian citizens only, meeting the following requirements:

1. shall have diploma of completed higher education in law or economics with acquired academic qualification degree "Master";
2. shall have knowledge in the subjects relevant to the financial audit and shall have at least 5-year professional experience in these subjects;
3. shall not have been convicted of premeditated crimes of general nature;
4. shall meet the independence requirements under Article 21 of Regulation (EU) No. 537/2014.

#### Electing a Chairman and Members of the Commission

**Article 73.** (1) The Chairman of the Commission shall be elected by the National Assembly after conducting a public procedure.

(2) Within a 1-month time limit from election of the chairman of the Commission, he shall hold consultations for nomination of candidate members of the Commission in line with the following principle:

1. one person shall be proposed by the minister of finance;
2. one person shall be proposed by the governor of the Bulgarian National Bank;
3. one person shall be proposed by the chairman of the Financial Supervision Commission;
4. one person shall be proposed by the Management Board of the ICPA after a choice made by the General Meeting.

(3) The members of the Commission shall be elected by the National Assembly on a proposal from the chairman of the Commission.

#### Term of office and termination of the powers

**Article 74.** (1) The term of office of the Chairman and of the Members of the Commission shall be 4 (four) years. The Chairman and the Members of the Commission may not be elected for more than two consecutive terms of office.

(2) The powers of the Chairman and of a Member of the Commission shall be terminated by the National Assembly prior to expiration of their term of office:

1. upon their request;
2. upon incapability to perform their duties for more than 6 (six) months;
3. if they no longer meet the requirements of Article 72, Paragraph 2, Items 3 and 4;
4. in case of absence without reasonable grounds from three or more meetings of the Commission over a period of one year;
5. upon the entry into force of a deed of establishing a conflict of interests under the Conflict of Interest Prevention and Ascertainment Act;
6. in the case of death.

(3) Upon early termination of the term of office of the chairman or a member of the Commission, another person shall be elected in his place for the remaining term of his office in accordance with the procedure laid down in Article 73.

(4) After expiration of the term of office, for which they have been elected, the chairman and the members of the Commission shall continue exercising their powers pending the election of a new chairman and members.

(5) The members of the Commission, excluding its chairman, shall not be payroll or official employees of the Commission.

#### Remunerations of the chairman and of the members of the Commission

**Article 75.** (1) The chairman of the Commission shall receive base monthly remuneration in the amount of 90 percent of the remuneration of the Chairman of the National Assembly.

(2) The Commission members, except for its chairman, shall receive remuneration for their participation in each meeting, quality assurance inspection and international event of the Commission in an amount determined by the Rules of Procedure under Article 71, Paragraph 3, Item 1. The monthly remuneration received may not exceed 50 percent of the base monthly remuneration of the chairman.

#### Powers of the chairman of the Commission

**Article 76.** (1) The chairman of the Commission shall manage the activity of the Commission and shall represent it.

(2) The chairman of the Commission shall appoint and dismiss the employees of the administration.

## Powers of the Commission

**Article 77.** (1) In implementation of its function, the Commission:

1. shall exercise the oversight powers under Article 71, Paragraph 2, Items 1 - 3, where it can be assisted by the respective bodies of the ICPA;
2. shall exercise oversight over the lawful and effective implementation of the functions under Article 36, Paragraph 1, Items 1 - 5, the implementation of the rules and methodological instructions under Article 71, Paragraph 3, Items 2 and 4, as well as the compliance with the independence requirements and absence-of-conflict-of-interest requirements under Article 54;
3. shall return for additional or repeated inspection the cases, in which the quality of the performed quality assurance inspections of the registered auditor's professional activity is unsatisfactory;
4. shall designate a member or members, which are to participate in the quality assurance inspections of the registered auditor's professional activity in the cases of repeated non-compliance with certain time limits for completion or in the cases of unsatisfactory quality of the inspections;
5. shall perform investigations at its own discretion or in the case of signals received of suspected violations in performing a compulsory financial audit and/or in providing services related thereto; in these cases the Commission can be assisted by the respective bodies of the ICPA; upon receiving signals for violations in the provision of services other than a compulsory financial audit and/or services related thereto, the Commission can assign to the ICPA the task to perform inspections on these signals;
6. shall monitor on a continuous basis the development of the market for provision of services in connection with the compulsory audit of a public interest entity's financial statements, while assessing in specific the following:
  - a) the risk stemming from the presence of omission related to the quality of the activity of the registered auditors, including systematic omissions within the bounds of an audit network, which can result in termination of the activity of any audit company, difficulties in the provision of compulsory audit services in a specific sector or in various sectors, the concentration of risk of audit omissions and the impact on the overall stability of the financial sector;
  - b) the levels of concentration of the market, including in specific sectors;
  - c) the results from the activity of the audit committees;
  - d) the need to adopt measures for mitigation of the risks specified in Letter "a";
7. shall notify the prosecutors' authorities when establishing evidence of crimes committed;
8. shall carry out cooperation with the relevant authorities of the European Union, with supervisory authorities of Member States of the European Union or of third countries, responsible for the compulsory financial audit;
9. can request from the registered auditors, the ICPA, the audited entities, the audit committees and other person related thereto to provide within time limits stipulated by the Commission certified copies of documents, information summaries and other information;
10. shall exercise other powers related to the responsibilities and functions under Article 71.

(2) By the 31 July of the current year, the Commission shall submit to the National Assembly a report of its activity over the previous professional year. This report shall also contain information about:

1. the Commission's activity as regards the responsibilities and functions under Article 71;
2. the general results of the quality assurance system;
3. summarised information on the findings and conclusions from the inspections and investigations.

## Commission's administration

**Article 78.** (1) When performing its activity, the Commission shall be assisted by an administration whose structure and organisation of work shall be stipulated by the Rules under Article 71, Paragraph 3, Item 1.

(2) The activities of the administration shall be carried out by civil servants and by employees, hired under employment legal relationships. Article 107a of the Labour Code shall apply to employees hired under employment legal relationships.

(3) The Administration Act shall apply to the administration of the Commission provided that it does not contradict this present Act.

(4) The inspections and investigations shall be performed by inspectors authorised by the chairman of the Commission.

(5) The requirements of Regulation (EU) No. 537/2014 shall be applied when performing the inspections and investigations.

#### Meetings and decisions of the Commission

**Article 79.** (1) The meetings of the Commission shall be valid when the chairman and at least two of its members are present. The chairman can authorise a member of the Commission to preside over a meeting if the chairman is absent from it.

(2) The Commission shall adopt decisions with open voting and with a majority of three votes. The chairman and the members of the Commission may not abstain from voting.

(3) The decision for temporary depriving of the right to perform financial audits, temporary depriving of the right to practice audit activities under Article 42 (3) and temporary depriving of the functions under Article 36, Paragraph 1, Items 1 - 5 shall be adopted with a majority of 4 votes. These decisions shall be announced on the internet page of the Commission, where the method and motives for the vote of each voting member shall be stated.

#### Transparency of the activity of the Commission

**Article 80.** The Commission shall publish on its internet page the following:

1. the decisions adopted;
2. an annual activity report under Article 77 (2);
3. an annual plan of the inspection activity.

#### Principles in the activity of the Commission

**Article 81.** When performing its activity, the Commission and its bodies shall apply the basic principles under Article 4 - 14 of the Code of Administrative Procedure. The information pertaining to the compliance with the principles under Article 13 of the Code of Administrative Procedure shall be published on the internet page of the Commission.

#### Obligation to safeguard a professional secret

**Article 82.** (1) A professional secret shall the information that the chairman and members of the Commission, as well as the employees from the Commission's administration, create or receive in the course of or in connection with the implementation of their activity. The professional secret shall not constitute an official secret within the meaning of the Classified Information Protection Act.

(2) Information which is subject to public notification according to this or other acts shall not be a professional secret.

(3) The chairman and the members of the Commission, as well as the employees from its administration shall be obligated to safeguard the professional secret, including also after leaving the Commission or its administration.

(4) Information constituting a professional secret can be used by the Commission in implementation of its functions only.

(5) Information constituting a professional secret can be disclosed only:

1. before the court and the prosecutors' office;
2. before the National Security State Agency under terms and according to a procedure stipulated by a joint instruction, to the extent necessary for the implementation of the functions of these institutions;
3. before the respective competent authorities exercising oversight over the public interest entities;
4. as summarised information in a manner which makes it impossible to identify individually the persons to whom the information pertains.

(6) Information on the results from inspections, investigations and audits constituting a professional secret can be exchanged between the Commission and the ICPA's bodies as well. The terms and procedure for exchange of such information shall be stipulated by rules adopted by the Commission.

Conflict of interests when exercising oversight powers

**Article 83.** When exercising their oversight powers, the Commission's bodies shall also comply with the requirements of Article 26, Paragraph 5, Letters "b", "c" and "d" of Regulation (EU) No. 537/2014.

Liability of the Commission for damages

**Article 84.** When exercising their oversight powers, the Commission and its employees shall not bear any liability for damages, unless they acted ill-intentionally.

## **Chapter nine**

# **QUALITY ASSURANCE SYSTEM FOR THE REGISTERED AUDITORS' PROFESSIONAL ACTIVITY AND FOR INVESTIGATIONS**

## **Section I**

### **Scope and principles**

Scope

**Article 85.** (1) The quality assurance system for the registered auditors' professional activity shall include the performance of inspections of:

1. compliance with the requirements of the applicable auditing standards when performing a compulsory financial audit;
2. compliance of the audit documentation in the case of performing a compulsory financial audit with the requirements of the applicable auditing standards;
3. compliance with the ethical norms and requirements for independence of the registered auditor in performing a compulsory financial audit;
4. adequacy of the time and human resources used for performing a compulsory financial audit in consistency with the scope and complexity of the engagement undertaken;
5. adequacy of the auditors' remunerations received for performing a compulsory financial audit;
6. adequacy of the internal quality control system applied by the registered auditor;



7. compliance with the requirements of Regulation (EU) No.573/2014 by registered auditors performing a compulsory financial audit of a public interest entity's financial statements;

8. compliance with the recommendations under Article 89, Paragraph 2, Item 2.

(2) The terms and procedure for performing inspections shall be stipulated by rules adopted by the Commission.

(3) The Commission can delegate to the ICPA the functions for control over the quality assurance of the registered auditors' professional activity on compulsory financial audit of audited entities that are not of public interest. The delegation of these functions shall be effected by a decision of the Commission adopted by a majority of 4 votes.

## Principles

**Article 86.** (1) The quality assurance system shall be built in strict compliance with the following principles:

1. the inspections shall be performed by persons who are independent of the relevant inspected registered auditors;

2. the financing of the quality assurance system shall be adequate, sufficient and independent from registered auditors;

3. sufficient resources for performing the necessary activities shall be provided;

4. the persons performing inspections shall have relevant professional education and experience in the field of financial audit and financial reporting and shall have passed quality control training;

5. absence of conflict of interests between the persons performing inspections and registered auditors;

6. the inspections shall be expedient and proportionate to the scale and complexity of the activity of the inspected registered auditor.

(2) The principles under Paragraph 1 shall also be applied when performing investigations.

(3) Conflict of interests within the meaning of Paragraph 1, Item 5 shall exist where the persons performing an inspection or an investigation:

1. and the inspected or investigated registered auditor have been partners in an entity whose subject of activity involves financial audit;

2. have performed financial audit of entities whose financial statements were audited by the inspected or investigated registered auditor during the previous 3 (three) years;

3. and the inspected or investigated registered auditor are related parties.

## Section II

### **Oversight for assurance of the quality of the professional activity of registered auditors which perform compulsory financial audits of public interest entities' financial statements**

#### Inspections and investigations

**Article 87.** (1) Inspections shall be performed at least once every 3 (three) years on the basis of a risk assessment.

(2) The inspections and investigations shall be performed by teams, in which Commission's inspectors shall participate. ICPA's controllers designated by the chairman of the Commission can also participate in the teams.

(3) In the case of an inspection of an audit company, the audit engagements for compulsory financial audits performed by each registered auditor, who performed an activity on the company's behalf, shall be inspected.

(4) In the cases of the inspections and investigations, other audit-related services provided by the registered auditors can be inspected upon as well.

(5) A report, which shall be handed over to the inspected entities, shall be drawn up for the performed inspections/investigations, where the inspected entities shall have the right to make objections within a 14-day time limit from being handed the report. The inspecting team shall pass judgement and issue an opinion on the objections made.

(6) The requirements of Article 26 of Regulation (EU) No. 537/2014 shall be complied with when performing inspections.

(7) The Commission shall examine each report at a meeting within a reasonable time limit from the handing thereof to the chairman, together with the collected evidence, with the objections made and with the opinion of the inspecting team on the objections.

#### Powers and obligations in the course of performing an inspection or an investigation

**Article 88.** (1) When performing an inspection or an investigation, the chairman, the members and the inspectors of the Commission shall have the right to request, within the time limits stipulated by them, from:

1. the inspected or investigated registered auditor:

a) documents, certified copies of documents, evidence, information summaries and other information, which have a bearing on the performance of the inspection or investigation;

b) written explanation on matters related to the inspection or investigation;

2. natural persons and legal entities other than those under Item 1 - to provide certified copies of documents, evidence and information summaries related to the inspection or investigation;

3. ICPA - to provide documents, evidence, information summaries and other information related to the powers of the Commission;

4. the audit committees under Article 107 - to provide certified copies of documents, information summaries and other information related to the powers of the Commission.

(2) The inspected or investigated registered auditors shall be obligated to provide assistance to the Commission's bodies and cannot invoke the requirements for professional, banking or other secrecy protected by the law.

(3) The Commission shall have a right, whenever necessary for the purposes of an inspection or investigation, to hire external experts for performance of specific tasks. The experts must have appropriate professional education and experience and must meet the requirements of Article 86, Paragraph 1, Item 5.

(4) When performing an inspection or investigation, the Commission's members and inspectors shall identify themselves by presenting an official card.

#### Violations and oversight measures

**Article 89.** (1) The Commission shall apply oversight measures, when an inspection or an investigation finds the following:

1. omissions or violations in the registered auditor's activity in the fields under Article 85 (1);

2. non-compliance with the obligations of the registered auditor under Article 31;

3. non-compliance with the provisions of Regulation (EU) No. 537/2014;

4. refusal to provide assistance or impeding in some other manner the oversight by the Commission.

(2) In the cases under Paragraph 1, the Commission can:

1. give a quality assessment of the registered auditor's professional activity;

2. give recommendations to the registered auditor for termination or rectification of violations committed; the recommendations shall be require obligatory compliance;

3. announce to the public through its internet page or in some other appropriate manner the offender and the violations

committed thereby as established by an instruments that has entered into force;

4. announce to the public through its internet page or in some other manner a decision that a specific auditor's report does not meet the requirements of this act and of Regulation (EU) No. 537/2014, as well as send it to the Registry Agency for entry into the commercial register into the file of the audited entity, for which the provision of Article 38, Paragraph 1, Item 1 of the Accountancy Act is applicable;
  5. deprive a registered auditor of the right to perform compulsory financial audits of public interest entities for a period of up to 3 (three) years;
  6. deprive a registered auditor of the right to perform financial audits for a period of up to 3 (three) years;
  7. deprive a registered auditor of the right to practice the auditor's professional for a period of 5 (five) years;
  8. prohibit, for a period of 3 (three) years, a registered auditor from performing quality assurance reviews of compulsory financial audit engagements;
  9. propose to a competent authority exercising oversight over a public interest entity's activity to impose a ban on a member of its management body to exercise his or her functions for a period of up to 3 (three) years, where the respective oversight authority shall notify the Commission of the measures undertaken within a reasonable time limit.
- (3) After expiration of the time limit under Paragraph 2, Items 5 and 6, quality assurance inspections can be performed during the next 3 (three) years.
- (4) The measures under Paragraph 2, Items 3 and 4 shall be applied for a period of 5 (five) years from the entry into force of the decision of the Commission.
- (5) When a measure under Paragraph 2, Items 5 or 6 was imposed on a registered auditor and when an annual inspection or investigation within the time period under Paragraph 3 finds a violation of that same type, the Commission shall impose the measure under Item 7.
- (6) The measure under Paragraph 2, Item 6 shall be imposed on a registered auditor, which has committed a violation under Paragraph 1, Item 4. The Commission shall apply the measure under Paragraph 2, Item 7 in the case of a repeated violation.
- (7) When a violation under Paragraph 1 is committed by a registered auditor, who performs a compulsory financial audit on behalf of an audit company, the oversight measure shall be applied both on the registered auditor as a natural person and on the audit company as a legal person.
- (8) The measures under Paragraph 2, Items 5 - 7 can be applied also upon a proposal by the Management Board of the ICPA on the basis of a decision of its, adopted by a majority of two thirds of its members. The proposal of the Management Board must be based on facts and circumstances established in the course of inspections by ICPA's bodies.

### **Section III**

#### **Oversight for quality assurance of the professional activity of registered auditors, who do not perform compulsory financial audits of public interest entities' financial statements**

##### Inspections and investigations

- Article 90.** (1) The registered auditors, who do not perform compulsory financial audits of public interest entities' financial statements, shall be subjected to quality assurance inspections at least once every 6 (six) years on the basis of a risk assessment.
- (2) The inspections and investigations under this section shall be performed according to the procedure of Articles 87 and 88, where the provisions of Article 87, Paragraphs 3 - 5 and Article 89, Paragraph 1 shall be applied accordingly.
- (3) The persons performing inspection according to Paragraph 1 shall meet the requirements of Article 86.
- (4) The Commission can perform inspections for compliance with the requirements of Article 85 (1).

(5) The measures under Article 89 (2) shall be applied accordingly to the registered auditors, who do not perform compulsory financial audits of public interest entities' financial statements.

## **Chapter ten**

### **OVERSIGHT OVER THE ACTIVITY OF THE ICPA**

#### Scope of the oversight

**Article 91.** The Commission shall perform inspections of the activity of the ICPA as to the lawfulness and effective exercising of the functions under Article 36, Paragraph 1, Items 1 - 5 and Article 85 (3).

#### Procedure for performing inspections

**Article 92.** In the cases of the inspections under Article 91, the ICPA's controllers shall not participate in the inspecting team, where the provisions of Article 88 shall be applied accordingly.

#### Violations and oversight measures

**Article 93.** (1) When finding violations committed by the ICPA of the legislative requirements in exercising the functions under Article 36, Paragraph 1, Items 1 - 5 and Article 85 (3), the Commission can:

1. issue an order in writing to the chairman of the ICPA to undertake actions for termination and rectification of the violations;
2. announce to the public, through its internet page or in some other appropriate manner, the violations;
3. make a written warning of temporary depriving of a function or functions under Article 36, Paragraph 1, Items 1 - 5 and Article 85 (3);
4. temporary deprive of a function or functions under Article 36, Paragraph 1, Items 1 - 5 and Article 85 (3).

(2) The measure under Paragraph 1, Item 4 shall be applied by a resolution of the Commission, after the measures under Paragraph 1, Items 1 - 3 were applied before that and the violations were not rectified or terminated. In such a case, the Commission shall perform the divested functions for a period of 3 (three) months with a possibility for a one-time extension by an extra 3 (three) months. The depriving of delegated functions shall be effected by a resolution of the Commission adopted by a majority of 4 (four) votes.

## **Chapter eleven**

### **ISSUING OF AND APPEALING AGAINST COMMISSION'S ACTS**

#### Requirements to the Commission's decisions

**Article 94.** The Commission's decisions for applying oversight measures shall be issued in compliance with the requirements of Article 59, Paragraphs 1 and 2 of the Code of Administrative Procedure.

#### Notification and serving

**Article 95.** (1) The Commission's decisions for applying oversight measures shall be notified to their recipients through

being served in exchange for a signature or by virtue of registered mail with return notification of receipt. The serving of decisions to registered auditors by virtue of registered mail with return notification of receipt shall be effected to the address specified in the register under Article 20.

(2) When the Commission's decision cannot be served in the manner specified in Paragraph 1, it shall be considered to have been served upon being posted in a place designated for this purpose in the Commission's building. This fact shall be certified by a protocol drawn up by officers designated by an order of the chairman of the Commission.

Judicial appeal

**Article 96.** The Commission's decisions for applying oversight measures, with the exception of the measures under Article 89, Paragraph 2, Items 1 - 3 and Article 93, Paragraph 1, Items 1 - 3, shall be subject to judicial appeal before the Administrative Court in the City of Sofia regarding their legitimacy.

Application of the Code of Administrative Procedure

**Article 97.** To the extent that special rules are not envisaged in this chapter, the respective provisions of the Code of Administrative Procedure shall be applied.

## Chapter twelve

# COOPERATION AND EXCHANGE OF INFORMATION WITH THE EUROPEAN UNION AND WITH THE COMPETENT AUTHORITIES OF OTHER COUNTRIES

## Section I

### Cooperation and exchange of information with the European Union and with the competent authorities of other Member States of the European Union

Objective

**Article 98.** The Commission shall cooperate with the authorities of the European Union and with the respective competent authorities of other Member States of the European Union for the purpose of carrying out their powers in the field of public oversight of registered auditors.

Exchange of information with the European Authorities' Audit Oversight Committee

**Article 99.** The Commission shall be the competent authority for cooperation and for receiving and submitting information to the European Authorities' Audit Oversight Committee according to the provisions of Regulation (EU) No. 537/2014.

Exchange of information with the competent authorities for public oversight over the registered auditors in the other Member States of the European Union and in third countries

**Article 100.** (1) The Commission shall be the competent authority for cooperation and for receiving and submitting information from/to the competent authorities for public oversight over the registered auditors in the other Member States of the European Union and in third countries.

(2) Upon receiving a request from a competent authority of another Member State of the European Union, the Commission shall take immediately the necessary actions to gather the required information.

(3) The requirement for professional secrecy under Article 82 shall not prevent the exchange of confidential information between the Commission and the competent authorities of the other Member States of the European Union.

(4) The requirement for professional secrecy under Article 82 shall apply to the information under this Chapter received from a competent authority of another Member State of the European Union and it may be used by the Commission and its administration only in relation to the carrying out of its powers under this Act.

(5) In the cases where the Commission has reasonable grounds to suspect that on the territory of another Member State of the European Union activities contrary to the requirements of Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on the compulsory audits of the annual financial statements and consolidated financial statements, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC, hereinafter referred to as "Directive 2006/43/EC", contrary to the requirements of Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on the compulsory financial audits of the annual financial statements and consolidated financial statements (OJ, L 158/196 of 27 May 2014, hereinafter referred to as "Directive 2014/56/EC" or contrary to the requirements of Regulation (EU) No. 537/2014, are being carried out, it shall submit detailed information thereof to the competent authority of the relevant Member State of the European Union.

(6) In the cases where the Commission is notified by the competent authority of a Member State of the European Union of a violation of the requirements of Directive 2006/43/EC, Directive 2014/56/EC or Regulation (EU) No. 537/2014 on the territory of the Republic of Bulgaria, it shall take the necessary measures and shall notify the relevant competent authority of the relevant Member State of the European Union of the results therefrom.

(7) The Commission shall provide on an annual basis to the European Securities and Exchange Authority summarised information on the oversight measures applied and the administrative penalties imposed.

(8) The Commission shall notify immediately the European Securities and Exchange Authority of the oversight measures applied under Article 89, Paragraph 2, Items 5 - 7.

## Investigations

**Article 101.** (1) The Commission shall make an investigation at the request of the respective competent authority of another Member State of the European Union.

(2) In the cases under paragraph 1, the Commission can allow representatives of the competent authority of the Member State to participate as observers in the investigation where such a request has been made.

(3) The Commission can request that an investigation be carried out by the competent authority of another Member State of the European Union on the territory of that State, as well as that its members take part as observers in such investigation.

## Refusal to provide information

**Article 102.** (1) The Commission may refuse to act upon a request for information under Article 100 or to carry out an investigation or for observers to participate under Article 101, where:

1. the carrying out of an investigation or the provision of information might affect the sovereignty, the national security or the public order of the Republic of Bulgaria;

2. judicial proceedings have already been initiated before the judicial authorities of the Republic of Bulgaria in respect of the same actions and against the same registered auditors in relation to whom the cooperation is requested;

3. final ruling has already been passed in the Republic of Bulgaria in respect of the same actions and the same registered auditors in relation to whom the cooperation is requested.

(2) In the cases of paragraph 1, the Commission shall notify the authority that requested the cooperation.

## Non-application of additional requirements

**Article 103.** (1) In case of a financial audit of consolidated financial statements of a local company by an auditor or an

audit company carrying out financial audit of a subsidiary established in another Member State of the European Union, no additional requirements shall apply in relation to the financial audit regarding registration, the quality assurance review, the auditing standards, the professional ethics and the independence of the registered auditor who carried out the audit of such entity.

(2) In the cases of a financial audit of financial statements of an entity headquartered in another Member State of the European Union, whose securities are traded on a Bulgarian regulated market, no additional requirements shall apply in relation to the financial audit regarding registration, quality assurance review, the auditing standards, the professional ethics and the independence of the registered auditor carrying out independent financial audit of the financial statements of such entity.

## **Section II**

### **Cooperation and exchange of information with competent authorities of third countries**

#### Provision of working documents by the Commission

**Article 104.** (1) The Commission may allow the transfer to the competent authorities of a third country of working papers related to carrying out of a financial audit or other documents held by registered auditors, provided that:

1. those working papers and other documents relate to carrying out of a financial audit of companies which have issued securities in that third country or which form part of a group preparing the consolidated financial statements in that third country;
2. the transfer takes place via the Commission to the competent authorities of that third country and at their request;
3. the competent authorities of that third country meet the requirements which have been declared adequate by the European Commission in accordance with the procedure set out in Article 48 of Directive 2006/43/EC;
4. there are working arrangements on the basis of reciprocity agreed between the Commission and the competent authorities of that third country;
5. the transfer is made in accordance with the requirements of Chapter Six of the Personal Data Protection Act.

(2) The effective arrangements referred to in Paragraph 1, Item 4 shall ensure that:

1. justification as to the purpose of the request for working papers related to carrying out of financial audit or other documents held by registered auditors is provided by the competent authorities of the third country;
2. the employees or the persons employed by the competent authorities of the third country, as well as the other persons that receive the documents, are subject to obligations of professional secrecy;
3. the competent authorities of the third country shall use the provided documents only for the exercise of their functions of public oversight, inspections for quality assurance and investigations that meet the requirements of Articles 29, 30 and 32 of Directive 2006/43/EC;
4. the request from the competent authority of a third country can be refused where:
  - a) the provision of the documents would adversely affect the sovereignty, security or public order of the Republic of Bulgaria;
  - b) judicial proceedings have already been initiated before the judiciary authorities in the Republic of Bulgaria in respect of the same actions and between the same parties, in respect of whom the provision of the documents has been requested.

(3) The Commission shall cooperate with the European Commission in the assessment of the adequacy under Paragraph 1, Item 3 and shall take the required actions for implementation of the decisions of the European Commission.

#### Direct provision of working documents by registered auditors

**Article 105.** The Commission can refuse to apply Article 104 (1) and can allow registered auditors to transfer working

papers relating to compulsory financial audit or other documents held by them directly to the competent authorities of a third country provided that:

1. investigations have been initiated by the competent authorities in that third country;
2. the transfer does not contradict the obligations, with which registered auditors are required to comply in connection with this Act;
3. there are working arrangements with the competent authorities of that third country that allow the Commission reciprocal direct access to working papers relating to compulsory financial audit or to other documents of that third-country's registered auditors;
4. the requesting competent authority of the third country informs in advance the Commission of each direct request for documents, indicating the reasons therefor;
5. the conditions referred to in Article 104, paragraph 2 are complied with.

Notification of the European Commission

**Article 106.** The Commission shall notify the European Commission of effective arrangements under Article 104, Paragraph 1, Item 4 and Article 105, Item 3.

## **PART FOUR**

### **AUDIT COMMITTEE AT THE PUBLIC INTEREST ENTITIES**

Forming an audit committee

**Article 107.** (1) An audit committee shall be set up at each public interest entity.

(2) The members of the audit committee shall be elected by the general meeting of shareholders or partners at a proposal by the chairman of the management board or of the supervisory board or by the Board of Directors or the Managing Director of the entity. Members of the supervisory board of the entity or members of the management body, who are not executive members of the management bodies, can be elected to be members of the audit committee.

(3) Persons, who have acquired an academic qualification degree of "Master" and knowledge in the field of operation of the entity, shall be elected to be members of the audit committee, where at least one of the members thereof must have at least 5 years of professional experience in the field of accounting or audit.

(4) The majority of the members of the audit committee shall be external to and independent of the public interest entity. An independent member of an audit committee cannot be:

1. a member of the management body, an executive member of the supervisory body or an employee of the entity;
2. a person, who is in long-term commercial relations with the entity;
3. a member of a management or supervisory body, a procurator or an employee of a person under Item 2;
4. person related to another member of a management or supervisory body of the public interest entity.

(5) The absence of the circumstances under Paragraph 4 shall be established by a written declaration submitted before the election date to the general meeting by each person nominated to be a member of an audit committee. When one or more of these circumstances occur after the election, the respective member of the audit committee shall immediately notify in writing the management and supervisory bodies of the entity and shall stop performing its functions, where a new member shall be elected in his or her place at the next general meeting.

(6) The chairman of the audit committee shall be elected by the members of the audit committee. The chairman must also meet the requirements under Paragraph 4.

(7) The general meeting of the shareholders or of the partners shall approve a statute of the audit committee, in which its



functions, rights and responsibilities in respect to the financial audit, internal control and internal audit, as well as in respect to its relations with the management bodies, shall be stipulated.

(8) Audit committees in other entities can also be set up by a decision of the general meeting of the shareholders or of the partners.

Rights and obligations of the audit committee

**Article 108.** (1) The audit committee:

1. shall inform the entity's management and supervisory bodies of the results from the compulsory audit and shall clarify in what manner the compulsory audit contributed to the truthfulness of the financial reporting, as well as of the role of the audit committee in this process;
2. shall monitor the financial reporting process and shall present recommendation and proposals in order to guarantee the effectiveness thereof;
3. shall monitor the effectiveness of the internal control system, the risk management system and the internal audit activity in respect to the financial reporting in the audited entity;
4. shall monitor the compulsory financial audit of the annual financial statements, including its implementation, while taking into consideration the findings and conclusions of the Commission in application of Article 26, Paragraph 6 of Regulation (EU) No. 537/2014;
5. shall verify and monitor the independence of the registered auditors in accordance with the requirements of Chapters Six and Seven of the Act, as well as in accordance with Article 6 of Regulation (EU) No. 537/2014, including the appropriateness of providing other services outside the audit to the audited entity under Article 5 of that same Regulation;
6. shall be responsible for the procedure for selecting the registered auditor and shall recommend his or her appointment, with the exception of the cases when the audited entity has its own selection commission;
7. shall notify the Commission, as well as the entity's management and supervisory bodies of each approval given under Article 64 (3) and Article 66 (3) within a 7-day time limit from the date of the decision;
8. shall report on its activity before the body in charge of the appointment;
9. shall draw up and submit to the Commission an annual report on its activity by the 30th of June.

(2) The entity's management body shall procure sufficient resources to the audit committee for effective implementation of its duties.

(3) The members of the management and supervisory bodies and the entity's employees shall be obligated to render assistance to the audit committee in the implementation of its activity, including to provide within reasonable time limits the information requested by the audit committee.

Monitoring, assessment and measures of the Commission in respect to the activity of the audit committees

**Article 109.** (1) The Commission shall monitor on a regular basis the quality, development and competition on the market for providing services in connection with the compulsory audit of public interest entities according to the requirements of Article 27 of Regulation (EU) No. 537/2014.

(2) The Commission can give prescriptions for improving the activity of the audit committees in the public interest entities.

## **PART FIVE**

### **ADMINISTRATIVE PENAL PROVISIONS**

## Administrative violations and penalties

**Article 110.** (1) A fine or a financial penalty in the amount of 10 percent of the total amount of the net revenues from sales from the previous financial year considered as of the date of establishing the violation but in an amount of not less than BGN 2,000 shall be imposed on a registered auditor, when an inspection or investigations finds that:

1. the registered auditor has issued an auditor's report with an auditor's opinion or with a refusal to issue an opinion, which is not consistent with the evidence collecting in the process of the financial audit;
2. the registered auditor has failed to comply with the requirements of the applicable audit standards, which affected adversely the results from his or her work and the auditor's opinion issued by him or her;
3. the registered auditor has failed to comply with the requirements for independence and absence of conflict of interests;
4. the registered audit has failed to comply with the requirements for safeguarding the professional secrecy under Article 11;
5. the registered auditor has failed to comply with his or her obligation to provide to the substitute registered auditor the information according to Article 31, Paragraph 1, Item 4 and/or Paragraph 2, Item 2;
6. the registered auditor has failed to comply with the requirements for storage of the audit documentation under Article 31, Paragraph 1, Item 10;
7. the registered auditor has failed to comply with the obligations under Article 56, Paragraphs 6 and 7 to create and maintain dossiers or the said dossiers are incomplete;
8. the registered auditor has failed to comply with the obligation to report facts and circumstances to a competent authority exercising oversight over a public interest entity, as well as to the Commission, or the registered auditor has provided incomplete or false information under Article 61;
9. the registered auditor has failed to comply with the obligation to publish an annual transparency report or the published report contains incomplete or false information as per the requirements of Article 62;
10. the registered auditor has failed to comply with the restrictions or prohibitions under Article 64;
11. the registered auditor has failed to comply with the requirements for maximum length under Article 65;
12. the registered auditor has failed to comply with the requirements as to the remunerations under Article 66;
13. the registered auditor refuses or fails to provide assistance in the course of performance of an inspection or investigation or the registered auditor impedes in some other manner the implementation of the functions by the Commission or by the ICPA;
14. the registered auditor has failed to issue an auditor's report for a compulsory financial audit at a public interest entity through his or her own fault, if there are no compelling reasons under Article 49 (2) or in the case of a refusal to continue performance under an audit contract, as well as in the case of a failure to issue an auditor's report within the stipulated time limit, which, due to a late date of its issuance, cannot fulfil the objective for which the audit was assigned;
15. the registered auditor has failed to provide to the Commission the information required under this Act or has provided it more than 1 (one) month too late after the expiration of the stipulated time limit or has provided incomplete or false information;
16. the registered auditor has failed to comply with prescriptions given by the Commission or by the ICPA according to the procedure of Article 89, Paragraph 2, Item 2;
17. the registered auditor has failed to perform a quality assurance review in accordance with the requirements of Article 8 of Regulation (EU) No. 537/2014;
18. the registered auditor has performed a quality assurance review according to the procedure of Article 8 of Regulation (EU) No. 537/2014 and an auditor's report with an auditor's opinion or a refusal to issue an opinion has been issued in contradiction with the evidence collected in the course of performance of the compulsory financial audit and this fact has not been adequately recorded by the reviewer before the issuing of the auditor's report;
19. the registered auditor has failed to present within the time limit under Article 11 of Regulation (EU) No. 537/2014 a supplementary report for the audit committee or such a supplementary report was presented but with a false or incomplete information contained in it.

(2) A registered auditor shall be punished by a fine or by a financial penalty in the amount of from BGN 500 to BGN 5,000, when an inspection or investigation finds that:

1. the other requirements of the applicable auditing standards not specified in Paragraph 1 have not been complied with;
2. the information required by this Act has been provided to the Commission within 1 (one) months after the expiration of the stipulated time limit;
3. other requirements of this Act or of the Commission's acts for its application have not been complied with.

(3) Where the violations under Paragraphs 1 or 2 are committed by a registered auditor who carries out independent financial audit or services related thereto on behalf of an audit company, a penalty shall be imposed on both the registered auditor who is a natural person and the audit entity on whose behalf the audit has been carried out.

(4) When the documents and information requested under Article 77, Paragraph 1, Item 9 and Article 88 (1) are not provided or are provided after the stipulated time limit or when they are false or incomplete, a fine or a financial penalty in the amount from BGN 500 to BGN 2,000 shall be imposed on the respective person other than a registered auditor.

(5) A chairman of a management board or of a supervisory board or a chairman of the board of directors or a managing director of a public interest entity, which fails to comply with its obligations under Article 107 (2), shall be punished by a fine in the amount from BGN 500 to BGN 5,000.

(6) A financial penalty in the amount from BGN 2,000 to BGN 20,000 shall be imposed on a public interest entity, which fails to comply with its obligation under Article 107 (1).

(7) A financial penalty in the amount from BGN 2,000 to BGN 20,000 shall be imposed on a public interest entity, which fails to comply with its obligation under Article 107 (7).

(8) In the case of a repeated violation, the fine or financial penalty shall be doubled as an amount.

(9) The acts for establishing violations shall be drawn up by the Commission's inspectors or by the ICPA's controllers authorised by the chairman of the Commission, to whom the performance of the inspection or investigation shall be assigned.

(10) Penal decrees shall be issued by the chairman of the Commission.

(11) The drawing up of acts, the issuing, the appealing and the execution of the penal decrees shall be implemented according to the Administrative Violations and Sanctions Act.

Publishing of information on administrative penalties imposed and administrative measures taken

**Article 111.** (1) The Commission shall publish on its internet page all the imposed and effective administrative penalties and oversight measures, where information on the type and nature of the violation and on the identity of the natural person or legal entity in respect of which the latter have been imposed shall be specified.

(2) The Commission shall publish the information under Paragraph 1 on an anonymous basis when:

1. the penalty was imposed on a natural person and, after a preliminary assessment of the proportionality of publishing the person data, it is found that such publishing is disproportionate;
2. the publishing would jeopardise the stability of the financial markets or an ongoing investigation;
3. the publishing would inflict disproportionate damages to institutions or persons concerned.

## **SUPPLEMENTARY PROVISIONS**

**§ 1.** In the context of this Act:

1. "Activity analogous to a financial audit" shall be the activity as an inspector at the Commission for Public Oversight over Registered Auditors.

2. "Good reputation" shall exist when the registered auditor who is a natural person or the partners or members of the management and supervisory bodies of the audit company have not been convicted for premeditated crime of general nature and have not been deprived of the right to practice the auditors' profession or activity or other similar professions or activities in the fields of finance and accounting.
3. "Member State of Origin" shall be another Member State of the European Union which has granted permission to a registered auditor or to an audit company to perform financial audits in this country according to its national legislation in accordance with the requirements of Article 3, Paragraph 1 of Directive 2006/43/EU.
4. "Expert" shall be a natural person with specific knowledge of financial markets, financial reporting, auditing and other fields related to the inspections and the practice of conducted audits hereunder.
5. "Stakeholder" shall be a person who has vested interest in the activity of a registered auditor, the Commission or the ICPA.
6. "Inspector" shall be a person who is in official or in extra-employment legal relations with the Commission, has the appropriate professional education and the corresponding experience in the field of financial audit and financial reporting, does not exercise an activity related to financial audit and has undergone training in control of the quality of the activity of the registered auditors.
7. "Inspection" shall be a set of procedures for review of the quality of the activity of registered auditors aimed at assurance of the quality of their activity and including assessment of compliance with the applicable auditing standards and the requirements for independence, of the quantity and quality of spent resources, of the received auditor remuneration and of the internal quality control system. The inspections can be planned or non-planned, as well as comprehensive or topic-specific.
8. "Selection commission" shall be a commission, in which the shareholders or partners have significant influence and to which it is assigned to make a recommendation regarding the selection of an auditor.
9. "Competent authority of a third country" shall be the authority which is responsible to the public oversight or for the approval and registration of the persons performing audits of the annual financial statements in countries which are not members of the European Union.
10. "Competent authority" shall be the authority or the authorities designated by a law, to which the regulation and/or oversight over the activity of the registered auditors or specific regulation or oversight functions have been assigned. The citing of the words "competent authority" in a specific article shall mean the authority responsible for the functions specified in that same article.
11. "Controller" shall be a person who is member of the ICPA, who has undergone training for control over the quality of the activity of the registered auditors and who has been approved by the Board of Quality Control of the Auditors' Services at the ICPA.
12. "Person not practicing activity related to the financial audit" is any natural person who in the course of his or her participation in the public oversight and in the 3-year period before his or her participation in the public oversight has not carried out financial audits within the meaning of this Act, has not held shares, stocks or other securities issued by an audit company, has not been a member of a management or controlling body of an audit company and has not been employed by an audit company or connected otherwise thereto.
13. "Net sales revenues" shall be the total amounts from sales, received from the registered auditor's activity after deducting the commercial rebates, the value added tax and the other taxes directly related to the revenues. When the registered auditor practices the auditor's activity in a direct manner, the net sales revenues for the purposes of this Act shall include the total amounts from sales received by the natural person directly from the activity of the commercial company through which he or she provides audit services, as well as from his or her participation in a civil company under the Obligations and Contracts Act, where applicable.
14. "Fields related to the financial audit" shall be the internal audit, the external audit in the public sector and the accounting.
15. "Group's auditor" shall be a registered auditor, who performs financial audits of consolidated financial statements of an entity.
16. "Auditor from a third country" shall be a natural person who performs financial audits of annual financial statements of an entity established in a third country, other than a person registered in a Member State of the European Union.
17. "Audit network" is an association of registered auditors which is aimed at cooperation, profit- or cost-sharing, and

shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

18. "Auditor's profession" shall be the profession of the registered auditors for providing financial audit services, audit-related services or analogous services, directly or through an audit company.

19. "Audit engagement" shall be an engagement to perform financial audit.

20. "Audit company from a third country" shall be an entity, regardless of its legal form, which performs financial audits of annual financial statements of an entity, established in a third country and other than the entity registered as an audit company in a Member State of the European Union.

21. "Experience in the field of financial audit" shall be the experience in the field of accounting, financial reporting and auditing.

22. "Main scope of activity" shall be the commercial company's activity, when the total amount of the net sales revenues from this activity exceeds 50 percent of the total amount of the net sales revenues for the reporting period.

23. "Auditor in charge" shall be an auditor:

a) designated by the audit company to be in charge and to be principally responsible for performing a financial audit on behalf of the audit company, or

b) designated by the audit company to be in charge of and to be principally responsible for performing a financial audit at group level, and an auditor designated to be in charge of and to be principally responsible for performing the audit of the financial statements of key subsidiaries in case of group audit, or

c) who signs the auditor's report.

24. "Entity" is a concept in the sense of Article 2 of the Accountancy Act.

25. "Repeated" is the violation committed within a 1-year period from the issuing of the penal decree by virtue of which a penalty for the same type of violation was imposed on the offender.

26. "Public interest entity" shall be a concept in the sense of § 1, Item 22 of the Supplementary Provisions of the Accountancy Act.

27. "Applicable financial reporting framework" shall be the financial reporting framework adopted by an entity when preparing its financial statements and appropriate from the standpoint of the nature of the entity and the purpose of the financial statements or required by a law or by another statutory instrument. The applicable financial reporting framework shall determine the form and content of the financial statements.

28. "Applicable accounting basis" shall be the accounting standards constituting the overall framework for preparation of the annual financial statements according to Chapter Four of the Accountancy Act.

29. "Professional year" shall be a period of 12 months of practicing the registered auditors' professional activity starting on 1 July and ending on 30 June of the next year.

30. "Professional scepticism" shall be a conduct, which puts into question and pays a close attention to conditions which may be indicative of any inaccuracies due to error or fraud, as well as which includes conservative assessment of the audit data.

31. "Professional activity of a member of ICPA" shall be the activity for provision of services, requiring accounting or related skills, performed by members of the ICPA and including engagements for financial audit, financial information review and expression of assurance, other than audit or review, under negotiated procedures and for compilation.

32. "Registered auditor's professional activity" shall be the activity for compulsory financial audit and for audit-related services.

33. "Professional judgement" shall be competent, adequate and circumstances-reflecting application of the received practical training, knowledge and experience of the registered auditor in accordance with the auditing standards, the ethical requirements and the applicable accounting basis when making decisions in the course of a financial audit.

34. "Investigation" shall be the implementation of a set of procedures for reviewing the work of the registered auditors for the purpose of detecting and assessing any incorrect implementation of compulsory financial audit engagements and audit-related services from the point of view of the requirements of the applicable auditing standards and of the

legislative provisions.

35. "Reasonable degree of assurance" is a high degree of security expressed affirmatively in the auditor's report as reassurance that the information subject of the audit does not contain essential omissions, errors and defects.

36. "Registered auditor" shall be a natural person or an audit company, entered into the register under Article 20 and having the right to sign auditor's reports with an opinion on financial statements.

37. "Registered auditor from a Member State of the European Union" shall be a natural person or an audit company, which has acquired in a Member State of the European Union the right to sign auditor's reports with an opinion on entities' annual financial statements.

38. "Management team" shall be the persons managing and representing the audited entity.

39. "Managerial position" shall be a position including performance of functions for management and control of structural units which have a direct bearing on the implementation of the main scope of activity of the entity.

40. "Audit-related services" shall be:

a) audits of financial statements, prepared in accordance with frameworks with special intended purpose for regulatory or supervisory purposes, of public interest entities;

b) engagements for expressing assurance, intended for a wide circle of users and other than audits or historical financial information reviews, of public interest entities;

c) engagements for expressing assurance regarding greenhouse gases reports.

41. "Related persons" shall be a concept in the sense of § 1, Item 3 of the Supplementary Provisions of the Tax and Social Insurance Procedure Code.

42. "Close links" shall be a concept in the sense of Article 4, Paragraph 1, Item 38 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 regarding the Prudential Requirements to Credit Institutions and Investment Intermediaries (Broker Dealerships) and amending Regulation (EU) No. 648/2012 (OJ, L 176/1 of 27 June 2013)

43. "Conditional remuneration" shall mean remunerations for audit engagements calculated based on a pre-determined basis related to the result from a specific transaction or from the work performed. The remunerations shall not be considered "conditional" when determined by a court or by a competent authority.

44. (Amended, SG No. 15/2018, effective 16.02.2018) "Financial instruments" shall be a concept according to Article 4 of the Market in Financial Instruments Act.

45. "A wide circle of users" shall be an unlimited number of persons, other than the management of the audited entity and/or other than the specific financial information users specified in the contract for the respective service.

**§ 2. (1)** This Act shall introduce the requirements of:

1. Directive 2006/43/EU of the European Parliament and of the Council of 17 May 2006 on the compulsory audit of annual financial statements and consolidated financial statements, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC.

2. Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on the compulsory financial audit of annual financial statements and consolidated financial statements;

3. Article 35 of Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, the consolidated financial statements and the related reports of some types of entities and amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ, L 182/19 of 29 June 2013).

(2) This Act envisages measures for application of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements in respect to the financial audit of public interest entities and repealing Decision 2005/909/EC of the Commission.

## **TRANSITIONAL AND FINAL PROVISIONS**

**§ 3.** This act shall repeal the Independent Financial Audit Act (promulgated, SG No. 101/2001; amended, SG No. 91/2002, No. 96/2004, No. 77 and 105/2005, No. 30, 33, 62 and 105/2006, No. 67/2008, No.95/2009, No. 54/2010, No. 99/2011, No. 38, 60 and 102/2012, No. 15/2013 and No. 61 and 95/2015).

**§ 4.** The Chairman and members of the Commission for Public Oversight over Registered Auditors shall continue to exercise their powers till the expiration of the term of office for which they have been elected.

**§ 5.** The repealed Independent Financial Audit Act shall be applied to the implementation of audits of financial statements of public interest entities and of audit of financial statements under the Insurance Code, the Social Insurance Code and the Credit Institutions Act for reporting periods ending on 31 December 2016.

**§ 6. (1)** A public interest entity, which has accepted an engagement for compulsory financial audit through 16 June 2014 with a registered auditor who has provided as of this date and to this same entity compulsory financial audit services over a time period of 20 or more consecutive years, shall not be allowed to accept or continue an engagement for compulsory financial audit with that same auditor from 17 June 2020 onwards.

**(2)** A public interest entity, which has accepted an engagement for compulsory financial audit through 16 June 2014 with a registered auditor who has provided as of this date and to this same entity compulsory financial audit services over a time period of 11 or more consecutive years but for less than 20 consecutive years, shall not be allowed to accept or continue an engagement for compulsory financial audit with that same auditor from 17 June 2023 onwards.

**(3)** A public interest entity, which has accepted through 17 June 2016 an engagement for compulsory financial audit with a registered auditor who has provided through 16 June 2014 to this same entity compulsory financial audit services over a time period of less than 11 consecutive years, shall be allowed to accept and continue an engagement for compulsory financial audit with that same auditor till reaching the maximum length for an engagement stipulated under Article 65.

**§ 7. (1)** Within a 6-month time limit of the entry into force of the act, the Commission for Public Oversight of Registered Auditors and the Institute of the Certified Public Accountants shall bring their activities in line herewith.

**(2)** Within a 3-month time limit of the entry into force of the act, the Institute of the Certified Public Accountants shall bring the professional seals of the registered auditors in line herewith.

**§ 8.** Within a 6-month time limit from the entry into force of the act:

1. the public interest entities shall set up an audit committee and shall adopt its rules of procedure in accordance with Article 107 (7);
2. the Registry Agency shall bring its activities in line herewith.

**§ 9.** The acts of the Commission for Public Oversight over Registered Auditors and the Institute of the Certified Public Accountants issued before the entry into force of the this act shall be applied to the extent to which they do not contradict this act.

**§ 10.** The administrative penal procedures, inspections and investigations that are still pending as of the time of entry into force of this act shall be completed according to the procedure laid down in the repealed Independent Financial Audit Act.

**§ 11.** The following amendments and supplementations shall be made in the Insurance Code (promulgated, SG No. 102/2015; supplemented, SG No. 62/2016):

1. In Article 101:

a) Paragraph 1 shall be amended to read as follows:

"(1) The annual financial statements of an insurer, a reinsurer, an insurance holding or a financial holding with mixed activities with a seat in the Republic of Bulgaria, their consolidated financial statements, where applicable, as well as the annual information summaries, reports and appendices under Article 126 (1) shall be audited and certified by two audit companies which are registered auditors according to the Independent Financial Audit Act. When the insurer does not have a right of access to the common market under Article 16, the audit and the certification shall be implemented by a single audit company.";

b) Paragraph 3 shall be amended to read as follows:

"(3) An audit company whose registered auditors, who are to perform the certification on behalf of such audit company, have been deprived of the right to practice as an auditor in the Republic of Bulgaria or in another Member State and who do not meet the criteria under Article 101a (3) may not be an auditor under Paragraph 1.";

c) Paragraph 4 shall be repealed.

2. Article 101a shall be created as follows:

"Endorsement of auditors

Article 101a. (1) The insurers, reinsurers, insurance holdings and financial holdings with mixed activities with a seat in the Republic of Bulgaria shall select their auditors under Article 101 (1) after preliminary coordination of their choice with the Financial Supervision Commission.

(2) The criteria for coordination of the choice of auditors under Paragraph 1 shall be approved by the commission in coordination with the Commission for Public Oversight over Registered Auditors.

(3) If the Financial Supervision Commission has not lodged an objection within a 14-day time limit from the date of the request for coordination, it shall be assumed that the proposal for choice of an auditor has been duly coordinated therewith."

3. In Article 103, the words "audit entity" shall be replaced everywhere with the words "the auditors under Article 101 (1)".

4. In Article 125, Paragraph 3 shall be created as follows:

"(3) The management body of an insurance holding or of a financial holding with mixed activities with a seat in the Republic of Bulgaria, which is at helm of a group of companies, shall prepare and submit to the commission the company's financial statements, as well as the consolidated financial statements audited in accordance with Article 101 (1) within a time limit of not later than 20 weeks after the end of the financial year."

5. Article 126 (3), the words "the specialised audit entity under Article 101" shall be replaced by the words "the auditors under Article 101 (1)".

6. In Article 587 (3):

a) in Item 1, the words "the audit entity" shall be replaced by the words "the auditors under Article 101 (1)";

b) in Item 10, the words "audit entity" shall be replaced by the words "registered auditors according to the Independent Financial Audit Act".

7. In Article 599, Paragraphs 3 and 4, the words "the audit entity" shall be replaced by the words "the auditors under Article 101(1)".

**§ 12.** The following amendments and supplementations shall be made in the Social Insurance Code (promulgated, SG No. 110/1999; Ruling No. 5 of the Constitutional Court of 2000 - No. 55/2000; amended, SG No. 64/2000, No. 1, 35 and 41/2001, No. 1, 10, 45, 74, 112, 119 and 120/2002, No. 8, 42, 67, 95, 112 and 114/2003, No. 12, 21,38, 52, 53, 69, 70, 112 and 115/2004, No. 38, 39, 76, 102, 103, 104 and 105/2005, No. 17, 30, 34, 56, 57, 59, 68, 76, 80, 82, 95, 102 and 105/2006, No. 41, 52, 53, 64, 77, 97, 100, 109 and 113/2007, No. 33, 43, 67, 69, 89, 102 and 109/2008, No. 23, 25, 35, 41, 42, 93, 95, 99 and 103/2009, No. 16, 19, 43, 49, 58, 59, 88, 97, 98 and 100/2010; Ruling No. 7 of the Constitutional Court of 2011 – No. 45/2011; amended, No. 60, 77 and 100/2011, No. 7, 21, 38, 40, 44, 58, 81, 89, 94 and 99/2012, No. 15, 20, 70, 98, 104, 106, 109 and 111/2013, No. 1, 18, 27, 35, 53 and 107/2014, No. 12, 14, 22, 54, 61, 79, 95, 98 and 102/2015 and No. 62/2016):



1. In Article 187:

a) in Paragraph 1, the words "by two registered auditors or by a specialised audit entity" shall be replaced by the words "jointly by two audit entities which are registered auditors according to the Independent Financial Audit Act";

b) in Paragraph 2, the words "and the specialised audit entities" shall be deleted.

2. Article 187a shall be created as follows:

"Selection and appointment of auditors

Article 187a. (1) The pension insurance companies shall select the auditors under Article 187 (1) after preliminary coordination of the choice with the Financial Supervision Commission.

(2) The criteria for coordination of the choice of auditors under Paragraph 1 shall be approved by the Financial Supervision Commission in coordination with the Commission for Public Oversight over Registered Auditors.

(3) If the Financial Supervision Commission has not lodged an objection within a 14-day time limit from the date of the request for coordination, it shall be assumed that the proposal for choice of an auditor has been duly coordinated therewith."

**§ 13.** The following amendments and supplementations shall be made in the Credit Institutions Act (promulgated, SG No. 59/2006; amended, SG No. 105/2006, No. 52, 59 and 109/2007, No. 69/2008, No. 23, 24, 44, 93 and 95/2009, No. 94 and 101/2010, No. 77 and 105/2011, No. 38 and 44/2012, No. 52, 70 and 109/2013, No. 22, 27, 35 and 53/2014, No. 14, 22, 50, 62 and 94/2015 and No. 33, 59, 62 and 81/2016):

1. In Article 71, Paragraph 1, Item 7, the word "auditor" shall be replaced by the word "auditors".

2. In Article 76:

a) in Paragraph 1, the words "by a specialised audit entity which is a registered auditor" shall be replaced by the words "jointly by two audit entities which are registered auditors";

b) in Paragraph 4, the word "auditor" shall be replaced by the word "auditors" and a second sentence shall be created as follows: "The Bulgarian Central Bank, in coordination with the Commission for Public Oversight over Registered Auditors, shall adopt criteria for coordination of the choice.";

c) in Paragraph 6, the word "auditor" shall be replaced by the word "auditors";

d) in Paragraph 7, in the text before Item 1, the words "the auditor shall give" shall be replaced by the words "the auditors shall give" and the words "The auditor shall make a review and shall express" shall be replaced by the words "The auditors shall make a review and shall express".

3. In Article 77, Paragraph 1, Item 4, the words "the auditor to certify" shall be replaced by the words "the auditors to certify".

4. In Paragraph 78 (1), the words "by a specialised audit entity which is a registered auditor" shall be replaced by the words "jointly by two audit entities which are registered auditors".

**§ 14.** The following amendments and supplementations shall be made in the Accountancy Act (promulgated, SG No. 95/2015; supplemented, SG No. 74/2016):

1. In Article 38, Paragraph 11 shall be created as follows:

"(11) By the 31st of June of the current year, the Registry Agency shall provide electronically to the National Revenue Agency a list of the entities which failed to publish their annual financial statements for the previous year within the time limit stipulated in Paragraphs 1 and 2. The list shall contain the name of the entity and the BULSTAT code. By the 30th of September of the current year, the National Revenue Agency shall undertake the necessary measures for the implementation of audits and for the establishing of violations under Paragraphs 1 - 10."

2. In Article 74 (1), the words "within the time limits under Article 38" shall be added after the words "fails to publish financial statements".

3. In § 1, Item 22 of the supplementary provisions, letter "k" shall be amended to read as follows:

"l) Water Supply and Sewerage operators within the meaning of Article 2 (1) of the Regulation of Medium and Large Water Supply and Sewerage Companies Act."

**§ 15.** The following amendments shall be made in the Collective Investment Schemes and Other Undertakings for Collective Investments Act (promulgated, SG No. 77/2011; amended, SG No. 21/2012, No. 109/2013, No. 27/2014, No. 22 and 34/2015 and No. 42 and 76/2016):

1. In Chapter Fourteen, in the title of Section III, the word "independent" shall be replaced by the word "registered".
2. In Article 150:
  - a) in Paragraph 1, in the text before Item 1, the words "independent auditor" shall be replaced by the words "registered auditor according to the Independent Financial Audit Act";
  - b) in Paragraph 2, the words "the independent" shall be replaced by the words "the registered";
  - c) in Paragraph 3, the words "independent" and "the independent" shall be replaced by the words "registered" and "the registered" respectively.
3. In Article 151, Paragraph 1, Item 3, the words "the independent" shall be replaced by the words "the registered".

**§ 16.** The following amendments shall be made in the Supplementary Supervision of Financial Conglomerates Act (promulgated, SG No. 59/2006; amended, SG No. 52/2007, No. 77 and 105/2011, No. 70/2013, No. 27/2014 and No. 102/2015):

1. In Paragraph 19 (2) the words "independent auditor" shall be replaced by the words "registered auditor according to the Independent Financial Audit Act".
2. In Article 20, Paragraph 3, Item 7, the word "independent" shall be replaced by the word "registered".

**§ 17.** In the Payment Services and Payment Systems Act (promulgated, SG No. 23/2009; amended, SG No. 24 and 87/2009, No. 101/2010, No. 105/2011, No. 103/2012, No. 57 and 102/2015 and No.59/2016), in Article 23 (1), the words "specialised audit entity" shall be replaced by the words "audit company".

**§ 18.** In the Film Industry Act (promulgated, SG No. 105/2003; amended, SG No. 28, 94 and 105/2005, No. 30, 34 and 80/2006, No. 53 and 98/2007, No. 42 and 74/2009, No. 99/2010; Ruling No. 1 of the Constitutional Court of 2011 – No. 31/2011; amended, SG No. 82/2012 and No. 15 and 68/2013), in Article 26 (3), the words "independent financial auditor" shall be replaced by the words "registered auditor according to the Independent Financial Audit Act".

**§ 19.** The following amendments shall be made in the Postal Services Act (promulgated, SG No. 64/2000; amended, SG No. 112/2001, No. 45 and 76/2002, No. 26/2003, No. 19, 88, 99 and 105/2005, No. 34, 37, 80 and 86/2006, No. 41, 53 and 109/2007, No. 109/2008, No. 35, 87 and 93/2009, No. 101 and 102/2010, No. 105/2011, No. 38/2012, No. 61/2014 and No. 81/2016):

1. In Article 29a (3), the word "auditor" shall be replaced by the words "registered auditor according to the Independent Financial Audit Act".
2. In Article 29b (5), the word "independent" shall be replaced by the word "registered".

**§ 20.** The following amendments shall be made in the Bank Bankruptcy Act (promulgated, SG No. 92/2002; amended, SG No. 67/2003, No. 36 and 2004, No. 31 and 105/2005, No. 30, 34, 59 and 80/2006, No. 53 and 59/2007, No. 67 and 2008, No.105/2011, No. 98/2014, No. 22. 41, 50, 61, 62 and 94/2015 and No. 33/2016):

1. In Article 78 (1), the words "the preparation of the appraisal under Article 80 (1)" shall be replaced by the words "the completion of the inventory taking and of the appraisal under Article 52 (1)".
2. In Article 80 (7), the words "specialised audit entity" shall be replaced by the words "audit company".

**§ 21.** The following amendments shall be made in the Forestry Act (promulgated, SG No. 19/2011; amended, SG No. 43/2011, No. 38, 60, 82 and 102/2012, No. 15, 27, 66 and 109/2013, No. 28, 53, 61 and 98/2014, No.60, 79 and 100/2015 and No. 13, 15, 57 and 61/2016):

1. In Article 170, Paragraph 1, Item 5, the words "or a specialised audit entity" shall be deleted.
2. In Article 172, Paragraph 1, Item 13, the words "or by a specialised audit entity" shall be deleted.

**§ 22.** The following amendments shall be made in the Electronic Communications Act (promulgated, SG No. 41/2007; amended, No. 109/2007, No. 36, 43 and 69/2008, No. 17, 35, 37 and 42/2009; Ruling No. 3 of the Constitutional Court of 2009 – No. 45/2009; amended, SG No. 82, 89 and 93/2009, No. 12, 17, 27 and 97/2010, No. 105/2011, No. 38, 44 and 82/2012, No. 15, 27, 28, 52, 66 and 70/2013, No. 11, 53, 61 and 98/2014, No. 14/2015; Ruling No. 2 of the Constitutional Court of 2015 – No. 23/2015; amended, SG No. 24, 29, 61 and 79/2015 and No. 50/2016):

1. In Article 172 (2) the words "independent auditor" shall be replaced by the words "registered auditor according to the Independent Financial Audit Act".
2. In Article 188 (4), the word "independent" shall be replaced by the word "registered".
3. In Article 222 (8), the word "independent" shall be replaced by the word "registered".

**§ 23.** In the Excise Duties and Tax Warehouses Act (promulgated, SG No. 91/2005; amended, SG No. 105/2005, No. 30, 34, 63, 80, 81, 105 and 108/2006, No. 31, 53, 108 and 109/2007, No. 36 and 106/2008, No. 6, 24, 44 and 95/2009, No. 55 and 94/2010, No. 19, 35, 82 and 99/2011, No. 29, 54 and 94/2012, No. 15, 101 and 109/2013, No. 1 and 105/2014, No. 30, 92 and 95/2015 and No. 45 and 58/2016), in Article 48, Paragraph 2, Item 18, the words "or specialised audit entity" shall be deleted.

**§ 24.** In the Water Act (promulgated, SG No. 67/1999; amended, SG No. 81/2000, No. 34, 41 and 108/2001, No. 47, 74 and 91/2002, No. 42, 69, 84 and 107/ 2003, No. 6 and 70/2004, No. 18, 77 and 94/2005, No. 29, 30, 36, 65, 66, 105 and 108/2006, No. 22 and 59/2007, No. 36, 52 and 70/2008, No. 12, 32, 35, 47, 82, 93, 95 and 103/2009, No. 61 and 98/2010, No. 19, 28, 35 and 80/2011, No. 45, 77 and 82/2012, No. 66 and 103/2013, No. 26, 49, 53 and 98/2014, No. 12, 14, 17, 58, 61, 95 and 101/2015 and No. 15, 51 and 52/2016), in § 46, Paragraph 2 of the transitional and final provisions, the word "auditor" shall be replaced by the words "registered auditor according to the Independent Financial Audit Act".

**§ 25.** In the Value Added Tax Act (promulgated, SG No. 63/2006; amended, SG No. 86, 105 and 108/2006; Ruling No. 7 of the Constitutional Court of 2007 – No. 37/2007; amended, SG No. 41, 52, 59, 108 and 113/2007, No. 106/2008, No. 12, 23, 74 and 95/2009, No. 94 and 100/2010, No. 19, 77 and 99/2011, No. 54, 94 and 103/2012, No. 23, 30, 68, 98, 101, 104 and 109/2013, No. 1, 105 and 107/2014, No. 41, 79, 94 and 95/2015 and No. 58, 60, 74 and 88/2016), in Article 166, Paragraph 3, Item 2, the words "or specialised audit entity" shall be deleted.

**§ 26.** In the Financial Management and Control in the Public Sector Act (promulgated, SG No. 21/2006; amended, SG No. 42/2009, No. 54/2010, No. 98/2011, No. 15/2013 and No. 43/2016), in Article 16, Paragraphs 2 and 3 shall be amended to read as follows:

"(2) In fulfilling his or her duties under this act, the Minister of Finance shall be assisted by employees of a unit in the specialised administration of the Ministry of Finance, which shall be directly subordinated to him or her.

(3) The employees under Paragraph 2 must have completed their higher education and must have acquired an educational qualification degree of "Master" and at least 3 years of work experience in the field of internal control, internal audit or external audit."

**§ 27.** The following amendments and supplementations shall be made in the Internal Audit in the Public Sector Act (promulgated, SG No. 27/2006; amended, SG No. 64 and 102/2006, No. 43, 69, 71 and 110/2008, No. 42, 44, 78, 80, 82 and 99/2009, No. 54/2010, No. 8 and 98/2011, No. 50/2012, No. 15/2013, No. 101/2015 and No. 43 and 51/2016):

1. In Article 12 (1) the following third sentence shall be created: "The internal audit in the Ministry of Finance can be performed by internal auditors within the unit referred to in Article 16 (2) of the Financial Management and Control in the Public Sector Act, where in such a case the head of the unit shall also be head of the internal audit at the Ministry of

Finance and must meet the requirements of Article 21, Paragraphs 1 and 2."

2. In Article 14 (1), the words "Paragraph 1" shall be replaced by the words "Paragraph 2".

3. In Article 47, Paragraphs 2 and 3 shall be amended to read as follows:

"(2) In fulfilling the duties under this act, the Minister of Finance shall be assisted by employees of the unit under Article 16 (2) of the Financial Management and Control in the Public Sector Act.

(3) The employees referred to in Paragraph 2 must meet the requirements of Article 21 (1)."

**§ 28.** In the Civil Aviation Act (promulgated, SG No. 94/1972; amended and supplemented, SG No. 30/1990, No. 16/1997, No. 85/1998, No. 12/2000, No. 34 and 111/2001, No. 52 and 70/2004, No. 88 and 102/2005, No. 30, 36, 37, 105 and 108/2006, No. 10, 41 and 109/2007, No. 36, 66 and 67/2008, No. 35, 47, 82 and 102/2009, No. 63, 73 and 94/2010, No. 41, 81 and 99/2011, No. 38, 60 and 82/2012, No. 15 and 66/2013, No. 12, 53 and 98/2014, No. 28 and 89/2015 and No. 15/2016), in Article 48, the word "independent" shall be deleted.

This act was passed by the 43th National Assembly on 15 November 2016 and was sealed with the official seal of the National Assembly.