

# **BULGARIAN NATIONAL BANK**

## **GOVERNING COUNCIL**

### **DECISION No. 73**

10 May 2017

**I.** Pursuant to Art. 76, para. 4, in connection with para. 1 of the Law on Credit Institutions (LCI) and Art. 16, item 19 of the Law on the Bulgarian National Bank, the Governing Council of the Bulgarian National Bank (BNB), in coordination with the Commission for Public Oversight of Statutory Auditors (CPOSA) adopts the following criteria and procedure for coordination of the selection of bank auditors, to perform a joint financial audit in accordance with the Independent Financial Audit Act (IFAA)

1. Banks licensed to operate in the Republic of Bulgaria shall select audit companies in connection with the implementation of Art. 76, para. 1 of the LCI, after preliminary coordination of the selection of an auditor as stipulated in art. 76, para. 4-6 of the LCI and under the conditions according to this Decision.

2. The BNB coordinates the selection of audit companies based on the following criteria:

2.1. Professional qualification of the audit companies and the proposed audit teams, according to the following requirements:

2.1.1. Shall be entered in the register of registered auditors according to the IFAA;

2.1.2. Proposed audit companies must have experience related to at least one carried out and completed audit engagement at the date of the audit proposal as auditors of public-interest entities, large entities and/or medium-sized entities designated as such under the Accounting Act (AC) and those entities draw up and present their annual financial statements on the basis of the International Accounting Standards (IAS);

2.1.3. Audit companies should have audit teams that include at least:

(a) auditor or hired experts with qualifications in the field of information systems and information security;

(b) employees or hired experts who are registered under the Independent Valuers Act and who perform assessments of financial instruments, assessments of immovable properties, machines and equipment, commercial enterprises or other assessments at the discretion of the bank and audit companies;

(c) two registered auditors-natural persons, of which one responsible auditor and a second auditor - for quality assurance, and each of these registered auditors should have an audit experience of at least 3 (three) years.

2.2. Reputation of audit companies and proposed audit teams according to the following requirements:

An auditor or an audit company is not allowed to perform a statutory financial audit in a bank if:

(a) measures have been imposed by the CPOSA against him or against responsible auditor of this audit company as set out in Art. 89, para. 2, items 5, 6, 7 or 8 of the IFAA or have been imposed fines or property sanctions as set out in Art. 110, para. 1 of the IFAA;

(b) disciplinary measures have been imposed by the Institute of Certified Public Accountants (ICPA) as set out in Art. 40, para. 3, item 5 or 6 of the IFAA;

(c) a sanction has been imposed for violation of the requirements of Art. 76, para. 2 of the LCI, Art. 77 of the LCI, Art. 61 of the IFAA or Art. 69 of the IFAA in the last 3 years;

(d) a measure has been imposed on the grounds of Art. 103, para. 2, item 2 of the LCI by the Deputy Governor in charge of the Banking Supervision Department during the last 3 years;

(e) in the supervisory review process, the BNB has revealed that it had not complied with the requirements of the Guidelines on communication between competent authorities supervising credit institutions and the statutory auditor(s) and the audit firm(s) carrying out the statutory audit of credit institutions (EBA/GL/2016/05).

2.3. There is no conflict of interest with regard to the audit companies and the proposed audit teams, according to the following requirements:

2.3.1. Audit companies may not simultaneously be auditors of a bank when they:

(a) are related persons within the meaning of § 1, item 3 of the Additional Provisions of the Tax-Insurance Procedure Code; or

(b) belong to the same international audit network within the meaning of § 1, item 17 of the Additional Provisions of the IFAA;

(c) the responsible auditors of the two audit companies are a spouse or relatives in a direct lineage up to second degree inclusive, in collateral lineage up to second degree inclusive or through marriage up to the second degree inclusive.

2.3.2. A responsible auditor from the proposed audit companies may not perform audit engagements on statutory financial audit in a bank, in cases when he or she is:

(a) a husband or wife:

- of a person who has material interests in a bank other than the interests of a depositor ; or

- of a person in a governing body of the bank (Supervisory Board and Management Board or Board of Directors); or

- of a person who is an administrator in the bank according to the LCI, or occupying key positions in the bank; or

- of a person who provides services to the bank under Art. 64 of the IFAA.

(b) related in a direct lineage up to second degree inclusive, in collateral lineage up to second degree inclusive or through marriage up to the second degree inclusive with the persons who have material interests in a bank other than the interests of a depositor or any of these persons is:

- in a management body of the bank (Supervisory Board and Management Board or Board of Directors); or

- a person who is an administrator in the bank according to the LCI, or occupying key positions in the bank; or

- a person who provides services to the bank under Art. 64 of the IFAA.

3. Procedure for coordinating the selection of audit companies

3.1. The circumstances under item 2 of this Decision shall be certified by declarations by the audit company, respectively by the responsible auditor, as of the date of coordination of the selection, which shall be provided to the respective bank;

3.2. Before scheduling a General Meeting of the shareholders of the bank, the management body of the bank shall submit a request for coordination of the selection of

auditors under Art. 76, para. 4 of the LCI to the Deputy Governor in charge of the Banking Supervision Department at the BNB, accompanied by the declarations under item 3.1;

3.3. For the purposes of verifying the fulfillment of the criteria under item 2, the BNB shall exchange information with the CPOSA and / or the ICPA.

3.4. The BNB shall coordinate the auditors proposed by a bank pursuant to Art. 76, para. 6 of the LCI

3.5. The BNB could object to the selection of an auditor when:

3.5.1. in the course of the verification under item 3.3 it is established that incorrect data have been submitted;

3.5.2. the criteria under item 2 are not met.

**II.** This Decision shall be notified to the banks licensed to operate in the Republic of Bulgaria, by the Deputy Governor in charge of the Banking Supervision Department.

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