

# **Ordinance No. 14**

## **of 4 February 2010**

### **on the Content of the Audit Report for Supervisory Purposes**

(Issued by the Bulgarian National Bank; published in the Darjaven Vestnik,  
issue 14 of 19 February 2010, effective as of 1 March 2010)

#### *Chapter One*

#### **General Provisions**

##### *Subject*

**Article 1.** (1) This Ordinance shall establish the content of the audit report for supervisory purposes prepared by the specialized auditing company (hereinafter referred to as ‘auditor’) in compliance with the Law on Credit Institutions.

(2) This Ordinance shall not apply to the branches of foreign credit institutions.

##### *Scope and Deadline for Submission of the Audit Report*

**Article 2.** (1) The auditor shall carry out an audit of the annual financial and supervisory reports of the bank and the reliability of the internal control system and then prepare a report for supervisory purposes. The report shall include a review of the bank financial position and major indicators of bank activity on an individual and consolidated basis, as well as the organization of the internal control system.

(2) Data confirming the findings of the report may be summarized in separate appendices in textual comments and/or tables representing an integral part of the report.

(3) In preparing the report under paragraph 1, the auditor shall get acquainted with the reports of supervisory inspections performed by the BNB and related to the audited period, as well as with the recommendations made and measures imposed by the BNB (including additional capital requirements) on the audited bank, if any.

(4) Where recommendations are made and/or measures are imposed on the bank, their implementation shall be reflected in the report.

(5) The auditor shall submit to the BNB the report under paragraph 1 until 15 April of the subsequent year.

## *Chapter Second*

### **Requirements to the Content of the Audit Report**

#### *Audit of the Financial Position of the Bank*

**Article 3.** The review of the financial position of the bank shall be based on the information of the Individual Financial Reporting Framework (IFRF) and the Consolidated Financial Reporting Framework (CFRF) for supervisory purposes and include reports and/or balance sheet, income statement and own funds items which are at the auditor's discretion essential for the audited period.

#### *Review of the Major Indicators of Bank Activity*

**Article 4.** (1) The auditor shall review compliance of the supervisory reports prepared by the bank with the requirements of supervisory ordinances and express an opinion on:

1. the accuracy of the capital base ratio, asset risk component distribution, capital requirements for various risk types specified in the report under BNB Ordinance No. 8 of 2006 on the capital adequacy of credit institutions, differences between the accounting and regulatory capital;

2. risk exposure classification and assessment specified in the report under BNB Ordinance No. 9 of 2008 on the Evaluation and Classification of Risk Exposures of Banks and the Allocation of Specific Provisions for Credit Risk; the amount of allocated specific provisions of the bank; overdue obligations (including interest and fees); renegotiated, restructured and derecognized loans; accuracy of the large exposures to own funds ratios (including use of eligible collateral and write-downs) specified in the report under BNB Ordinance No. 7 of 2006 on the Large Exposures of Banks; concentrations (balance and off-balance sheet) under Article 6, paragraph 3 of this Ordinance;

3. the accuracy of liquidity ratios specified in the report under BNB Ordinance No. 11 of 1997 on Liquidity Management and Supervision of Banks (Darjaven Vestnik, issue 22 of 2007); cash inflows and outflows distributed over time and probability of occurrence; discrepancies in maturities between assets and liabilities and off-balance sheet items, on the one hand, and the planned actions to meet payments in accordance with their maturities, on the other hand; possibilities for bank refinancing in case of liquidity difficulties;

4. the accuracy of the bank investment ratio under Article 47 of the Law on Credit Institutions laid down in the report under BNB Ordinance No. 17 of 2001 on establishing the amount of bank investment under Article 47 of the Law on Credit Institutions (published in the Darjaven Vestnik, issue 19 of 2001; amended, issue 62 of 2005 and issue 106 of 2006).

(2) Where misstatement is established in preparing reports and calculating the ratios specified above, this misstatement shall be documented in the report.

### *Review of Organization of the Internal Control System*

**Article 5.** The auditor shall review the current state of the internal control system in all areas of bank activities, including risk control functions, compliance with the rules and internal audit. After reviewing the activity of internal auditors in the analyzed period along with the applicable documentation, the auditor shall report on:

1. organizational and operational independence of the risk control function from the business processes which are monitored and controlled by him; consistency between the organizational structure and risk control and management processes through clear allocation of responsibilities; compliance with the bank risk strategy approved by the competent managing body; the system of control processes for identifying, measuring, monitoring and managing risks;

2. implementation of the function on compliance with the rules which ensures regular reporting to the competent managing body; compliance with internal rules of procedure; estimates of the effect of legislative amendments on bank activity and consistency of new products and services with the existing regulatory framework prior to their introduction;

3. organization and operational independence of the internal audit function which adequately assesses the risk control function and compliance with the rules; direct access to the relevant documentation in each business process; response actions taken by the competent managing body for removing breaches of laws and internal rules and improving internal controls.

### **Additional Provision**

**§ 1.** For the purposes of this Ordinance:

1. ‘annual financial statements’ shall be the reports prepared under the Individual Financial Reporting Framework (IFRF) and the Consolidated Financial Reporting Framework (CFRF) for supervisory purposes;

2. ‘annual supervisory reports’ shall be the reports under relevant supervisory ordinances prepared on a non-consolidated and consolidated basis;

3. ‘accounting capital’ shall be the own funds of the bank on a non-consolidated and consolidated basis, as reflected in the accounting balance sheet, which is part of the Individual Financial Reporting Framework (IFRF), respectively the Consolidated Financial Reporting Framework (CFRF).

4. ‘regulatory capital’ shall be the own funds of the bank on an individual and consolidated basis under the procedure of BNB Ordinance No. 8 of 2006 on the Capital Adequacy of Credit Institutions.

### **Transitional and Final Procedures**

**§ 2.** This Ordinance is issued on the grounds of Article 76, paragraph 8 in connection with § 13 of the Law on Credit Institutions and is adopted by Resolution No. 16 of the Governing Council of the Bulgarian National Bank of 4 February 2010.

**§ 3.** The first audit report under this Ordinance shall be submitted to the BNB until 15 April 2010.

**§ 4.** The Deputy Governor of the Bulgarian National Bank heading the Banking Supervision Department shall give instructions on the enactment of this Ordinance.