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THE IMPLEMENTATION OF COSO'S ICIF IN BULGARIA'S MUNICIPAL ADMINISTRATIONS

WDRAŻANIE ZINTEGROWANEGO RAMOWEGO MODELU NADZORU WEWNĘTRZNEGO (ICIF) KOMITETU ORGANIZACJI SPONSORUJĄCYCH KOMISJĘ TREADWAYA (COSO) W ADMINISTRACJACH GMINNYCH W BUŁGARII

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Summary: The paper overviews the implementation of COSO's Internal Control – Integrated Framework (ICIF) model in Bulgaria's municipal administrations. It presents the results of a study on the practice of developing and implementing Financial Management and Control Systems (FSMS). The aim of the study was to review objectively the actual status of Bulgarian municipalities' FSMS and thus to identify some of their shortcomings and inconsistencies with the ICIF model. The results show that the legal framework for financial control in Bulgaria's public sector organizations is appropriate to the elements and principles of the revised ICIF, but also that its practical implementation is inefficient due to the formal attitude towards the requirements and the lack of appropriate "tone at the top" in some organizations. A proposal is made for introduction of a certification regime for public sector organizations with regard to the implementation of FSMSs based on COSO's ICIF.

Keywords: financial management, control systems, COSO, Internal Control – Integrated Framework (ICIF), public administration, municipalities.

Streszczenie: W artykule przedstawiono stosowanie zintegrowanego ramowego modelu nadzoru wewnętrznego (ICIF) Komitetu Organizacji Sponsorujących Komisję Treadwaya (Committee of Sponsoring Organizations of the Treadway Commission, COSO) nad administracjami gminnymi w Bułgarii. Zawiera on również wyniki badania praktyk służących rozwojowi i stosowaniu systemów zarządzania finansowego i kontroli. Ma to na celu obiektywne przedstawienie aktualnego stanu systemu zarządzania finansowego i kontroli bułgarskich gmin i w ten sposób zidentyfikowanie niektórych ich wad i sprzeczności z modelem ICIF. Wyniki wskazują, że chociaż rama prawna kontroli finansowej w organizacjach sektora publicznego w Bułgarii jest zgodna z elementami i zasadami poprawionego ICIF, jego funkcjonowanie w praktyce jest bezskuteczne z powodu formalnego podejścia do wymagań oraz braku odpo-

wiedniej „postawy zarządu" w niektórych organizacjach. Sprawozdanie zawiera propozycję w sprawie wdrażania systemu certyfikacji dla organów sektora publicznego w odniesieniu do wprowadzenia systemów zarządzania finansowego i kontroli, opracowanych na podstawie ICIF Komitetu Organizacji Sponsorujących Komisję Treadwaya.

Słowa kluczowe: zarządzanie finansowe, systemy kontrolne, Komitet Organizacji Sponsorujących Komisję Treadwaya, zintegrowany ramowy model nadzoru wewnętrznego (ICIF), administracja publiczna, gminy.

1. Introduction

The preliminary assessment model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) was released more than thirty years ago and was adopted as the main tool for internal control in the public sector organizations in Bulgaria in 2002, when these organizations were required by law to develop and implement Financial Management and Control Systems (FSMS). In 2006 COSO's Internal Control – Integrated Framework (ICIF) was integrated into the Financial Management and Control in the Public Sector Act and in a number of related regulations, which means that the implementation of SFMSs was legally enforced 17 years ago and revised COSO's ICIF has already been a legal requirement in Bulgaria for more than ten years. Today, ten years since the enforcement of the current regulatory framework regarding the internal control in public-sector organizations, we have to answer several questions, such as "what has happened in these ten years", "have all public-sector organizations implemented their own financial management and control systems", "is there a correct "tone at the top" and proper understanding of their importance for transparent, lawful, expedient and effective governance", "where are such systems implemented only formally and where are they used effectively", "are they comprehensive or are there are that are not covered by them", and "how can they be improved?", etc.

2. Historical background of the implementation of COSO's ICIF in Bulgaria

In the process of its accession to the European Union, Bulgaria signed the Financial Control negotiation chapter on 30 September 2002 and in the same year enforced relevant amendments to its financial control regulations. The new Financial Management and Control in the Public Sector Act[1] enforced in 2006 provided for the implementation of the Integrated Internal Control Framework (ICIF) in all organisations spending funds from the state budget or European Union funds and programmes, as well as the appointment of financial control officers and internal

[1] Financial Management and Control in the Public Sector Act, prom. SG No. 21 of 10 March 2006.

auditor certification procedures. Subsequently the managers at all levels in the public-sector organisations were provided with appropriate training, various relevant regulations were enforced and guidelines on the role of the heads of public sector organisations for the development and implementation of Financial Management and Control Systems (FMCS) were published. Although COSO and ICIF were not quoted in these regulations, the implemented financial management and control systems complied with their principles. According to the above law, financial management and control shall be performed through the following interrelated components: control environment, risk management, control activities, information and communication, and monitoring. It also defines these components and managerial responsibilities for their implementation in the organisations.

The legal definition of FMCS is: "Financial management and control systems are all procedures and the overall internal organisation of planning, activity performance and execution of internal control, which contribute to achieving the auditee's goals."[2] This definition established three principles: first – these systems are comprised of procedures; second – they refer to the entire internal organisation; and third – they contribute to the achievement of the auditee's objectives. Therefore, an FMCS should not be regarded as merely a collection of internal regulations, rules, guidelines and orders no matter how detailed they might be, since these documents do not define procedures but provide for certain rights and obligations. Despite the perfect regulatory framework, managers at all levels in public-sector organisations allow non-compliances with these regulations due to various reasons such as incompetence, misinterpretation of certain provisions, personal opinion regarding certain activities, personal attitudes, etc. The aim of the FMCS is to improve their performance by providing them with written procedures and establishing standards rather than referring to regulatory provisions. They are intended to ensure process transparency, the recording of all activities, the traceability of operations, the rational allocation of responsibilities among managers at all levels, the control, and the possibilities for improvement.

The word "financial" in the abbreviation "FMCS" suggests that these systems apply mainly to the financial relations within an organization. According to the Financial Management and Control in the Public Sector Act from 2006, the heads of public-sector organisations shall be responsible for the execution of financial management and control in all structures, programmes, activities and processes managed by them in compliance with the principles of legality, sound financial management and transparency. Therefore, FMCS are intended to exercise control over the processes. The word "process" is of Latin origin ("processus" – movement) and is defined as a series of interrelated actions taken in order to achieve a particular result. Therefore, the word "financial" in the abbreviation is not quite accurate and limits the understanding of its scope. They are increasingly perceived as Management

[2] Public Sector Internal Audit Act, prom. SG no. 92 of 10 Nov. 2000.

and Control Systems (QMS) that go beyond purely financial relations and extend to all management processes in an organization. Process control allows for the preliminary control of compliance with accepted business process standards, which determines the preventive nature of control.

The scope of the functions and responsibilities of the Bulgarian National Audit Office as an external auditing body has been expanded. In 2014 the government adopted Standards for Internal Audit in the Public Sector.[3] which aimed to define the underlying internal audit principles, provide for a professional internal audit framework, set the criteria for assessing the work of auditors and promote the improvement of processes and activities within the organisation.

Despite of what has been achieved, both in terms of improving the regulatory framework and in terms of internal control organization, there are still problems that need to be addressed. These are related mainly to misperceptions of COSO's ICIF and its formal implementation through financial management and control systems.

Public sector organisations are required to perform annual self-assessments of their FMCS by means of a questionnaire published by the Ministry of Finance. Almost no changes have been made to this questionnaire in the last 5-6 years, but this is hardly because it is perfect. On the contrary, the questionnaire contains many ambiguous texts and questions that are not precise and concrete, some of the questions are repeated, and certain important areas of FMCS are not covered at all. Although it is structured around the five ICIF components, it lacks important questions such as the scope of FMCS and its coverage of all structures, programs, activities and processes as required by law, the relationship between goals and budgets, the results from FMCS implementation and the number of records of non-compliance with the standard procedures. At the same time the questionnaire contains questions regarding the external control of the Public Financial Inspection Agency and the National Audit Office which are not relevant to the self-assessment of the status of the organisation's FMCS. It is not clear what the correct answer is to the question "Have any changes in the structure, the functions of the organisation and the number of employees been made during the year?" and what could be inferred from this answer. Answers to a number of questions, such as, "Do you find it difficult to define the organisation's goals?" will in no way define the status of the organisation's financial management and control system. This is why we believe that a deeper and more objective study of the status of the FMCS in public sector organizations would reveal their weaknesses that need improvement.

[3] Standards for Internal Audit in the Public Sector, adopted with Decree No. 71 of CM of 28 March 2014, prom. SG no. 31 of 04 April 2014.

3. Survey on the application of COSO's model and ICIF in municipal administrations in Bulgaria – achievements and problems

Our fifteen years of experience in the development and implementation of FMCS based on the principles of COSO's ICIF in various organisations and the imperfections of the existing mechanism for the assessment of these systems have motivated us to conduct a more detailed and comprehensive survey on the current status of these systems in public sector organizations and in particular in the 265 municipal administrations in Bulgaria. The survey was conducted in April and May 2017 and included a questionnaire and on-site interviews with representatives of 120 municipalities. Respondents to the questionnaire were mainly municipal secretaries (40%), financial controllers (18%), heads of departments (18%), managers and deputy mayors.

The question of whether the organisation has clearly defined strategic and operational objectives is fundamental, as the primary purpose of the COSO model and the FMCS based on this model is to provide reasonable assurance that they will be achieved. In our survey this question was stated as: "Does the municipal administration have strategic and operational objectives with performance indicators, timelines, resources and responsibilities?." In this way the question focuses on the objectives of the administration, as a large number of municipal administrations believe that they do not need to have their own strategic and operational objectives, since such objectives are stated in the municipal development plans. Sadly, 87.3% of respondents replied that such objectives were set out in the municipal development plan. This shows that no difference has been made between the development objectives of the municipality and the objectives of the administration. However, 7.3% responded that such objectives were set out in the mayor's mandate program, which is more logical because mayors are responsible for setting the objectives of their municipal administrations. Only 5.5% responded that the objectives of the administration were developed separately from the municipal development plan and were published on the municipal website.

In order to achieve its goals, the organisation must have the necessary financial, human and organizational resources. The second question in our survey was about the relationship between the objectives of the administration and the municipal budget allocated for their achievement. Only 42% of the respondents stated that they have reviewed their strategic and operational objectives when developing the budget. This shows that there is a discrepancy between the strategies, plans and programmes, on the one hand, and the budget on the other. Although programme budgeting has been widely touted for more than 20 years, it has not been implemented yet. This may be due to the lack of written programme budgeting methodologies and guidelines.

We are currently half-way through the seven-year planning period 2014-2020 and all regional development plans (including the municipal development plans) are

being subject to interim evaluation. This is why our survey included the question "How is the implementation of the municipal development plan being monitored?" Only 7% of the respondents replied that there was a monitoring group comprising all types of stakeholders to review the execution of these plans at least once a year or more often. As many as 49% of all respondents replied that that the monitoring is carried out by the responsible officials of the municipal administration who make an annual report on the implementation of the plans. This confirms the hypothesis that municipal development plans are perceived as plans of the administration rather than strategic documents for the development of the municipality as a whole which should take into account the interests of all stakeholders.

The fact that 65% of the municipal administrations covered by the survey have written rules for hiring and induction of new employees is positive. Ninety-six per cent of them have ethical codes disclosed in various ways. However, only 66% of them have internal rules and procedures regarding breaches of ethical norms set out in their ethical codes. This means that the remaining 30% have adopted codes of ethics, but have not implemented a system for controlling the compliance of their employees with the adopted ethical norms. This may be the reason why 95% of all respondents stated that there were no records of breaches of their code of ethics and it is not clear whether there were no such cases, or that the systems failed to record them.

The fact that 58% of the municipalities have adopted internal regulations for the reporting of irregularities is positive as well. Of the remaining respondents, 22% stated that such requirements are included in the job descriptions of the employees, which is a step in the right direction as well. Only 20% either replied that no such rules were adopted or did not answer this question.

The main focus of all FMCSs is on the procedures for incurrence of liabilities and expenditure. Seven per cent of the municipal administrations covered by the survey were frank enough to admit that financial commitments were made above the projected amount under the relevant budget line at the discretion of the mayor of the municipality, which is a dangerous practice leading to the aggregation of outstanding debts. The remaining administrations make commitments only within the planned funds, or, in exceptional cases – above the planned funds, but with the consent of the financial controller and with the corresponding records in the control checklist. Two percent of the respondents did not answer this question. Regarding the spending of budget funds only 2% (one municipality) stated that such expenditures are made at the discretion of the mayor of the municipality. At the same time, only six municipalities (11% of all respondents) replied that in 2016 they registered cases of non-compliance with the procedure for assuming financial obligations. The percentage of those who did not incur costs due to the preliminary control is also small – 26%. These low rates may be interpreted in two ways – either the FMCS is not effective and cannot register non-compliance in the commitment and spending of funds, or such cases are simply not recorded after their registration, which is one of the core requirements of the COSO model.

Municipal budget revenues should be subject to the same preliminary controls that apply to expenditure. The municipal councils update the rates of local taxes, fees and service prices annually. According to the provisions of the Local Taxes and Fees Act, local fees are determined on the basis of the necessary technical and administrative expenses related to the provision of the service, i.e. based on actual costs. However, fewer than half (49%) of the respondents stated that such a calculation is made by their municipal administration. The predominant number of the respondents stated that local fees and service prices are determined on the basis of past years and the dynamics of key macroeconomic indicators such as inflation, wage growth, GDP growth (22%), or a comparison of the prices of administrative services provided by other organizations (24%).

Fortunately, more than half of the municipal administrations (55%) have a proper understanding of the nature of FMCS as system of regulated and standardized work processes and procedures following the logic of the COSO model and ICIF. These municipalities understand that their FMCS are not merely collections of internal regulations, orders, and ordinances. The percentage of these municipalities needs to grow until it reaches a 100% understanding of what FMCS is, and in this respect the Institute of Public Administration and the Institute of Internal Auditors play an important role by providing training for financial controllers, internal auditors and employees with control functions.

The scope of FMCS can be measured in terms of the number of standardized processes that are controlled using control checklists or in other ways. Six respondents answered that they used control checklists for 10 or more processes, which is commendable. A detailed analysis of the functions of a municipal administration can identify as many as 15 or more major processes and it would be quite sufficient if 10 of them are standardized and controlled. These are mainly processes associated with financial commitments and expenditures, human resource, public procurement, and asset management. More alarming is that the number of municipal administrations using control checklists for important processes such as budgeting, planning, resource allocation, project implementation, hiring and dismissal of employees, dissemination of official information, recording and maintenance of records, and disposal of municipal property is very low – between 5% and 29% for each of these processes. It is strange that while 63% of the administrations use checklists for the commissioning of employees, only 58% of them use such checklists for the management of projects funded by the EU although the financial interest and the risk of misappropriation related to such projects are much greater. The fact that 25% of the administrations do not fill in checklists when entering into agreements with external contractors is striking because such agreements are associated with financial commitments that must be controlled by means of checklists according to the established internal control standards.

Most municipal administrations state that they have their own risk management strategies. Our on-site visits revealed that most of these strategies are identical to

the municipal risk management strategy published on the website of the Ministry of Finance. Only the name of the municipality is changed. Besides, this document does not have the merits of a strategy at all, but rather it is a methodological guide to risk management because it provides definitions and guidelines regarding risk-taking responsibilities, risk-assessment methods, etc. A strategy, in our opinion, should include a detailed analysis of risks that are specific for the organisation, and offer anti-risk strategies regarding the prevention, avoidance, mitigation, sharing or taking of specific risks.

Risks should be assessed every six months. Most municipalities have assessed their risk at least once since 2014. The fact that 12.7% of the respondents have never assessed their risks is worrying. Another worrying fact is that most municipalities have not included in their risk assessment certain important issues such as the waves of immigration and the risk of social turmoil (only seven municipalities responded that they had identified such risks). The number of the municipal administrations that have identified risks of natural disasters and accidents (40%) is not large as well, which is also odd as these disasters have become more frequent in recent years all over the country. The negligence of certain risks means that no preventive measures will be taken for their mitigation, which may have serious adverse consequences in the future. This may be the reason why 13% of the respondents replied that they have not taken adequate measures to prevent the occurrence of incidents associated with such risks. For these risks we need 100% compliance with the existing risk management regulations and guidelines. The fact that 69% of the municipalities maintain registries of their crisis response forces, critical infrastructure sites and systems and potentially hazardous sites and activities does not mean that incidents cannot strike any of the remaining 31% of the municipalities. The reason may also lie in the very small percentage of municipalities (only 5.5%) where risk assessment is carried out by a working group of administration officials with the participation of external experts. The highest is the relative share (76%) of the municipalities, where risk assessment is carried out by designated workgroups comprising administrators. However, the fact that these workgroups do not include external experts would mean that the risks may be considered only from the point of view of the administration itself, which is not always sufficiently comprehensive and objective.

The results show that in the majority (78%) of the municipal administrations the job descriptions of the employees comply with all formal requirements. They are updated periodically and provide for the main responsibilities of the employees, the requirements for their qualification and competences, their compliance with the existing regulations as well as their obligations to maintain the internal regulations and management and control systems, and to report all breaches of these regulations. The remaining 22 percent of the municipalities meet only some of these requirements. However, only 49% of the administrations covered by the survey have defined the functional characteristics of the individual administrative units (directorates, departments.)

Most municipalities have their own websites with regularly updated information. All municipalities included in the survey regularly publish online news, announcements and up-to-date information regarding the activities of the administration (e.g. competitions, tenders, public procurement contracts, workshops, conferences and other events.) Information on strategic and operational objectives is published by 87.5% of the administrations; 87.2% of them have published online information about their structural units with telephone numbers and e-mail addresses; 67% have published their annual activity reports. We cannot but note that the percentage of municipal administrations that maintain facilities for feedback from the citizens is quite low. Although 54.5% of the respondents replied that the official websites of their municipality include facilities for alerts or suggestions from the citizens, this percentage is insufficient because every administration should provide such an opportunity.

More than two-thirds of all respondents reply that their administration is working well and there is no need to update its structure or the functions of its structural units. However, such a conclusion can only be made on the basis of a functional analysis of the administration, because at the same time most of the respondents (63.6%) state that the workload is not allocated evenly among the employees and that some administrators have many functions and responsibilities while others have less, which means that the structure and functions of these administrations must be optimized.

Another alarming finding is that only 87% of the municipal administrations have implemented procedures to familiarize their employees and third parties with the regulatory and strategic documents concerning their functions. Although this percentage is high, there should not be any employees who are not familiar with documents that are relevant to the performance of their duties.

FMCS implementation is obligatory not only for the municipal administrations in their capacity as budget authorisers by delegation, but also to budget authorisers by sub-delegation and lower-level budget authorisers. Control of the delegated budget expenditure of schools and kindergartens is carried out mainly by financial controllers from the administration of the respective school or kindergarten (52.3%) and in 41.82% – by the municipal administration's financial controllers responsible for the budget authorisers by sub-delegation. Few municipalities (12.73%) use the services of external accountants.

The situation concerning the financial control over the budget expenditure of social and cultural institutions is that in half of the municipalities the financial control over these organizations is carried out by employees of the central municipal administration and in 31% of the cases – by proxies from the respective social or cultural institution.

The internal audit units in 51% of the municipal administrations surveyed did not carry out audits in 2016. In the remaining municipalities, subject to audits were the budget authorisers by delegation and sub-delegation (24%) or all levels of budget

authorisers (22%), including companies with municipal participation. In our opinion this percentage is too low in terms of COSO's comprehensive performance and efficiency. Audit activities focused primarily on the municipal budget and public procurement, but activities such as information security, investments, monitoring of plans and programs, and project management were neglected.

Analysis of the survey results reveals some correlations between the answers to certain questions. First of all, we find that there is a strong correlation between the existence of written policies and procedures for documenting, archiving and storing information and the mechanisms for familiarizing employees and third parties with regulatory and strategic documents. Forty-eight of the 55 municipal administrations responded positively to both questions. An interesting and statistically significant dependence exists between the respondents' opinion regarding the necessity of changes in the structure of the administration and the functions of its structural units on the one hand, and the unequal workload distribution between the individual employees in the municipality on the other; 44% of the respondents who replied that that there was no need for changes in the internal structure at the same time stated that the workload allocation was too uneven and that some of the employees were much busier than others. This dependence raises the logical question "Why have no changes been made to the structure and functions of the administrative units, given that the sub-optimal workload allocation is obvious?."

There is a significant to moderate correlation between the existence of internal rules and procedures for responding to the violations of the ethical norms regulated in the Code of Ethics, and the existence of internal rules or procedures for reporting irregularities. Correlation coefficient values also indicate a moderate correlation between the amount of outstanding financial liabilities in 2016 as a result of the FMCS performance and the compliance with the requirement that payments should be made only for pre-assumed financial obligations. Such correlation also exists between the amount of outstanding financial liabilities as a result of the FMCS performance and the use of control checklists.

The main difficulties related to FMCS that were developed and implemented in compliance with the COSO principles are the large flow of documents and the exchange of documents between units and individuals located away from each other, which gives the impression of greater bureaucracy and longer decision-making times. Moreover, the administration has to use different databases, such as the disposable balances in various budget accounts, the amounts and terms of contracts, etc. This problem is solved by digitizing the FMCS. Today there are applications that allow easy access to arrays of databases, electronic signing and exchange of documents, have a user-friendly interface with network and local scanning and printing facilities, document tracking and information which is accessible at any time, and can generate public expenditure reports. Such a product was developed and tested in the municipality of Varna as early as 2011, in 2015 it was implemented in the municipality of Plovdiv, and currently it is upgraded to include cloud-based

data processing. Such a cloud-based model significantly reduces the associated costs because the administration does not have to maintain their own servers and pay for software development.

4. Aspects for improving the application of the COSO model and ICIF

ICIF was published in 1992 and has already been adopted by many accounting and audit organizations all over the world. It became very popular at the beginning of the century, when the financial scandals with companies such as Enron, WorldCom, and Tyco, etc. made the control bodies look for solutions to enhance internal control.[4] As a result in 2002 the USA enacted the Sarbanes-Oxley Act (Sarbox or SOX[5]), also known as "Public Company Accounting Reform and Investor Protection Act" and "Corporate and Auditing Accountability, Responsibility, and Transparency Act". This federal law set new or expanded requirements for all public company boards, added criminal penalties for certain misconduct, and required the Securities and Exchange Commission to create regulations to define how public corporations are to comply with the law.[6] Section 404 of SOX requires that each public company's management should adopt a framework for the internal control on financial reporting and report the structure and efficiency of this framework on an annual basis. Such a framework is the ICIF.

The original ICIF published in 1992 was complemented and updated with the following COSO publications: "Integral Control over Financial Reporting – Guidance for Smaller Public Companies" in 2006, "Guidance on Monitoring Internal Control Systems" in 2009, and "Internal Control – Integrated Framework. Internal Control over External Financial Reporting: A Compendium of Approaches and Examples" in 2012. The latest publication summarizes the results of a broad discussion held from December 2011 through March 2012, which led to the conclusion that control had been focused mainly on financial reporting while the non-financial matters and reports had been neglected, and recommends increasing the role of non-financial reporting and internal control. It also developed further the internal control principles concept and the application of these principles in a more decentralized or highly complex environment.[7]

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[4] http://www.accounting-degree.org/scandals/; http://www.investopedia.com/updates/enron-scandal-summary/; https://www.gsb.stanford.edu/insights/what-led-enron-worldcom.

[5] http://www.soxlaw.com/s404.html.

[6] W.R. Lasher, 2008, *Practical Financial Management* (5th ed.), Thomson South-Western; W.H. Donaldson, 2003, *Implementation of the Sarbanes-Oxley Act of 2002*, https://www.sec.gov/news/testimony/090903tswhd.htm.

[7] S.J. McNally, 2013, *The 2013 COSO Framework & SOX Compliance. One approach to effective transition*, Strategic Finance, June.

The first step in improving the integrated framework was to codify the criteria for the development of internal control systems and to evaluate the structure and efficiency of these internal control systems. This was done by conceptually introducing seventeen principles, each of them supported with at least one supporting point or focus. The second step was to extend the guidance on internal and non-financial reporting in order to meet the stricter requirements for the reporting of operations, non-compliance and non-financial objectives. The third step was to update the original internal control framework taking into account the changes in the business environment and improving its application in the today's risky environment. On the basis of that discussion and the resulting proposals, COSO published and updated the version of their Integrated Internal Control Framework on 14 May 2013.[8]

A brief overview of the seventeen internal control principles integrated in the original ICIF shows that they were integrated in a document published by the Ministry of Finance of the Republic of Bulgaria in 2006, entitled "Methodical Directions about the Elements of Financial Management and Control."[9] This shows that the discussion over the scope and contents of the five elements of internal control and their concretization through principles and regulations was initiated long before 2011 and that Bulgaria has contributed to this process. It also shows that the problems associated with the implementation of FMCS based on the COSO's model and the ICIF discussed above are not due to the flaws in the existing regulations, but rather in their underestimation and formal application as well as to the lack of an adequate "tone at the top" in some organizations. These flaws can be corrected by imposing a certification requirement for all public institutions that are obliged by law to implement FMCS. Such a certificate would guarantee that they comply with all the provisions of the Financial Management and Control in the Public Sector Act and the related regulations.

5. Conclusion

Undoubtedly, the concept of the COSO model is being developed and improved by enhancing the feasibility of the ICIF in a complex, dynamic and risky environment. Bulgaria's legislation in the field of internal control has been harmonized with the concepts and principles of the COSO's model and ICIF and thus complies with the best standards.

The municipal administrations in Bulgaria have implemented their own financial management and control systems following the logic of the updated ICIF. However, the self-assessment of the public sector organizations in Bulgaria does not always lead to clear and accurate conclusions regarding the efficiency of these

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[8] *Internal Control – Integrated Framework. Framework and Appendices*, COSO, May, 2013.

[9] *Methodical Directions about the Elements of Financial Management and Control*, Ministry of Finance, Internal Control Directorate, 11 Sept. 2006.

financial management and control systems (FMCS). The implementation of FMCS in the municipal administrations in Bulgaria has to be improved in terms of better compliance with the national legislation and the principles of the ICIF. Therefore, the certification of the FMCS of the public organizations would result in a better understanding of the management of these organizations of their responsibilities regarding the implementation and maintenance of FMCS based on COSO's model and ICIF.

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