



KPMG IN BULGARIA

Internal Audit, Risk & Compliance Services

ADVISORY

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“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

The Institute of Internal Auditors, the global association for the internal audit profession

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Foreword



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In an environment of increasing emphasis on corporate accountability, accurate and transparent financial reporting, and ethical business practices, companies are more intent than ever on maximizing their internal control system, risk management and corporate governance processes. Growing demands from stakeholders, heightened external scrutiny, spiraling compliance and assurance costs, and higher business performance expectations have driven this item to the top of corporate agendas.

The key issue is the need to improve the performance of a business. One of the mechanisms to achieve this is to begin simplifying the existing silos of governance and risk management activity as well as the source and extent of assurance provided. Internal audit is in many companies often elevated from pure compliance to a function that regularly reviews the risk profile for emerging risks and identifies trends as it keeps its finger on the pulse of business performance.

The Internal Audit, Risk & Compliance Services team of KPMG in Bulgaria can help companies stay on track and deal with various risks. Through our extensive experience, our interdisciplinary approach and our access to the resources of the KPMG network, we can help organizations turn compliance into a critical investment that can underpin their long-term growth, value and sustainability.

Internal Audit Services

The role of Internal Audit (IA) is changing. Economic, technological and regulatory changes mean that the IA function (IAF) is having to shift from its transaction-based compliance role to a more proactive one that adds value to a company.

KPMG's IA approach addresses the business concerns that management are required to deal with such as compliance issues, and quality of management information.

IA Outsourcing and Co-sourcing

Is your company too small to have an IAF, yet the statutory and supervisory bodies seek assurance for ICS and risk management?

Do you lack IA capacity to perform certain regular and/or special tasks?

Do your internal auditors need specialized knowledge and skills to carry out sophisticated audits?

If your company operates in foreign markets, do your internal auditors possess the required specific knowledge of the local conditions to carry out audits?

KPMG provides full outsourcing services, enabling companies to focus on the core business, or partial outsourcing (co-sourcing), supporting the existing IAF by a team of experienced KPMG specialists.

IA Outsourcing Services: KPMG's team can take over full responsibility for an organization's entire IAF at the direction of the board, audit committee and/or senior management. Such a model reduces operating costs and increases profit improvement opportunities.

IA Co-sourcing Services support the existing IAF through the use of KPMG professionals with specialized skill sets, industry knowledge, needed on demand. These engagements may be undertaken on a one-off or on a continuing basis.

Strategic Performance Review of the IA Function (K'SPRint)

Does the quality of services provided by the IAF fail to meet your expectations?

Are you concerned that your IA is not sufficiently focused on risk areas?

Do you have doubts about the effectiveness of your IAF?

In the past five years, has your IAF been subject to an external quality review as required by international standards?

The evaluation of the IAF carried out by KPMG is based on independent verification of the functioning of IA in the company with regard to best practices and standards used in the market (in Bulgaria and globally). The evaluation covers three main areas:

- Positioning and integration of the IAF within the organization
- Human resources and IA tools
- Procedures and IA processes.

Based on our business knowledge and experience, management requirements and regulations, the current state is compared with the standard requirements and the optimum state and we recommend actions to be taken to reduce the gap between the current and the targeted state.

Establishment of IA function

Is your company obligated to establish an IAF due to regulatory requirements?

Do your shareholders, board of directors or supervisory board request establishment of an IAF?

Has the management decided an IAF needs to be established, in view of the company's size and risk profile?

Does the IAF fail to meet the quality requirements of the statutory and supervisory bodies?

We help companies where IA does not exist or the way it functions does not meet management's requirements. Implementing an effective IAF requires time, effort, and experience.

Our support and guidance to clients undertaking the steps to establish an IAF and preparation for its effective functioning relate to:

- Planning for positioning of the IAF
- Searching for suitable candidates, assessing the new-hires or current IAF employees
- Training the staff
- Assisting in preparation of IA activity's policies and procedures, audit plans, and others
- Carrying out IA tasks together with a company's IAF to transfer knowledge.

Internal Control System Review and SOX 404 Compliance



A well-structured Internal Control System supports corporate governance by systematically monitoring and enhancing the efficiency and effectiveness of operational processes, financial reporting and compliance.

The U.S. Sarbanes-Oxley Act of 2002 (SOX 404) extends the requirements regarding internal controls over financial reporting (ICOFR). According to SOX, companies need to document and regularly test the financial reporting control mechanisms. KPMG supports companies to meet these requirements - we help organizations to take a risk-based approach to the implementation and maintenance of efficient sustainable SOX 404 compliance programs from readiness assessments, through documentation and testing, and remediation assistance.

Internal Control System (ICS) Review

Does your management have a clear understanding on why internal controls are so important?

Are you confident that operational processes are efficient and internal controls are effective?

Do you trust your bottom line figures and reports are sufficient, reliable, accurate and relevant?

Our IARCS team assist clients to set up and maintain adequate and effective ICS against a recognized framework for internal controls.

KPMG helps companies in the following:

ICS implementation: Planning and scoping of internal control projects; analyzing the status of the current ICS; assessing and documenting processes, risks and controls; performing tests of design and operating effectiveness; assisting with evaluation of deficiencies and providing recommendations for improvement of the internal control portfolio and performance; assisting with formalization/enhancement of company policies and procedures, and others.

ICS enhancements and controls transformation: Improving the control portfolio from manual to automated and/or from detective to preventive; adopting an internal control framework such as COSO or with the company's own reference sources on internal control; training; and others.

Control Self-Assessment (CSA): Implementing a CSA approach that allows management and work teams to participate in assessing risk management and control processes. In both the facilitated workshop and survey formats of CSA, the people performing the work are able to increase the ability to achieve business objectives.

SOX 404 Compliance

Does your company have an obligation to report compliance with SOX on a regular basis due to regulatory requirements?

Does your management know what SOX compliance requires?

Is your management aware of the penalties for non-compliance with SOX?

Have process level workflows for key financial reporting been completed?

Have internal controls been documented and evaluated for the financial reporting processes?

Although a company may be registered and domiciled in Bulgaria, if it has debt or equity securities that are sold and traded in the US it will probably be subject to the SOX.

SOX covers various aspects of a company's management and governance. Section 404 of the Act is of particular concern. It requires management to annually assess and assert to the effectiveness of the organization's internal controls and procedures for financial reporting.

We assist clients in following:

Documentation, design and gap analysis of ICOFR: Our IARCS team provide assistance to clients to document financial reporting processes, design internal controls, and identify gaps in control design.

Testing of ICOFR: KPMG's team may help in performing tests of operating effectiveness of the internal controls and providing recommendations for improvement.

For each of these services, KPMG takes a risk-based approach to identify the ICOFR that the organization either has in place, or needs, to address its key financial reporting risks and to support the implementation of a selected control framework.

Contract Compliance Services

When it comes to third-party contracts, the rule of thumb is “trust, but verify”. What’s more, recovery of money is not the exception; it is the norm in most cases. Some organizations lose revenue, license fees, royalties, or pay higher amounts to partners with whom they have contractual arrangements.

Contract Compliance Services (CCS) can help companies recover those funds and improve internal processes to help ward off further losses and over-payments. In addition, non-financial benefits, such as process enhancement and improved relationships between business partners, can be achieved.

Vendor Compliance

Do you have significant vendor/supplier agreements that include cost-plus or time-based pricing, or IP protection?

Do you have any most-favored-customer, best-in-class, or other complex pricing arrangements in place with any of your vendors?

Do you have any authorized sales channels, on-time delivery, quality guarantees, or other complex terms and conditions with your vendors?

Do your long-term facilities lease contracts contain price escalation clauses, common area maintenance allocations, and others?

What mechanism do you have for reviewing vendors spend and how do you conduct vendors risk assessment?

Do you have a compliance program to monitor suppliers’ adherence to agreements?

We can assist in managing your vendor relationships by assessing compliance with various provisions of purchase agreements across the supply chain such as most-favored customer clauses; cost-plus or time-and-materials arrangements; outsourcing arrangements; conditional pricing arrangements; and rebates, discounts, and other conditional incentives.

Channel (Distribution) Compliance

From what types of channel partners do you receive reports of point-of-sale or inventory data?

Do you offer incentives (i.e., special pricing, promotions, marketing funds, and others) to channel partners based on the point-of-sale or inventory data they report?

Do you have mature processes and functioning controls in place to monitor and administer channel reporting or incentive program accounting, claims, and payments?

Do you have any known or perceived gray market issues (i.e., genuine product sold through unauthorized channels) or counterfeit product issues?

Do you currently have a functioning channel partner compliance/market integrity program in place?

KPMG can help in enforcing your contracts with channel partners to recover payments that may have been overlooked or misreported, and incentives that could have been inappropriately claimed.

We can also help you in developing compliance processes and systems to better address contractual obligations and prevent future revenue leakage.

Ad Agency Contract Compliance

Has your advertising become increasingly fragmented between alternative advertising channels (i.e., TV, internet, print, and others)?

How much do you spend on advertising agencies every year? Is the advertising budget increasing? Are there significant variances in advertising budgets compared to actual expenditures?

Do your agreements with advertising agencies require them to submit periodic reports on the media billings, production expenses, and time reported to support the total service costs?

Has the advertising agency honored and made adjustments for any “true up” clause in the contract by reconciling hours estimated with actual hours worked?

Has the advertising agency provided you with any documentation of media reconciliation (either from the agency itself or from a third party) validating that advertisements are being placed?

KPMG professionals perform various agency engagements to help identify significant cost recoveries or other improvement opportunities, while helping to maintain vital business relationships.

Governance, Risk & Compliance and Enterprise Risk Management



Corporate executives are under pressure to better understand the risks facing their companies and how risks may affect corporate strategy.

Yet, many organizations have no reliable mechanisms for gathering enterprise-wide information, let alone identifying, analyzing, and monitoring risks to make risk-informed decisions. Governance, Risk & Compliance (GRC) typically encompasses corporate governance, enterprise risk management (ERM) and regulatory compliance.

KPMG advises clients on how best to meet the corporate governance, regulatory and compliance challenge. We combine the process and system benchmarking knowledge and experience with organizational knowledge.

Corporate Governance

Does the company have a corporate governance strategy and guiding principles closely tied to performance?

Has an effective ethics and compliance program been established to promote right behaviors within the company?

Do board members understand the potential impact of governance failures on all stakeholders?

Is an early-warning system in place that rapidly informs management and the board of impending concerns?

Corporate governance remains one of the cornerstones of sustainable business development, and is a key factor in investment decisions. High-quality corporate governance contributes to making an organization's financial and business activity more efficient.

KPMG can help in managing inherent risks in the governance process through assessment of governance structure in the context of business environment and risks, focusing on such areas as improving board operations, embedding governance principles in corporate culture, monitoring and evaluation.

We assist the board and management to assess their existing governance practices and build consensus to bring about desired change.

Regulatory Compliance

Do you know your company's reputation will be measured by tomorrow's standards on what you are doing today?

Are you confident that your company is compliant with applicable laws?

Are you aware of the consequences of non-compliance?

Have you implemented a compliance program to monitor changes in legislation to meet legislator's expectations?

Does your company have a compliance function responsible for monitoring compliance?

As new laws and regulations are introduced, their requirements challenge boards to greater levels of transparency, objectivity and professionalism. Increased accountability and potential exposure to liability mean that board and management need to ensure robust compliance management systems are in place. Regulatory Compliance serves to help prevent lawsuits, investigations or public campaigns. It aims to mitigate the associated costs, reputational damage and possible penalties.

KPMG assists clients in identifying the applicable laws and better understanding the regulatory environment. Our approach combines an analysis of the legal framework together with an assessment of the systems and processes which can help ensure compliance.

Enterprise Risk Management

What are your company's top risks, how severe is their impact and how likely are they to occur?

How effective is your company in managing its top risks?

Does your approach for risk assessment identify emerging risks and tell you something you don't know?

Do board members understand the potential impact of risk failures on all stakeholders and are they prepared to respond to extreme events?

As companies worldwide address their stakeholders' new demands to enhance how they manage risks, they are giving ERM new consideration. ERM is evolving to address the needs of various stakeholders, who want to understand risks facing complex organizations to ensure they are appropriately managed.

KPMG assists companies implementing a sustainable ERM program. To help clients develop a successful ERM initiative, we:

- Conduct an enterprise risk assessment
- Assess the current state of risk management practices
- Develop a practical road map to achieve a desired state of risk management
- Transfer knowledge and provide training to ultimately support a successful ERM implementation.

Contact us

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