

FINANCIAL MANAGEMENT AND CONTROL SYSTEM (FMCS)

at the Bulgarian Red Cross (BRC)

CHAPTER ONE

GENERAL PROVISIONS

Art.1. (1) This system is created based on articles 3 and 4 of the Financial Management and Control in the Public Sector Act (FMCPS), art. 2 of the Internal Audit **Act** in the Public Sector, the Accountancy Act, Methodological guidelines on the elements of finance management and control, issued by the Ministry of Finance on 11.09.2006 and **art. 21**, item 5 of the BRC Statutes.

(2) The System supplements the policies and procedures, described in other internal organizational documents. It defines financial management and control norms at the BRC, which should contribute to achieving the previously set up objectives. Financial management and control is a whole process integrated within the organization's activity and implemented by management and staff.

Art.2. The FMCS at the Bulgarian Red Cross aims to ensure:

1. legal, economical, efficient and effective financial resources management;
2. compliance of financial activities with the legislation in force, the internal organizational documents and contracts;
3. safeguarding of assets and information;
4. prevention and detection of financial irregularities and errors in the functioning of the administration;
5. reliability of accounting information;
6. timely and reliable information for proper decision making process in financial management;
7. transparency and traceability of decisions and actions related to funds spending.

Art.3. The System regulates the technology for conducting financial management and control on maintaining financial discipline, the spending of funds and management of the organization's property, while observing the principles of legality, appropriateness and separation of functions.

CHAPTER TWO

MANAGEMENT RESPONSIBILITY

Art.4. (1) The General Director is responsible for achieving the objectives of the Bulgarian Red Cross and is obliged to carry out this management function in a legal, economic, efficient and effective manner.

(2) Related to his/her managerial responsibility, the Director General is responsible for:

- the functioning of the Financial Management and Control System;
- achieving the objective purposes of the BRC by developing and implementing strategic plans, action plans and programs to reach the objectives in accordance with the functions of the managing bodies;
- ensuring interconnection between the processes of objective setting and resource planning;
- building management systems and staff development systems as well as maintaining the staff level of competence;
- ensuring the implementation and adequate functioning of the internal audit in the organization;

- safe keeping and protection of assets and information against loss, theft, unauthorized access and misuse;
- establishment of appropriate organizational structure to ensure effective performance of the Secretariat of the National Council;
- ensuring the existence and functioning of a reliable risk management system;
- division of responsibilities in the process of decision making, control and implementation;
- providing full, true, accurate and timely booking of all transactions;
- organizing the building and operation of information system, which ensures timely and accurate recording of data, related to the BRC activities and allows the movement of information flows, necessary for effective management in the vertical and horizontal hierarchy;
- establishing internal rules of a system for documenting and archiving, as well as its requirements thereto, including setting of audit trail;
- regular monitoring of activities and data related to the financial management and control;
- based on the information collected during monitoring exercises – taking appropriate measures to maintain and improve the adequacy and effectiveness of the financial management and control systems.

(3) The Director General may delegate his/her rights and responsibilities under this system to the deputy Directors General, to the Chief Secretary and Directors of Departments (Directorates), in such cases defining their specific rights and obligations.

CHAPTER THREE

ELEMENTS OF FINANCIAL MANAGEMENT AND CONTROL AT THE BRC

I. CONTROL ENVIRONMENT

Art.5. The control environment is the basic element for developing all other elements of the internal control and includes:

5.1. the personal integrity and professional ethics of governance and management, members, volunteers, employees of the organization and the citizens. A Code of Conduct is developed at the BRC, which regulates the ethical values, relationships between governance, employees and citizens, professional conduct, and standards dealing with conflicts of interest, fraud, corruption, irregularities and others.

5.2. the management philosophy – the management of the BRC is based on encouraging the competence and the ethical behavior of employees and by personal example of the on following the rules laid down in the organization.

5.2.1. The BRC Director General ensures the internal control by introducing clear and adequate rules and procedures and monitors their application;

5.2.2. The BRC Director General creates and maintains conditions for the functioning of an independent internal audit in accordance with the functions of the management bodies;

5.3. the organizational structure – includes clear and precise description of the functions of structures and units; clear rules regulating the separation of rights, duties and responsibilities; hierarchy of reporting; organizational structure, functional descriptions of the structures, permanent positions list, job descriptions and orders for delegating rights and responsibilities..

5.4. human resources management policies and practices - recruitment, appointment, training, appraisal, promotion to higher position and remuneration of staff at the BRC are regulated in the respective legal acts and in the following internal organizational documents of the organization: Internal rules on the organization of wages at the BRC; Regulations on the the internal labor order, organization of the document flow and organization of the activity; System for training and qualification at the BRC; System for Monitoring and Evaluation of projects and activities at the BRC; System for appraisal of the staff members at the BRC; Regulations on the Intangible Incentives at the BRC;

5.5. competencies of staff – the combination of knowledge, skills and abilities to perform the duties, arising from the organization's objectives and the specific position. The concrete

requirements for competence are included in the job descriptions of the staff members. Periodical analyses are carried out in regards to the knowledge and skills required for each position, based on which calendar training plans for staff and volunteers are prepared.

II. RISK MANAGEMENT

Art.6. (1) The risk management is a process of identification, monitoring, analysis and assessment of the risks, which may affect the process of pursuing the objectives of the organization, as well as introduction of the necessary controlling activities with the purpose to reduce the risks to an acceptable level.

(2) The persons responsible for the identification, monitoring, risk analysis and assessment are the Director General, the deputy Directors General, the Chief Secretary, the Internal Auditor, the Financial Controller, the “Internal Financial Control” Chief Expert, directors of departments (directorates), the Chief Accountant, directors of the Secretariats of the Regional Councils of the BRC, of the National Training Centre and bases.

Art.7. The risks management at the BRC includes the following steps and actions:

7.1. Development of annual and operational technical action plans by activities and directions, in which the tasks and responsibilities of the heads of structural units are distributed in accordance with the strategy adopted by the General Assembly.

7.2. Definition of main areas of the activity, carrying potential risk, related to:

7.2.1. achieving the set strategic goals, milestones and operational objectives;

7.2.2. indicators for assessment of the level of effectiveness and efficiency in the implementation of tasks and activities;

7.2.3. the external reputation of the organization;

7.2.4. observing of the legal basis and of the internal organizational documents of the organization;

7.2.5. funding of the organization and spending of funds;

7.2.6. implementation of the operational activities and responsibilities in the organization, financial and accounting functions and those in the IT systems.

7.2.7. social and economic problems;

7.2.8. lack of adequate changes in the organization itself / governance, management, volunteers in the systems /;

7.3. The results of the risk assessment are reported by the Director General in his/her quality of a head of the Expert Council at the Secretariat of the National Council of the BRC. For the assessment carried out, a Risk Assessment Form is filled in (Annex № 6 to the current Rules).

7.3.1. The Directors of Directorates fill in the form (according to Annex №6), until the 30th of October of the current year, covering the period from 1st of October of the previous year until 30th of September of the current year and present it to the Director General. The Director General after reviewing it with the Expert Council, reports it to the Managerial Board, which proposes to the President and to the Director General a decision for response to the identified and categorized risks.

Art.8.(1) The Director General is responsible for the management of risks, which may hamper the activities of the BRC, with a view to their prevention or minimizing.

(2) The deputy Directors General, the Chief Secretary, the Internal Auditor, the Financial Controller, the “Internal Financial Control” Chief Expert, directors of departments (directorates), the Chief Accountant, directors of the Secretariats of the Regional Councils of the BRC, of the National Training Centre and bases assist the Director General in the identification and/or management of the risk.

(3) The Director General may undertake disciplinary action towards employees, whose acts or inaction contribute to the onset and / or manifestation of risk factors in the work of the BRC.

Art.9. The risks to the activities of the Bulgarian Red Cross are being identified and classified in accordance to the approved BRC Strategy 2020 and in accordance with the elaborated action plans, by activities and directions.

9.1. During the implementation of the strategic objectives actions are taken for assessment and prevention of the identified risks, taking into account the factors for their occurrence and the ways for addressing them.

9.2. All BRC employees are obliged in case of occurrence of accidental risky situations, which may lead to negative consequences for the BRC activity, to signal in written form to their direct superior, while he/she by the order of level should report to the Director General, Chief Secretary, deputy Directors General and the respective Director of Department/Directorate.

Art.10. Assessment and response to the identified risks. Key moments in risks assessment:

10.1. assessment of the identified risks through the probability of their occurrence and the effect which they would have;

10.2. introduction of a framework for categorization of the identified risks – high, medium and low;

10.3. response in regards to the identified and categorized risks. Response options:

10.3.1. risk reduction – if it is not possible to fully avoid the risks, controls are introduced to limit the risk to acceptable parameters. Permanent control in the risky area is ensured;

10.3.2. transfer and distribution of risk – when possible, through agreement with another organization / insurance of property, partnership agreements, etc./;

10.3.3. risk termination – when it is possible, a certain activity, respectively the risk it carries, is terminated.

10.4. Monitoring of the risk management process – permanent monitoring and reporting is carried out regarding the identified risks, while maintaining the requirements of timeliness, frequency and completeness.

Art.11. The Internal Auditor of the BRC reviews the actions taken by the management to manage the risks, and consults and reports to the Director General on the areas where improvements are necessary.

11.1. In accordance to the Internal Audit Act, the Internal Auditor supports the BRC Director General, without direct participation in the risk management and without shifting his/her responsibility in this area.

III. CONTROL ACTIVITIES

Art.12. The persons in the BRC responsible for the application of the current system are:

- The President of the BRC;
- The Director General;
- The Deputy Directors General;
- The Chief Secretary;
- The Chief Accountant;
- The Directors of Departments / Directorates;
- The Heads of Units;
- The legal advisors;
- The Financial Controller;
- “Internal Financial Control” Chief Expert;
- The Chief of Office of the Director General;
- The Chief of Office of the President;
- The Directors of the Secretariats of the Regional Councils of the BRC, the National Training Centres and bases;
- The Project Coordinators;
- Other employees taking positions implying material responsibility or conducting activities within accounting and reporting.

Art.13. Control Activities are the regulations, procedures and activities aiming at reducing the risks, for achieving the organization's objectives and contributing to the implementation of the decisions of the leadership.

13.1. Procedures for permission, approval and authorization – by orders of the President and the Director General decision making and approval rights are delegated and the perimeter of those delegated rights is defined.

13.2. Separation of responsibilities – an employee is not allowed simultaneously to have responsibility on permission, approval and authorization, implementation, booking and control. Combination is allowed and in this case the position is covered by other controls – rotation of employees, additional inspections, etc.

13.3. Dual Signature System

13.3.1. The Dual Signature System is a procedure in which taking any financial obligation and/or making expenditure is done after the signatures of:

- the manager in charge of the implementation of the budget: Director General, Director of a Regional Council, National Training Centre, managers of bases;
- The Director of the Finance Administration and Economic Activities Division or the Chief Accountant;

13.3.2. Director of the Finance Administration and Economic Activities Division or the Chief Accountant can refuse a second signature. The refusal should be in written and be registered in the BRC book keeping and registration office.

13.4. Preliminary control before taking commitment, making expenditure, and before receipt of income / proceeds from rental and sale;

13.4.1. The purpose of the preliminary control is to provide the manager of the organization or another official responsible for taking the respective decision, with a reasonable certainty on the compliance of the decision with the applicable law, with the internal organizational documents and contracts.

13.4.2. The preliminary control is a preventive control activity, where before making a decision a comparison is made with the requirements of the applicable law, the internal organizational documents and contracts in order to guarantee their observance. The preliminary control is documented by written opinion of the financial controller. The written opinion is expressed on the document requesting the decision making or by a separate internal note.

13.4.3. Scope of the preliminary control:

13.4.3.1. decisions/actions, related to management of assets and means (including taking obligations and making an expenditure);

13.4.3.2. decisions/actions, related to management of the property of the organization (including leasing the property in order to realize income);

13.4.3.3. other decisions, which ensue rights, respectively obligations for the organization and / or its employees.

13.4.4. Stages of preliminary control:

13.4.4.1. Presenting of the necessary documentation, related to the respective future opinion of the Financial Controller;

13.4.4.2. Conducting the concrete verification by the Financial Controller;

13.4.4.3. Written expression of an independent opinion by the Financial Controller;

13.4.5. Subjects of the preliminary control:

13.4.5.1. The employee assigned to carry out its implementation. The preliminary control is carried out by a financial controller. The scope of his rights and duties is defined in his Job Description (Terms of Reference).

13.4.5.2. The President and/or the Director General or another person authorized to make the respective decisions, user of the opinion expressed by the preliminary control.

13.4.6. Subject of preliminary control before taking commitments:

13.4.6.1. Utilization of subsidy for operating activities and capital expenditures, received from the State of the Republic of Bulgaria and funds from the EU - preliminary control is performed to determine whether the requirements of the legislation and of the BRC internal

organizational documents related to the distribution of subsidy funds and budgeting have been met. The Financial Controller provides a written opinion to the BRC Director General before the proposal for distribution of subsidy has been submitted to the National Council. Financial Controller performs a preliminary control on the utilization of funds on projects funded by the European Union, in accordance with the requirements for each specific project.

13.4.6.1.1. The required documentation for a reasonable allocation of the subsidy is provided to the Financial Controller by the Director "Finance, Administration and Economic Activities" (FAEA) not later than five days before making the proposal in the National Council.

13.4.6.1.2. Planning funds for capital expenditure from the subsidy is made pursuant to and within the periods specified in the Rules of the budget of the Bulgarian Red Cross, based on a thorough analysis of the needs on national and regional level.

13.4.6.1.3. Director of "FAEA", Head of Unit "Absorption of capital expenditures and business investments" (ACEBI) and the financial controller discuss proposals for funding with capital funds. Director of "FAEA" presents a summarized version to the managing board with the proposal for distribution of subsidy for running costs, then the proposals are submitted to the National Council.

13.4.6.1.4. The spending of capital funds is administered by the Head of the "ACEBI", within the "FAEA" while for each object of financing creates a file with application copies of all documents on spending and verification / check / sheets for objects over than BGN 10,000 VAT excluded, in order to implement control by the Director General, Director of "FAEA", Internal Auditor, Financial Controller or other authorized persons.

13.4.6.1.5. Financial Controller performed a preliminary review by giving a written opinion on the documents as a basis for selection of contractors financed by equity funds and prior to any payment on account of capital funds. Preliminary review covers all structures of BRC.

13.4.6.1.6. Change the sites approved for financing capital or a change in the volume of financing for a particular item is carried on a proposal from a permanent committee established by order of the Director General.

13.4.6.1.7. In the current year budget adjustments to the BRC, leading to a change in revenue and expenditure, financial controller, perform the procedures for vetting the coordination of the adjusted budget.

13.4.6.2. - Procedures for identifying contractors performed a preliminary review of procedures performed and their stages, according to legal requirements and " Internal Rules for procedures for identifying contractors in the Bulgarian Red Cross (Annex 7). The Financial Controller provides a written opinion of the Director General of the BRC through coordination of the contract before signing it.

13.4.6.3. Acquisition of supplies/ services- before being entered into the relevant financial obligations, carry out preliminary review to determine its legality and availability of appropriated funds to the organization that will be paid when the contract. The Financial Controller provides a written opinion of the Director General of the BRC through coordination of the contract before signing it.

13.4.6.4. Rental of movable and immovable property, performed a preliminary review to determine whether the requirements of legislation, Annex № 8 of FMCS and other internal organizational documents of the Red Cross to determine the amount of rent. The Financial Controller provides a written opinion of the Director General of the BRC through coordination of the lease before its signing.

13.4.6.5. Disposal of the movable and immovable property performed a preliminary review to determine whether the requirements of legislation and internal organizational documents of the BRC rules for the disposition of the property and determining the amount of proceeds. The Financial Controller provides a written opinion of the Director General of the BRC before making the proposal to the General Assembly or National Council.

13.4.6.6. Trips abroad when funds are posting a subsidy from the state budget or from European projects - performed a preliminary review of the reason for posting and availability of funds for payment of the mission. The Financial Controller provides a written statement of

the Chairman of the BRC and / or the Director General of the BRC by aligning the financial plan and the note.

13.4.6.6.1. Costs charged to a specific mission are carried out only when there is lodged with the clerk a memorandum to the Director General and attached financial plan.

13.4.6.6.2. The financial plan along with the note made by the respective financial controller manager or his representative initiating the appropriate mission trip when funds are subsidies from the state budget or from European projects

13.4.6.7. Trips in the country - performed a preliminary review to determine whether the requirements of legislation and the availability of funds for repayment to the missions in the country of Red Cross employees, volunteers and external parties.

13.4.6.7.1. For organized trips in the country for more than 1000 BGN, with the exception of those projects are prepared memorandum and financial plan to be submitted to the Financial Controller for coordination with the responsible manager initiating relevant business or his representative.

13.4.6.8. Staff recruitment performs a preliminary review to determine whether the requirements of legislation and internal organizational documents relating to procedures for appointment of staff, whether the amount of his fixed remuneration for labor relationship is in compliance with regulations and internal organizational documents and that the funds are provided for the payment of remuneration. The Financial Controller provides a written opinion concluding the contract and submits it to the Director General.

13.4.6.9. Payment of fees - performed a preliminary review to determine whether the requirements of legislation and internal organizational documents and have provided funds for their payment.

13.4.6.9.1. Chief Accountant provides financial controller recapitulation of Salaries Fund (SF) , deductions and insurance funds before a relevant payment documents.

13.4.6.9.2. The Financial Controller provides a written opinion of the Director General of the BRC expressed in a comparative table, reflecting planned and disbursements for the SF, deductions and insurance funds for every calendar month. The latter is drawn up in duplicate, one of the dossier monthly recapitulation and register for a Financial Controller.

13.4.6.10. Financial Controller may refuse to sign the document commitments or making expenditures. The refusal in writing is filed in the Registry of the BRC.

13.4.7. Objects of preliminary control prior to payment:

13.4.7.1. Objects of preliminary control before expenses are documents or set of documents from which the financial obligation and value for over 1000.00 BGN VAT excluded.

13.4.7.2. Before making the payment shall be checked:

- Conformity of the payment with the commitment;
- Competence of the person who ordered the execution of payment – must have the right to dispose of funds, validity and scope of delegated powers;
- The budget item, the expenses of which is made an expenditure;
- The accuracy of primary documents, correctly calculated quantities and the amounts they contain, are included required under accounting legislation details, is correctly reflected the contents of the transaction.

13.4.7.3. For the check before making the payment financial controller gives a written statement reflected on the document, which is the basis for the payment.

13.4.7.4. The Financial Controller shall keep a register of checks prior commitments / Annex № 1 /; payment by bank transfer / Annex № 4 / and payment in cash / Annex № 5 /, for procedures for checks before letting and disposal of the property / Annex № 2 /; verification of other income / Annex № 3 /. In this register financial controller observes the type of obligation, expenditure or revenue intake, the date of the documents submitted, dates and method of delivery, contractor, budget line and requested additional documents necessary for the preliminary review.

13.4.7.5. The financial controller is not giving a written statement of financial transactions involving the movement of cash / supply and clearance of bank accounts, check encashment grant Advances / and given a written statement in advance of official reporting, based on

documents for the actual cost them and for amounts of more than 1,000 BGN. Written opinion affects in the advance report.

13.4.7.6. Annexes № 1,2,3,4,5,6,7 and 8 are an integral part of the FMCS in the BRC.

13.4.8. Preliminary assessment is done by introducing procedures to complete, true, accurate and timely accounting of all transactions. Processes are regulated in accounting policy of BRC, Rules for accounting document flow in the BRC and the BRC individual account plan.

13.4.9. Preliminary assessment is done through daily monitoring by supervisors on the performance of assigned tasks and implementation of the budget, supervising the necessary guidelines and instructions to prevent errors and abuses in the tasks .

13.4.10. Rules for access to information and assets - with order of the Director General are determined the officers responsible for protecting and / or use of assets and information and have access to them. The degree of restriction depends on the vulnerability of information assets and the risks of loss or misuse. In determining the vulnerability of assets Director General shall take into account their cost, portability and possibility to be exchanged.

13.04.11. Procedures for documenting, archiving and storing information in the BRC are elements of the preliminary review and are described in the internal labor regulation and organization of document flow and organization of activities, accounting document Regulations, Instructions for use filing system and other internal organizational documents.

13.04.12. Control activities related to information technology suggest specific types of controls to be introduced in the Bulgarian Red Cross.

13.4.12.1. General computer controls / JCC / activities are to be implemented as part of daily activities and obligations of as system Administrator and / or of the company dealing directly with IT service of BRC. They include controls management, providing information processing is carried out in a constant and controlled manner. JCC is part of the control and risk management in the BRC.

13.4.12.2. Controls over the applications support internal control and not allow the recording of false data into the system, detect and correct errors based on automated procedures to control the form and content of data. Bulgarian Red Cross used computer programs in accounting, storage, filing and information system management of payroll, which involve automated control procedures.

13.4.13. Evaluation of controls of activities - BRC uses two approaches: own assessment by the internal auditor for the organization and evaluation by external auditors. The first approach is carried out by Internal Audit Unit in a Secretariat of the National Council of the Bulgarian Red Cross, and the second organization is obliged by the law to commission an external evaluation at least every 5 years.

IV. INFORMATION AND COMMUNICATION

Article 14. Information is a set of information on events relevant to the activities of the organization. Information is needed at all levels of activity in the organization.

Article 15. Communication is a two-way flow of information in the right direction and feedback on all channels in the organization horizontally and vertically. Its purpose is to raise awareness and thus to help to achieve the objectives of the organization.

15.1. The information is necessary to:

- Timely - to precede and accompany the origination and termination of the event;
- Relevant - relevant to the activity;
- Update - the latest available information;
- Exact - containing the actual quantity and value parameters;
- True - reflecting the objective facts and circumstances;
- Available - received by users, who need it.

Article 16. In BRC operates internal filing and information system as part of "Information System of the Red Cross," which allows making correct management decisions, timely introduction employees with accurate and specific instructions adequately the duties and preparation of timely and accurate reports and reports on the activities.

16.1. In the BRC is a separate room for the archive where the files are stored in filing information systems. The archive is organized in a manner consistent with existing regulations and practices in the country.

16.2. Every employee at the Bulgarian Red Cross has an internal e-mail, built within the organization's own mail server, which is the faster movement of information between internal employees.

Article 17. The financial management and control in the BRC publishes the Internet website of the organization and the attention of all employees.

V.MONITORING

Article 18. Monitoring is a comprehensive overview of the organization, which aims to provide assurance that controls are functioning as intended and are effective.

18.1. Forms of monitoring:

18.1.1. ongoing monitoring is performed daily, at all levels of responsibility of the responsible officers for an action;

18.1.2. comprehensive evaluation of the Bulgarian Red Cross - performed under the system for monitoring and evaluation of projects and activities in the BRC and appraisal system status and activities of the regional Red Cross organizations;

18.1.3. Internal Audit, Internal Audit assesses the financial management systems and controls for their adequacy and effectiveness and makes recommendations to management for their improvement.

Article 19. The activities of the Financial Controller and Internal Auditor are monitored by the National Control Commission.

19.1. Financial Controller and Internal Auditor have the right to report to the National Control Commission for irregularities in the management committee when the Red Cross has not taken action.

Article 20. This system is approved by the National Council of Red Cross and implemented by issuing orders, and functional job descriptions to determine the duties and responsibilities of officials in the performance of different functions of financial management and control.

Article 21. FMCS is amended in changing the legal grounds which led to their preparation and, when necessity arises. Changes shall be approved by the National Council of BRC.

Article 22. The current system of financial management and control repeals Order № 383/16.11.2011.

Article 23. Director-General may undertake disciplinary action of employees whose actions or inactions impede the application of above mention system.

The financial management and control system / FMCS / in the Bulgarian Red Cross was adopted by Decision № 13 from Protocol № 2 / 30.01.2015 of the National Council of the BRC.

The current FMCS repeals the one adopted by Decision № 57, Protocol № 3 of April 25, 2014 of the National Council of the Bulgarian Red Cross.

NC Secretary: / s /
/ Vassilka Peeva /

Deputy Director General: / s /
/ Vassilka Kamenova /