



2019

Bulgarian National Audit Office

ANNUAL REPORT

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Esteemed Members of Parliament,

In keeping with article 64, paragraph 1 of the Law on the National Audit Office, I hereby submit to the National Assembly the 2019 Annual Report of the Bulgarian National Audit Office.

This report outlines our findings and conclusions contained in over 300 audit reports, adopted in 2019, through which we have provided an objective information of the public sector management in Bulgaria. We have sent to the Speaker of the National Assembly and the relevant Parliamentary Committees 17 reports on the most topical issues that are of interest to the public. We believe that in doing so we have successfully fulfilled our main task – to control the reliability and authenticity of the financial statements of the budget organizations and the lawful, effective, efficient; and economical management of public finance and conduct of public business; and to provide National Parliament with reliable information thereof.

I would like to emphasize that 2019 required great mobilization of our audit teams in view of the two types of elections that took place during the year, and the need to control the financial spending for the election campaigns of the over 700 candidates running in the local elections and the elections for Members of the European Parliament.

Last year was very successful for our institution in international aspect. As a lead partner, BNAO successfully finalized a twinning project together with the Supreme Audit Institution of Croatia as a junior partner. The project was dedicated to further improvement of the administrative capacity and external audit efficiency of SAO of North Macedonia.

As part of the agenda of the global family of Supreme Audit Institutions (SAIs), the XXIII INCOSAI took place in Moscow. INTOSAI called upon the national SAIs to conduct audits whose outcomes are important for the implementation



of the national goals and in improving the living standards of the population – tasks that the Bulgarian National Audit Office has long ago set on its own agenda.

BNAO continues to implement its Development Strategy 2018-2022 in keeping with its core principles such as independence, objectivity, good faith, impartiality, publicity and transparency.

We are proud to report that in 2019, BNAO was awarded for the second time the Golden Key prize of the Access to Information Programme in the category for public institutions.

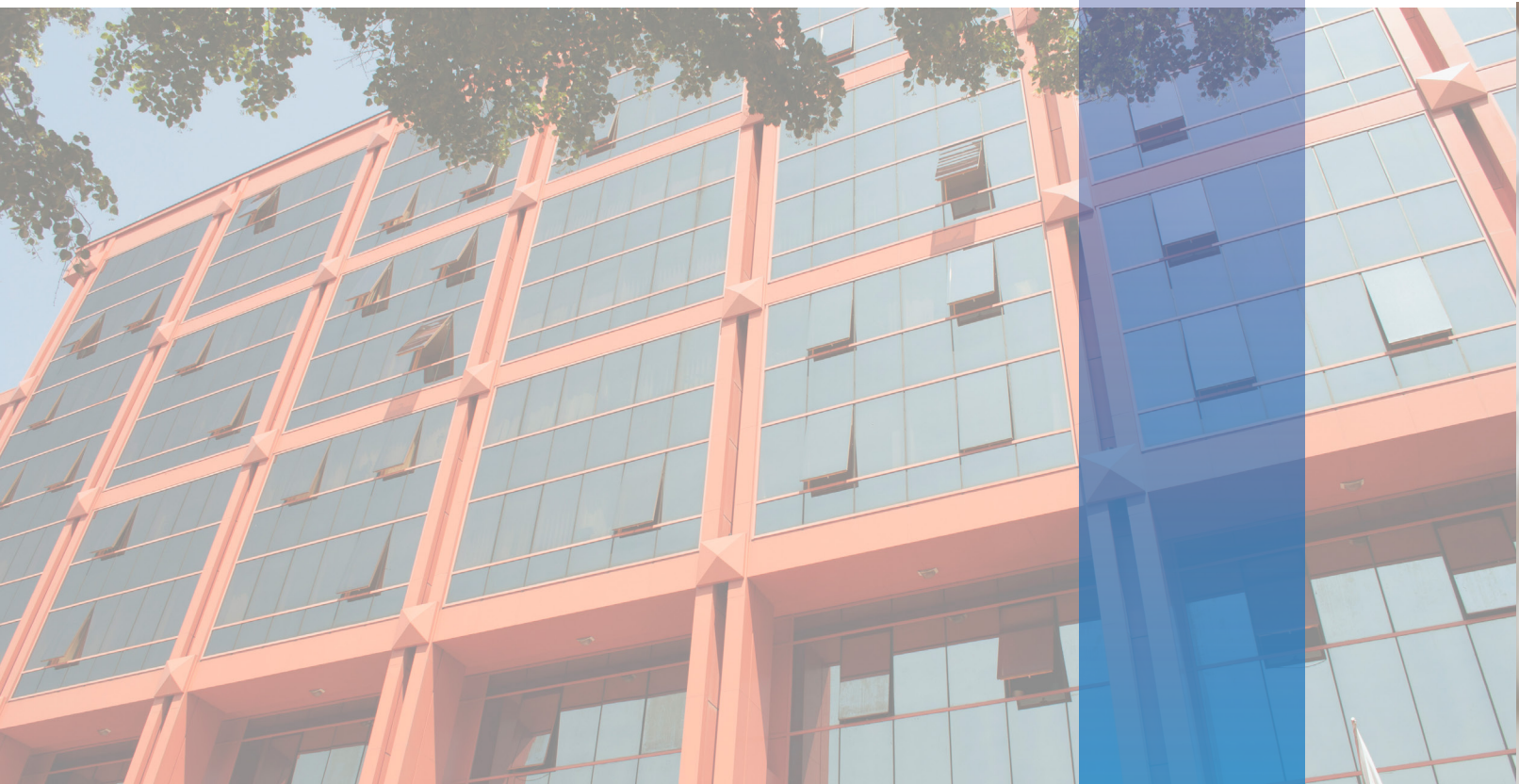
We are committed to continue working with the same dedication and with the conviction that accountability and publicity prevent infringements and fraud and make a real change to citizens' life.

Sincerely,

Tzvetan Tzvetkov,

President

Bulgarian National Audit Office



ACTIVITIES OF THE NATIONAL AUDIT OFFICE

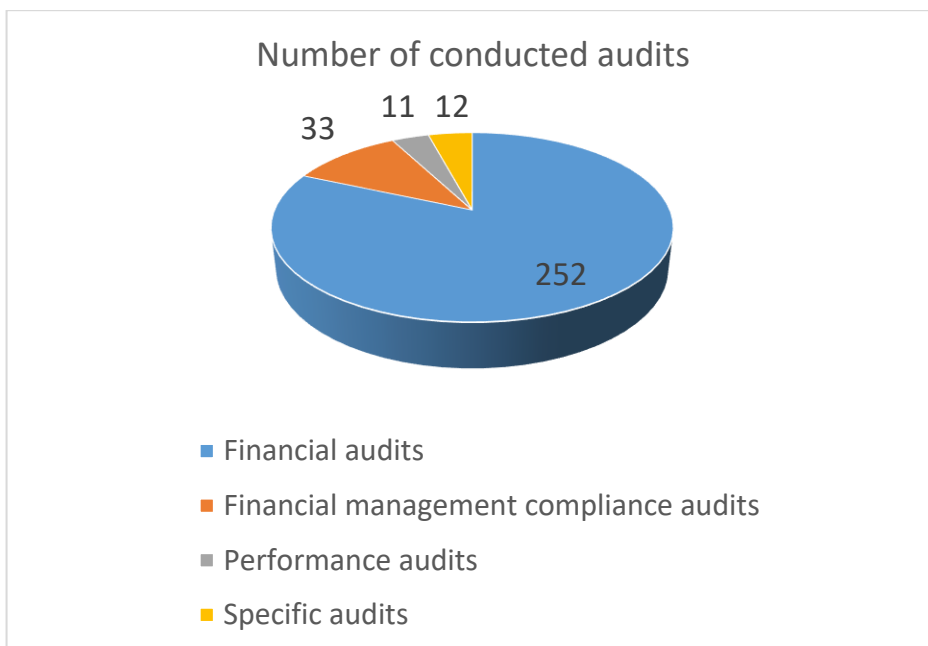
I. ACTIVITIES OF THE NATIONAL AUDIT OFFICE

1. BACKGROUND

The National Audit Office is an independent institution controlling the reliability and authenticity of the financial statements of budget organisations and the lawful, effective, efficient and economical management of public resources and activities. It provides reliable information thereof to the National Assembly and reports to it.

The National Audit Office consists of a President, two Vice Presidents and two members nominated by Parliament. The President manages and organizes the conduct of BNAO's operations, while the Vice Presidents are responsible for organizing the audit activity and ensuring the quality of audits. The members are representatives of professional organizations – The Institute of Chartered Accountants and the Institute of Internal Auditors in Bulgaria. They participate in the BNAO Board meetings and take part in the endorsement of the audit reports. The National Audit Office adopts its decisions through open voting and a majority of four votes.

Between 01 January 2019 and 31 December 2019, the Board held 47 meetings and passed in total 482 decisions. It endorsed 33 compliance audit reports, 11 performance audit reports and 12 specific audit reports. Following the audit of annual financial statements, the National Audit Office endorsed 252 financial audit reports which is the same number as in the previous year.



Three audit reports were submitted to the Speaker of Parliament, while another 14 were sent to the relevant Parliamentary Committees as follows:

- Budget and Finances Committee – 1;
- Committee on
- Regional Policy and Local Government – 3;
- Food and Agriculture Committee – 1;
- Committee on Environment and Waters – 1;
- Committee on Transport, Information Technologies and Communications – 2;
- Committee on European Affairs and Control of EU Funds – 4;
- Committee on Culture and Media – 1;
- Committee on Economic Policy and Tourism – 1.

Thus, the National Audit Office provided the National Parliament with reliable information for the purposes of parliamentary control.

Seven audit reports were submitted to the Prosecutor's Office of the Republic of Bulgaria based on conclusions for suspected violations. Fifty-seven audit reports were presented to the Council of Ministers, 35 to chairs of Municipal Councils, and 55 audit reports were addressed to the Public Financial Inspection Agency based on information for irregularities.



2. OUTCOMES OF THE FINANCIAL AUDITS

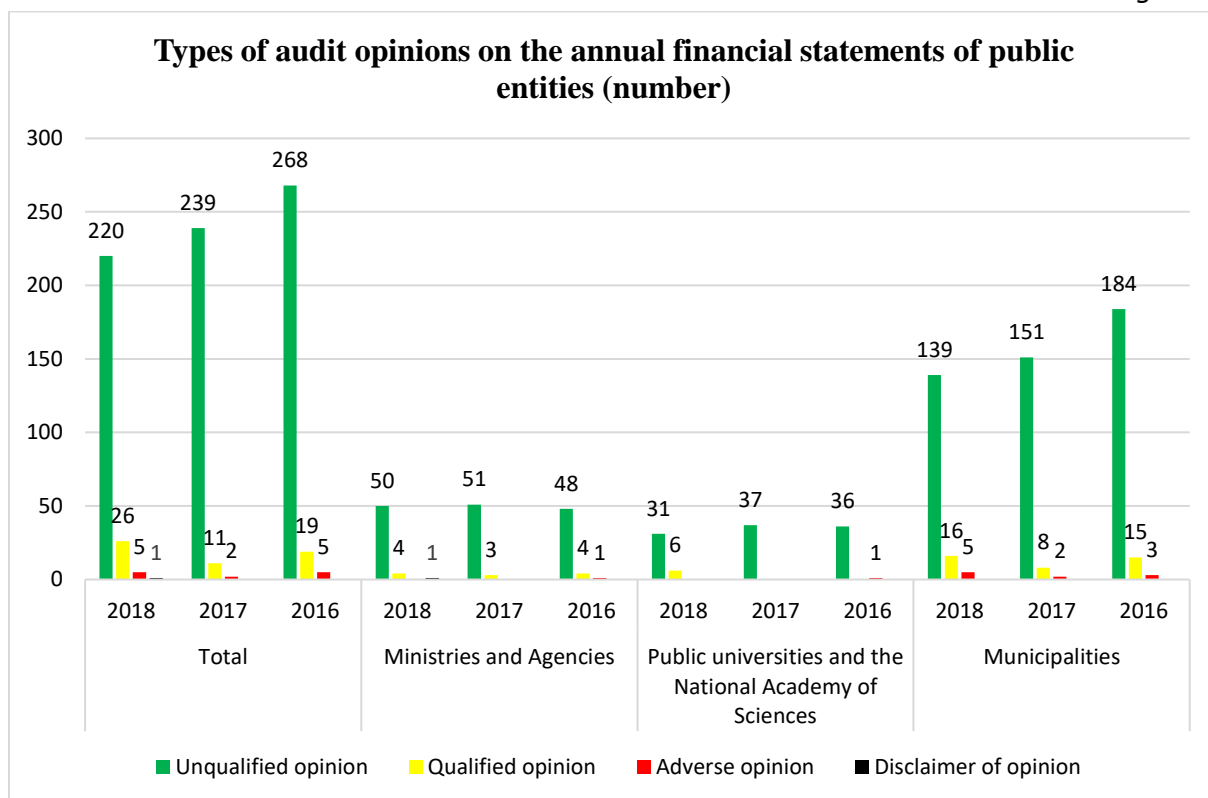
In 2019, the Bulgarian National Audit Office (BNAO) conducted audits of the 2018 annual financial statements of public sector organisations. Financial auditing is **an expression of an independent audit opinion with a reasonable degree of assurance** of whether the annual financial statement of a public sector entity is in line, in all material aspects, with the generally applicable financial reporting framework. This audit opinion helps **increase the users' confidence** in the information disclosed in the financial statements.

The audit opinion may be unmodified, qualified or adverse opinion. **The unmodified audit opinion** indicates that the **audited financial statements are free from material misstatements**, and the notes to them do not contain any omissions of non-financial information of relevance for the users. A financial statement on which the National Audit Office has expressed an unmodified opinion **provides a true and fair presentation** of the financial status, financial results of operations financial results of operations and cash flows of the public sector entities. **Qualified audit opinion** is expressed when the **audited financial statements contain material misstatements** or omission of important non-financial information, **however, the impact of these misstatements is not pervasive**. Financial statements on which the National Audit Office has issued a qualified opinion **provide true and fair presentation** of the financial performance, financial results of operations and cash flows of the public entities, **with the exception of the effect of the misstatements and omissions**. **An adverse opinion** is issued when **the audited financial statements contain material misstatements or omissions** of important non-financial information that have a **comprehensive impact**. A financial statement on which the National Audit Office has expressed an adverse opinion **does not provide true and fair presentation** of the financial performance, financial results of operations and cash flows of the public sector entity. In rare occasions, when the **circumstances¹ prevent the auditor from performing the necessary audit procedures**, the National Audit Office issues a **disclaimer of opinion**. When the National Audit Office has expressed a disclaimer of an opinion on a set of financial statements, it **may not be concluded whether those statements provide a true and fair representation** on the financial performance, financial results of operations financial results of operations and cash flows of the respective public sector entity.

¹ E.g. when the management of the audited entity refuses to provide or (for reasons outside of its influence) is incapable of providing the auditors with the required information.

The National Audit Office endorsed 252 audit reports on the 2018 annual financial statements of public sector entities. The majority of these reports contain unmodified audit opinion – 87% of all issued audit opinions² on the financial statements (compared to 95% for 2017) (see Fig. 1). This is mainly due to the possibility provided to **the audited entities to make corrections of the irregularities identified by the auditors** in the course of the audit itself. The purpose of these corrections is to ensure **that the annual financial statements provide a true and fair presentation of the financial performance, financial results of operations and cash flows** of the public sector entities and hence serve as a **reliable basis to make governance decisions at institutional, regional and national level**. The number of unmodified opinions is an indication **of the rate of compliance** with the applicable financial reporting framework. However, they are **not an indicator for the quality of public sector accountability, which depends to a large extent on the nature of the financial reporting framework**.

Figure 1



² Compared to other Supreme Audit Institutions in the EU, the BNAO has issued a relatively high share of unqualified opinions.

Between 2016 and 2018, there was a significant reduction in **the number of unmodified audit opinions on municipalities**. The reason for this negative trend is twofold:

- The financial statements of municipalities managing smaller budgets, where the probability of misstatements is lower, are audited in September and October when there are restricted possibilities for introducing corrections. The National Audit Office conducts audits of the nationally significant central authorities and municipalities between March and July.
- The auditors identified more misstated values (see Fig. 3).

Figure 2 illustrates the **positive impact that the corrections³** to the identified misstatements in the Annual Financial Statements had on the reliability of information contained in these statements. This is demonstrated through the number of modifications of the audit opinions on the 2018 financial statements. Had corrections not been introduced, the BNAO would have issued **adverse opinion** on the financial statements of 83 public entities and **qualified opinion** on the financial statements of 29 public entities. **As a result of the corrections, the number of adverse opinions was reduced by 94%, while the number of qualified opinions shrank by 10%. At the same time, the number of unqualified opinions grew by 59%.** This goes to show that **the corrections of the misstatements identified by the BNAO led to a significant increase in the number of financial statements that provide a true and fair presentation of the financial performance, financial results of operations and cash flows of the public sector entities.** The most significant change was witnessed at the level of municipalities, where the number of unmodified opinions grew by 64, i.e. 85%.

³ The number of modified opinions before adjustments is calculated based on the assumption that the only factor informing the type of audit opinion modification is the number of identified misstatements relative to a certain materiality level for the said financial statements. This approach has several important limitations: first, it does not account for the possibility of different materiality levels for the separate classes of transactions and operations; second – it does not consider the material misstatements; and third, it is impossible to factor in the potential disclaimers of opinion. Each of these factors may serve as additional grounds for modification to the audit opinion, which, if taken into consideration, may result in a higher number of modified opinions. Therefore, when analyzing the impact of corrections, we should keep in mind that the hypothesis outlined here represents the best-case scenario.

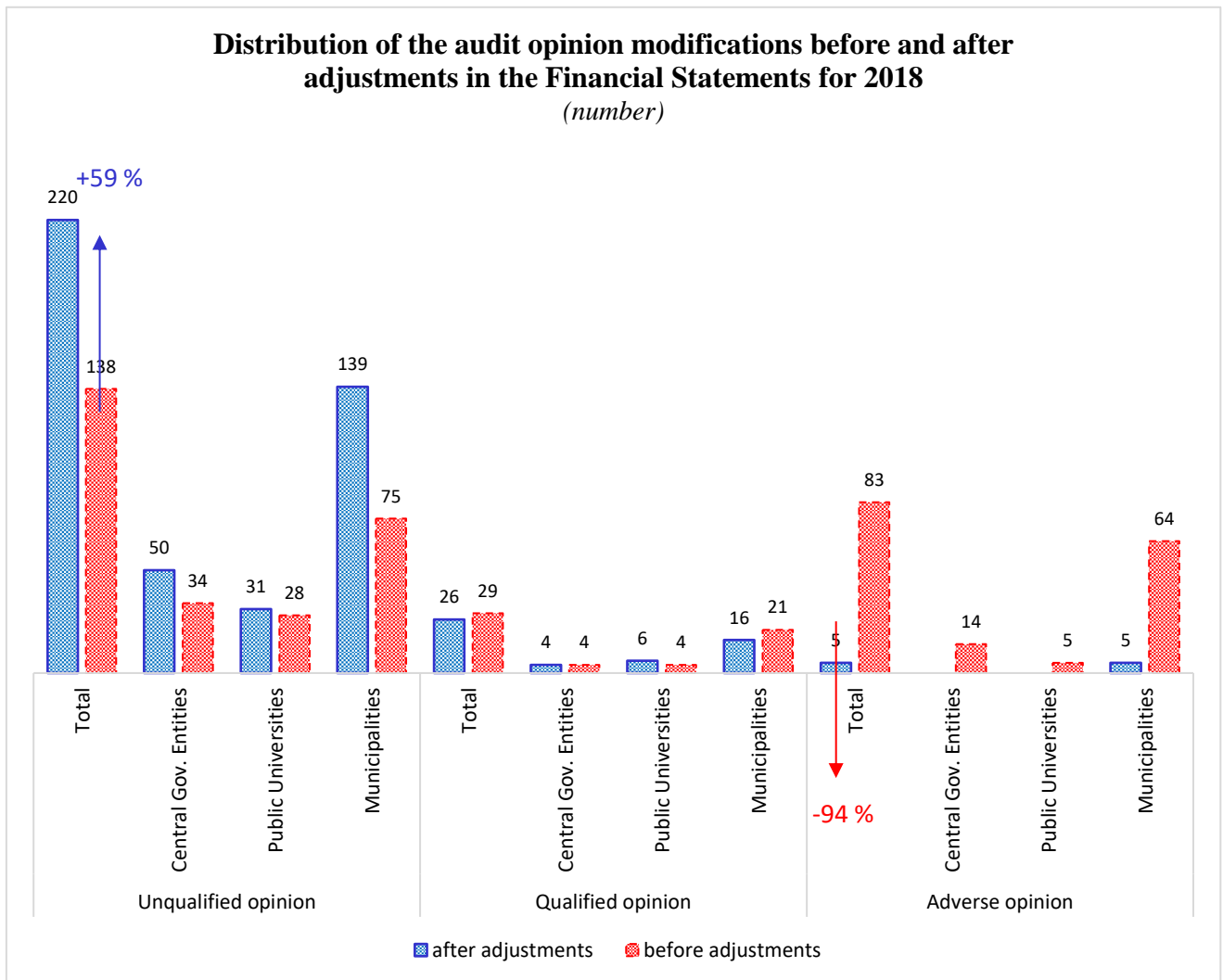


Figure 2

2.1. Financial audits of ministries, agencies and public universities

The following **recurring** categories of errors and irregularities were identified in the financial statements:

- Miscalculation of the depreciation expenses following events requiring a change of the depreciation schedule (impairment, overhaul, adjustment of the useful life of the asset, etc.) and irregularities in the initial disclosure and depreciation of the long-term tangible assets, incl. partial or non-reported stock-taking. This affects both the amortization costs and the balance value of the non-financial long-term assets (also identified in the audits of the 2017 annual financial statements).
- Advance payments that are inadequately accounted as current costs. This results in understating of the receivables of the public sector entity, while disclosing higher current costs.

- Some public entities failed to report their holdings in commercial companies (also identified in the audits of the 2016 and 2017 annual financial statements). This results in misstatement of the shareholdings and the related income in the annual financial statements.
- Inaccurate accounting of commitments and provisions (also identified in the audits of the 2016 and 2017 annual financial statements), usually resulting in understating of costs and balance sheet and off-balance sheet liabilities.
- Incorrect classification of assets, liabilities, income, expenditure and transfer to the accounts of the Public Entities Chart of Accounts and the paragraphs from the Uniform Budget Classification (also identified in the audits of the 2016 and 2017 annual financial statements) resulting in misstatement of the positions in the balance sheet, the profit and loss statement (P&L) and cash-flow statement.

In the course of the audits of financial statements, some of the errors and irregularities in the reports of the ministries, agencies and public universities **have been corrected**:

- ✓ Adjusting the depreciation expenditure to ensure fair presentation of the carried value and depreciable assets.
- ✓ Disclosure of previously unreported assets, liabilities and costs (also adjusted during the audits of the 2016 and 2017 financial statements). These corrections ensure fair presentation and comprehensiveness of the financial statements. In 2018, roughly 80% (BGN 1,402 million) of the misstatements in the off-balance sheet positions (*Figure 3*) were due to **undisclosed** off-balance sheet assets by one single public entity.
- ✓ Writing off paid-in receivables and payables. This eliminates the overstatement of assets and liabilities of the public entities.
- ✓ Correction of (mainly) technical errors in the cash-flow statements to ensure fair presentation of the cash execution of the budget, the EU funds and third-party funds. In 2018, **an omission in the financial statement of one public entity** accounts for almost the entire error rate concerning transactions with financial assets and liabilities (roughly BGN 2,100 million) (*see Fig. 5*).
- ✓ Correction of the classification of assets, liabilities, income, expenditure and transfers to the accounts of the Public Entities Chart of Accounts and the Uniform Budget Classification (also adjusted in the course of the audits of the 2016 and 2017 financial statements). This ensured the correct presentation in the balance sheet, P&L and cash flow statements. In 2018, the incorrect **classification** in the statements of two public entities accounts for roughly 70% (BGN 1,004 million) of the misstated values. The majority of misstatements of the accrued expenses (70% or BGN 457 million) come from incorrect **classification** in one public entity.

2.2 Financial audit of municipalities

The following **recurrent** groups of errors and irregularities have been identified in the financial statements:

- Miscalculation of the depreciation expenses following events requiring change of the depreciation schedule (value loss, overhaul, adjustment of the useful life of the asset, etc.). The incorrect accrual of depreciation of long-term non-financial assets is a result of wrong calculation of their expiry (not taking into account their acquisition date, physical and moral state) and failure to calculate the residual value of assets. This impacts the rate of depreciation expenditure, and the carried value of the non-financial long-term assets (also identified during the audits of the 2017 financial statements).

- Incorrect classification of assets, liabilities, income, expenditure and transfers to the accounts of the Public Entities Chart of Accounts and the paragraphs of the Uniform Budget Classification (also identified in the audits of the 2016 and 2017 annual financial statements) resulting in misstatements of the positions in the balance sheet, the P&L and cash-flow statement.

- Non-capitalized expenditure for infrastructure construction (also identified during the audits of the 2016 and 2017 financial statements), resulting in understating of the value of these assets in the Balance Sheet Statement, understating of the depreciation expenditure and overstating of expenditure capitalized under Other Accounts and Operations.

- Misrepresentation of the holdings of the municipalities in commercial companies and of the changes in the share of these investments (also identified during the audits of the 2016 and the 2017 financial statements). This results in unfair presentation in the annual financial statements of the shareholdings of municipalities and the related revenues.

- Failure to accrue income and expenditure in the correction accounts at year-end resulting in misstatement of the income and expenditure for the reported period (also identified during the audits of the 2017 financial statements).

- Lack of documented justification of economic transactions resulting in the disclosure of unverifiable amounts in the annual financial statements.

Without informing the audit opinion on the annual financial statements, emphasis of matter was raised with some of the municipalities for using funds from third-party accounts as temporary interest-free loans, which is against the legal provisions.⁴

⁴ Article 147 of the Law on Public Finance prohibits the use of third-party accounts for conducting and reporting any transactions other than administering third-party funds and the respective measures on behalf of the public authorities related to collection and forfeiture of assets and the following management and allocation of the accumulated amounts in line with the applicable legislation

In the course of the financial statements audits some of the errors and irregularities were **corrected**, namely:

- ✓ Adjustment of depreciation expenditures resulting in true and fair presentation of the carried value of depreciable assets.
- ✓ Reporting the changes in shareholdings in commercial companies (also corrected in the course of auditing the 2016 and 2017 financial statements) to achieve fair presentation of the investments in shares and equities and the resulting revenues.
- ✓ Disclosure of commitments under contracts, bank guarantees, promissory notes and other off-balance sheet assets and liabilities (also corrected in the course of auditing the 2016 and 2017 financial statements) to ensure fair and complete presentation of the information regarding the off-balance sheet assets and liabilities in the Financial Statement.
- ✓ Disclosure of formerly undisclosed assets, liabilities, income and expenditure (also corrected in the course of auditing the 2016 and 2017 financial statements). These corrections ensure fairer presentation and completeness of the information in the financial statements.
- ✓ Correction of (mainly) technical errors in the cash-flow statement to ensure fair presentation of the cash execution of the budget, the EU funding accounts and third-party accounts.
- ✓ Correction of the classification of the assets, liabilities, income, expenditure and transfers in line with the Public Entities Chart of Accounts and the paragraphs of the Uniform budget classification (also corrected in the course of auditing the 2016 and 2017 financial statements) resulting in adequate presentation of the positions in the balance sheet, P&L and cash flow statements.

1.1. Summary of the conclusions from the financial audits of the 2018 annual financial statements conducted in 2019

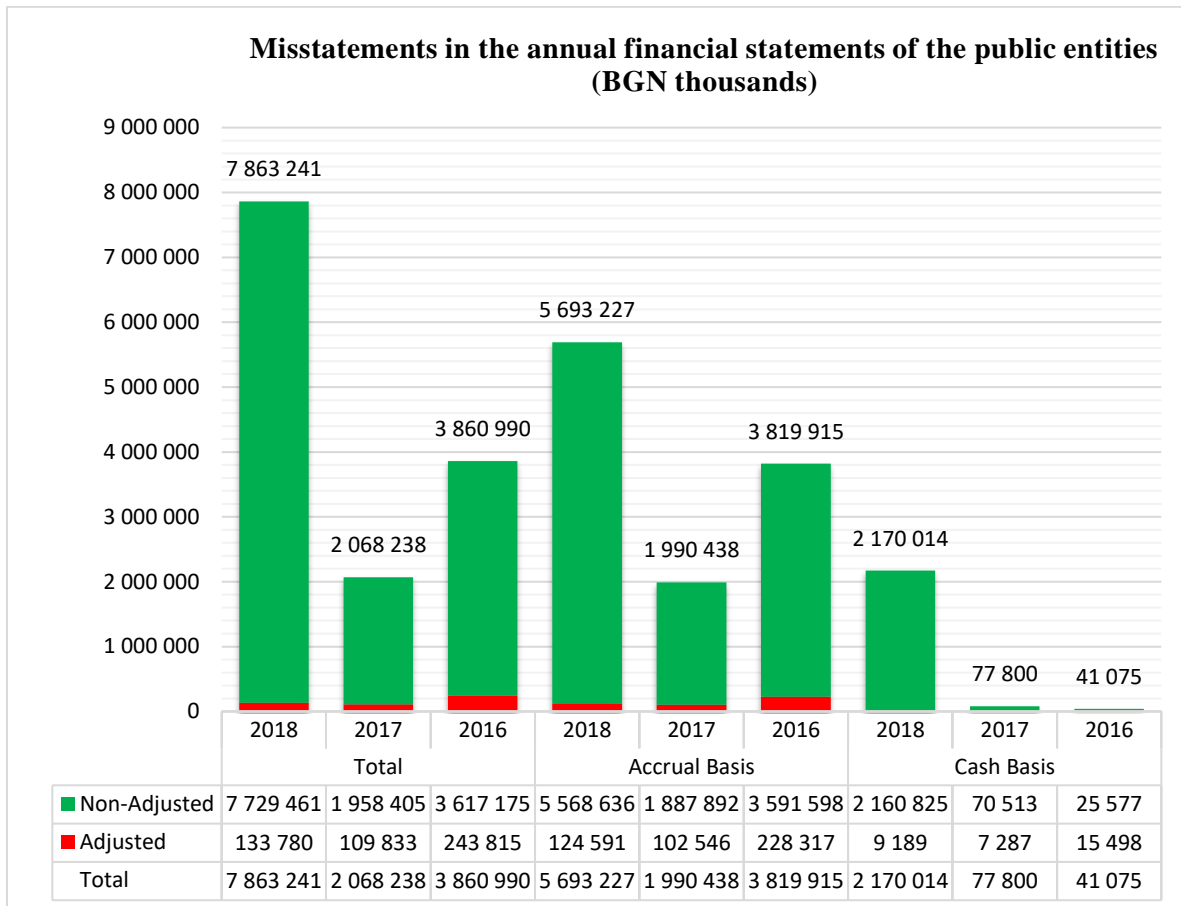
The financial audits of the 2018 financial statements of public entities resulted in the adjustment of misstatements accounting for BGN 7,73 billion. Although this value is 3 times bigger compared to the corrections in the 2017 financial statements, it is due to adjustments made by only a few public entities and to correction of technical mistakes accounting for big amounts.

Some of the reasons for the recurring misstatements in the annual financial statements are:

- Differences of opinion between the auditors and the management of public entities regarding the accounting and disclosure of specific events, transactions and operations. Such differences of opinion may arise due to contradictory legal provisions, incl. the very complex and sometimes unclear framework for public sector financial reporting.

- Impossibility to adjust misstatements for previous periods that have a carried-forward impact on the financial statements for the audited period.
- Immaterial value of the misstatements that will not influence the auditor's judgement regarding the type of their audit opinion.

Figure 3



2.3.1. Weaknesses in preparing the financial statements

- All three groups of audited entities – ministries, agencies, public universities, have made the same misstatements regarding the **classification of income and expenditure, assets and liabilities under the respective paragraphs and subparagraphs of the Uniform Budget Classification and Public Entities Chart of Accounts**. We consider the main reason for that are the frequent amendments to the legislation on accounting and financial reporting, incl. the insufficiently detailed guidance by the Ministry of Finance for its implementation (e.g. the definition of land adjacent to buildings and plant; the classification of specific groups of long-term assets, etc.). The additional clarifications issued by the Ministry of Finance to individual entities also have an unfavourable impact, because they often create

exceptions to the general rules;

- Inadequate calculation of depreciation expenditure following events that are leading to a **change in the depreciation plan.**;
- Failure to comply with the guidance issued by the Ministry of Finance on the obligations for mandatory review for **depreciation of the long-term assets and provisioning of receivables** in line with the collection rates;
- Failure to comply with the Ministry of Finance guidance to disclose off-balance sheet the commitments (undertaken and implemented) and new commitments for expenditure, provisional receivables and liabilities;
- Difficulties identifying and implementing the relevant principles laid down in the Accountancy Act.

The following weaknesses in drafting the financial statements were also identified during the audits of the 2017 financial statements.

2.3.2. Weaknesses in organizing the accounting functions

- The relative share of modified (qualified and adverse) opinions is highest in regard to the annual financial statements of municipalities, which is an indication of **insufficient administrative capacity**.
- There is no requirement for the introduction of **an adequate uniform electronic database** containing all accrual and cash base accounting entries **in the systems of the first-level budget spending units**. The use of a uniform database for drafting the financial statements will reduce the risk of technical mistakes in producing and summarizing the information to be included in the statements; it will ensure **audit trail and will not restrict the scope of computer-aided audits**.
- **Inefficient internal controls** in the first-level budget spenders regarding accountancy and budget discipline of the lower-level public spenders reporting to them.

The accounting weaknesses mentioned above with the exception of the final one were also identified in auditing the 2016 and 2017 financial statements.

3. OUTCOMES OF THE 2019 COMPLIANCE AUDITS

Compliance audit is a review of the financial management and control systems, incl. internal auditing and managerial decisions related to organization, planning, management,

reporting and control of the budgetary and other public resources p and activities within the audited entity in view of ensuring compliance with the statutory requirements, internal regulations and the agreements.

In 2019, the BNAO endorsed 33 compliance audit reports. The focus of these audits was on the Financial Management and Control Systems (FMCS), budget execution, awarding and execution of public procurement contracts and estate management of ministries and agencies, municipalities and public universities. The checks also delved into collection of local fees and taxes by the municipalities. Based on the findings, the auditors came up with assessment and conclusions regarding the management of public funds and conduct of public business in the audited entities, and issued recommendation for the improvement thereof

3.1. Conclusions of the compliance audits conducted during the reporting period

3.1.1. Financial management and control systems

Below is a list of the significant discrepancies and irregularities identified with regard to the financial management and control systems of the audited entities:

3.1.1.1. Ministries, agencies and public universities

Control environment:

✓ The rules in place regulating the FMCS and the ex-ante controls and double-signature approach have not been updated to encompass the introduced structural changes and the 2019 amendments to the Law on Public Sector Financial Management and Control (SG, issue 13; 2019);

✓ Absence of official arrangements regarding the calculation of performance-related bonus payments to freelancers/ part-time employees;

✓ Absence of internal rules/ procedures on the implementation of the relevant statutory provisions governing the entities' operations.

Risk management:

✓ Absence of risk management strategy; failure to update risk management strategy to account for structural changes (also identified during the 2018 audits);

✓ Absence of risk registers;

✓ Failure to implement periodic review and assessment of the risk for compliant and adequate goal attainment; lack of reliable information regarding whether and how risks are (managed) mitigated

Controls:

✓ The controls in place are not applied continuously and consistently (also identified during the 2018 audits), e.g. non-compliance with the procedures for incurring expenses. Absence of arrangements for documenting the controls of the award of public procurement contracts;

✓ Absence of regulated controls regarding the publication and documenting of the buyer's profile, submitting information to the Public Procurement Agency (PPA) and archiving the documents in the public procurement files;

✓ Absence of controls on the regulated payment of the fees for services provided by the Cadaster Map and Registers;

✓ Ex-ante controls do not cover all functions in the public entities (e.g. human resources) or are not applied continuously and consistently during the audited period. Failure to implement ex-ante controls for regularity/ compliance prior to signing public procurement contracts (also identified during the 2017 and 2018 audits). Absence of ex-ante controls of revenues from rentals, from paid state fees and for analysis services;

✓ In cases of promotion of full-time employees, the arrangements for initiation and consent for taking up the new position were not strictly followed;

✓ The controls in place did not cover elements that are subject to checks. There is no regulation concerning the documenting of control over the award of public procurement contracts in public universities;

✓ Absence of ex-ante controls for regularity when signing part-time contracts for scientific research. No controls on the procedures for leasing estate owned by the public universities;

✓ Some public universities do not apply the double signature approach when concluding part-time contracts for scientific research (also identified during the 2018 audits).

Monitoring:

✓ There is no monitoring of the operations. As a result, the Articles of Incorporation were not updated to account for the functional changes in the entities;

✓ Absence of adequate procedures for documenting the activities/ processes that ensure transparency and traceability. Absence of audit trail of the actions taken by the management and employees, which prevents the ex-post control.

3.1.1.2. Municipalities**Control environment:**

✓ The rules in place are incomplete, inadequate and unclear (also identified during the 2018 audits).

Risk management:

- ✓ The audited entities have not identified and assessed all material risks that may affect their goal attainment (also identified during the 2017 and 2018 audits);
- ✓ The audited entities failed to identify risks related to: defining and administering revenues; absorption of the targeted allocations for capital expenditures; incurring expenditures for contracted services and current repairs; planning and awarding public procurement contracts and implementation of the contracts; management and disposal with municipal-owned estate.

Controls:

- ✓ The audited entities have not introduced comprehensive, adequate and efficient controls to prevent, detect and correct infringements/ inconsistency with the legal framework and contracts (also identified during the 2018 audits);
- ✓ The controls put in place have not been implemented continuously and consistently, but rather done as a formality, they are not efficient enough and do not cover all aspects of the audited entities' operations; they have not been updated at least once a year (also identified during the 2017 and 2018 audits);
- ✓ Absence of arrangements for ex-ante compliance controls regarding the management and disposal with municipal owned estate;
- ✓ The audited entities have not checked the availability of budget allocations as part of the ex-ante controls prior to making commitments and incurring expenditures.

Monitoring:

- ✓ The audited entities have not performed monitoring of the financial management and control functions to assess their adequacy and ensure suitable updating in case of changes in the circumstances (also identified during the 2017 and 2018 audits). The internal documents providing for the introduction of FMCS have not been updated;

3.1.2. Budget**3.1.2.1. Ministries, agencies and public universities**

The following significant discrepancies and irregularities have been identified in relation to the budget management of ministries, agencies and public universities:

Ministries and agencies:

- ✓ Some entities have not put in place rules regulating the budgeting process;
- ✓ Some entities did not follow the regulatory requirements for documenting cash payments and for categorization of the training centers in the area of tourism in line with the Law on Tourism;

- ✓ Some entities did not meet the statutory deadlines for reporting the outcomes of business trips abroad and failed to attach to such reports the underlying documents for the incurred expenditures;
- ✓ Some entities did not pay in full the due fees for using the Cadaster mapping and register services;
- ✓ Appointing employees without following the relevant arrangements for recruiting staff of the respective category;
- ✓ Failure to comply with the arrangements for incurring expenses;
- ✓ Inefficient and done pro forma controls on the concluded contract execution; failure to detect inconsistencies between the actual and agreed implementation.

Public universities:

- ✓ Some public universities did not approve budget allocations for their main branches/ units as part of the overall budget for the respective year;
- ✓ In extending scholarships, some universities did not follow the statutory requirements in relation to: announcing the number of scholarships; defining the relative share of funds allocated for scholarships based on the academic performance score for the semester; checking not less than 5 percent of the filed applications (also identified during the 2018 audits).

3.1.2.2. Municipalities

The audits identified the following significant discrepancies and irregularities in the management of municipal budgets:

- ✓ The Ordinance on the terms and conditions for drafting tri-annual budget projections for the local operations and for drafting, endorsing and executing municipal budgets was not updated to reflect the amendments to the Law on Public Finances;
- ✓ There are no Ordinances in place on long-term municipal debt and on the terms and conditions for funding and supporting sports organizations and accounting the absorption of allocations to the municipalities;
- ✓ There is no mechanism in place for the allocation of the targeted compensations from the central budget to offset the reduced revenues due to the lowered public automotive transport tariffs;
- ✓ Some municipalities have borrowed debt exceeding the maximum limit defined by the Municipal Councils and have signed directly contracts for investment loans with banks without conducting an open, transparent and non-discriminatory procedure for selecting a credit institution.
- ✓ Incomplete proposals for borrowing long-term debt (also identified during the 2018 audits). Some mayors have shortened the initially agreed period for paying up municipal debt without consulting the Municipal Council. Some municipalities exceeded the statutory limits

on the installments for paying up municipal debt (also identified during the 2018 audits). There were infringements in providing municipal bank guarantees; incomplete information on the municipal debt in the annual reports presented to the Municipal Council (also identified during the 2018 audits); failure to submit information to the Central Register of Municipal Debt.

- ✓ Infringements/ inconsistency with the regulatory framework on administering local taxes and charges and planning the budget revenues of municipalities;

- ✓ Failure to collect receivables from real estate and agricultural land lease (also identified during the 2018 audits);

- ✓ Violations in drafting the accounts for cleaning and household waste collection and processing: lacking estimates of the expenditures for each town/ village and each activity and incorrect planning of expenses in the accounts; infringements/ irregularities in relation to incurring expenses for waste collection and cleaning; part of the revenues from household waste fees were spent in violation of the legal requirements (also identified during the 2018 audits);

- ✓ Some municipalities had to pay back to the state budget the unabsorbed subsidies for capital expenditure after the expiry of the statutory deadline; others failed to do so (also identified during the 2018 audits);

- ✓ Some municipalities did not evaluate the need for concluding part-time contracts with employees and failed to document the work done prior to paying for the services;

- ✓ Some capital expenditure programs plan for overhauls of specific sites, whereas the projections contain planned expenses for current repairs only; in some municipalities the type of capital expenditures was not defined correctly (e.g. acquisition of long-term tangible assets instead of repairs) and therefore the expenditures for construction supervision were inadequately capitalized in the value of the assets;

3.1.3. Public procurements

The following irregularities and discrepancies were identified in the area of public procurements:

3.1.3.1. Ministries, agencies and public universities

Ministries and agencies:

- ✓ Incurring **expenditures without applying the required public procurement procedures** (also identified during the 2017 and 2018 audits);

- ✓ The following **significant inconsistencies with the statutory requirements** have been identified in relation to public procurement procedures: placing requirements that restrict unjustly the participation in tendering (also identified in during the 2018 audits); including qualitative sub-indicators in the evaluation methodology that hamper the comparison and objective evaluation of the technical proposals; amending and expanding the

initial requirements by force of issuing clarifications; introducing subjective and unclear indicators for the evaluation of offers that do not contain guidance for the participants; some calls for tenders do not contain the whole required information; introducing selection criteria and requirements for technical and professional skills that are not in keeping with the scope, value, volume and complexity of the public procurement contract; introducing indicators and sub-indicators in the evaluation methodology that give unjustified advantage to certain potential tenderers over others;

✓ Failure to submit within the statutory deadlines to the Public Procurement Agency summarized information regarding the expenditures under article 20, paragraphs 3,4,6 and 7 of the Law on Public Procurement;

✓ **Failure to comply with the statutory deadlines for publishing information** in the buyer's profile of the Public Procurement Register (also identified during the 2017 and 2018 audits);

✓ The following irregularities were identified in relation to public procurement contracting through open tenders in line with Chapter 26 of the Law on Public Procurement: inadequate contents of the calls for proposals regarding the personal wealth of participants; **introducing restrictive conditions for the participants**; not requiring declarations from the participants;

✓ **Failure to comply with the contract clauses** in implementing public procurement contracts.

✓ **Failure to implement controls** of the compliance between actions and documents in the process of awarding public procurement contracts; failure to adopt arrangements for documenting the control over the awarding of contracts;

✓ **Failure to plan the public procurement contracts** for the respective year;

✓ Appointing committees for the receipt, evaluation and ranking of tenders after the deadline for the receipt of proposals;

Public universities:

✓ The planning of public procurement is not done **in line with the internal regulations** (also identified during the 2018 audits); absence of provision for the needed supplies of goods and services or construction works; no schedule in place for awarding public procurement contracts;

✓ Some universities did not conduct analysis of the expenditures for supplies of goods and services, and therefore incurred expenses **without applying the statutory arrangements for awarding public procurement contracts** (also identified during the 2018 audits);

✓ The **following violations were identified** in relation to the public procurement procedures: introducing requirements that pose unjustified restrictions for the tenderers; some calls for proposals do not contain the complete required information in line with the

Law on Public Procurement; non-compliance with the requirements for obtaining declarations from members of the committees and failure to document the submission of tenders to the chair of the Committee; signing public procurement contracts without guarantees for execution; failure to publish the required information in the buyer's profile; failure to designate officials responsible for maintaining the public procurement files;

✓ **Failure to meet the statutory deadline for informing the Public Procurement Agency** of the completed contracts.

3.1.3.2. Municipalities

✓ **Some internal rules** on managing the public procurement cycle **do not comply with the minimum required contents** set out in the Rules on the implementation of the Law on Public Procurement;

✓ **Certain municipalities did not plan their public procurement procedures** failing to identify the needs of construction, supplies and services, the type of public procurement contracts and financial allocations;

✓ **The following significant infringements of the legal framework** were identified in relation to the award of public procurement contracts: calls for proposals containing requirements regarding the technical capacity and qualifications of the participants that do not correspond to the subject and scope of the contract (this introduces unjustified participation restrictions for certain bidders and was also identified during the 2017 and 2018 audits); absence of selection criteria regarding professional licenses; failure to document conditions for elimination of tenderers that are otherwise contained as requirements in the tender documentation; failure to define a guarantee for execution; calls for proposals not containing the minimum required requisites in line with the Law on Public Procurement; failure to meet the deadlines for publication in the buyer's profile of the decision to launch a public procurement procedure, the call for proposals, the contract and annexes;

✓ **The following irregularities were identified in relation to awarding public procedures through open tenders** in line with Chapter 26 of the Law on Public Procurement: unjustified restrictions for participation introduced by the minimum requirements to the technical capacity of the tenderers; calls not containing weighted evaluation indicators, grounds for mandatory elimination and the duration of the validity of bids. One committee improperly eliminated a bidder based on lacking specific documents in the tender package related to the selection criteria. There were cases of introducing requirements to the participants that were not in line with the Rules on the implementation of the Law on Public Procurement.

✓ **Incurring expenses** (for fuel, water, electricity) based on direct agreements **without public procurement tenders** when the Law requires such tenders (also identified during the 2017 and 2018 audits);

- ✓ Required documents in the tendering package that do not serve a purpose to prove compliance with specific minimum requirements;
- ✓ **Delayed release of guarantees** for participation in tendering procedures and guarantees for execution of public procurement contracts (also identified during the 2018 audits);
- ✓ **Absence of protocols of receipt for the works done under the public procurement contract and lack of control by the contracting authority** (also identified during the 2018 audits);
- ✓ **Failure to publish** in the buyer's profile **the information required by law** (also identified during the 2017 and 2018 audits).

3.1.4. Estate

The following significant irregularities and discrepancies were identified in relation to estate management:

3.1.4.1. Ministries, agencies and public universities

Ministries and agencies:

- ✓ **Collecting rents without signing lease contracts** based on tendering procedures in violation of the State Property Act;
- ✓ **Absent or not updated estate records;**
- ✓ **Failure to comply with the legal requirements for mandatory insurance** of the state-owned estate;
- ✓ **Failure to issue title deeds for state owned estate;**
- ✓ Lease contracts for departmental dwellings not containing an expiry date;
- ✓ Departmental dwellings leased in the absence of **protocols defining the rent rate.**

Public universities:

- ✓ **The following significant violations in relation to leasing of estate** were identified: non-compliance with the statutory requirements for mandatory insurance of the publicly owned estate; insufficient publicity of the tenders for lease; failure to comply with the statutory arrangements for setting the initial rent rate; non-compliance with the requirements regarding the contents of the instructions for conducting tendering procedures, of Committee protocols and contracts; lease contracts for departmental housing without expiry dates; failure to maintain records of the estates;
- ✓ **Failure to issue title deeds of some state owned estate;**

- ✓ **Leasing state owned estate without tendering procedures** (also identified during the 2018 audits) **and/ or without signing contracts** in violation of the legal requirements; using estate without paying rent;
 - ✓ Failure to charge and collect interest for delayed rent payments **and failure to terminate lease contracts in case of delinquencies** (also identified during the 2018 audits).
 - ✓ The following irregularities were detected **in relation to leasing students housing**: offering accommodation and use of the students' housing prior to and after the expiry of the statutory period; absence of protocols of receipt upon contract termination; discrepancies in the check-in and check-out dates in the accommodation records;
 - ✓ **Signing contracts** for use of state owned estate **without conducting tenders as required by law.**

3.1.4.2. Municipalities

- ✓ **Ordinances on the management and disposal with municipal estate** (also identified during the 2017 and 2018 audits) and on holding rights of the municipalities in commercial entities **are not in line with the effective legal framework**;
 - ✓ **Some municipalities have not adopted strategies for the management of the municipal estate** for the duration of the Municipal Council's term in office (also identified during the 2017 and 2018 audits);
 - ✓ The following irregularities were identified in relation to **tendering procedures for management and disposal with municipal estate**: non-compliance with the terms and conditions laid down in the ordinances; failure to register the contracts in the Estate Registry and failure to collect the due rent;
 - ✓ The thematic horizontal compliance audits identified the following numerous and significant irregularities related to the acquisition, management and disposal with municipal estate in six municipalities: failure to issue reports on the status of the municipal estate and its management (also identified during other audits in the period); failure to buy insurance for newly built municipal estate (also identified during other audits in this period and in 2018); conducting tenders for management and disposal with municipal estate in violation of the arrangements set out in the Ordinances; failure to register estate with the Registry Service (also identified during the 2018 audits); failure to keep up to date the database containing the number, type and location of the needed municipal housing resulting in unjustified leasing of such housing; failure to collect the first rent within the agreed period.
 - ✓ **Failure to identify which municipal owned estate and property are subject to mandatory insurance** (also identified during the 2018 audits); non-compliance with the legal requirements to have the leased estate or buildings (or parts thereof) insured at the expense of their tenants and users;

- ✓ Setting fees for use of municipal-owned pastures and common land that are not in keeping with the legal provisions;
- ✓ **Infringements and inconsistencies in leasing municipal-owned real estate**, common land, pastures and meadows; inadequately defined rent resulting in lost opportunities for the municipal budgets; absence of clauses in the lease contracts for indexation of the rent rate to account for inflation; failure to update the rent for leased municipal estate and housing; failure to terminate the lease contracts in cases of non-payment of more than one rent installment (also identified during the 2018 audits); failure to file for legal procedures in case of rent delinquency (also identified during the 2018 audits);
- ✓ **Irregularities related to providing municipal housing** due to the absence of official arrangements for ex-ante controls;
- ✓ **Payment of utilities on top of the selling price** of private municipal owned estate and private municipal owned land to the owners of buildings constructed legitimately on this land, which is in contradiction with the higher-level legislation;
- ✓ **Signing contracts for selling municipal estate** in violation of the legal deadlines **and prior to the effect of the mayor's order for the selection of buyer**;
- ✓ Some municipal councils have set out market prices for land prior to passing decisions for their sale and for defining the type of procedure for sale;
- ✓ **Non-compliance with the legal framework and contracts was identified in relation to selling timber**: non-compliance with the payment deadlines in the contracts for selling timber; failure to charge and collect penalty interest for delayed payments for timber in line with the provisions of the contracts; contracts not containing clear and specific tariffs.

3.1.5. Local taxes and fees

The efficient collection of local taxes and fees is conducive to ensuring the necessary funding of local operations, reducing budget deficits and maintaining economic and financial stability at municipal level. In 2019, BNAO endorsed eight reports on the audits of municipalities that delved into the administration of revenues from local taxes and fees, incl. real estate tax, motor vehicles tax and household waste collection fees.

The projected revenues from local taxes and charges are not aligned with the size of the receivables for 2019 and the previous calendar year. As a result, municipalities reported unrealistic execution rate/ over execution of their budgets. In fact, the draft budgets were prepared based on the receivables for the current year and the collection rate from the preceding year, without taking into consideration the possible optimum collection rate from previous periods. In their statements on cash budget execution through December 31, **municipalities report 85% to 100% collection rate of revenues from local taxes and fees**. It is noteworthy that these revenues are only carried on a cash basis. They are not subject to

current accrual⁵ - a principle that requires the recognizing of the transaction effects through the date of their occurrence, regardless of the date of receipt of the cash revenues or equivalents thereof. They have to be disclosed in the financial statements for the period for which they refer, while being carried once the cash revenues are received.

In the majority of cases, the actual collection rate of revenues from real estate taxes, motor vehicle taxes and waste collection fees is between 50 and 60 percent for the respective calendar year and for previous years. Some municipalities reported increased collection rates for local taxes and fees for the current year, but also a surge in the outstanding receivables for previous years. The total value of outstanding receivables of all municipalities is significant.

The following significant irregularities and discrepancies were identified in relation to administering of receivables from local taxes and fees:

✓ The decisions of some Municipal Councils for endorsing the annual budgets do not contain information of the value of outstanding receivables from local taxes and fees planned for collection during the current budget year, which is in violation of the Law on Public Finances;

✓ The Law on the Public Finances and the Law on the Annual State Budget enable the municipal councils to amend the municipal budgets in the course of the year. Based on this option, some municipal mayors submitted proposals for amending the revenue section of their budgets in the course of the year, and reported collection rates equal to the planned receivables (which were originally much higher);

✓ **Extending relief on the taxes on certain individual's principle residential properties** without legal grounds for that;

✓ **Unfounded exemption of individuals from paying waste collection fees;** failure to perform checks of the declared grounds for exemption from waste collection and transportation fees;

✓ Extending motor vehicle tax relief for certain individuals without verifying the validity of the declared grounds thereof;

✓ Uncollected revenues as a result of **incorrect calculations of motor vehicle tax;**

✓ Uncollected revenues as a result of incorrectly defined date of effect of the real estate taxes and waste collection fees;

✓ Certain municipalities (in their capacity of taxable entities) **did not pay real estate taxes and waste collection fees for the private municipal real estate** and waste collection fees for the public municipal real estate;

✓ In relation to charging **tourist tax**, some municipalities failed to cover all places offering accommodation, and failed to collect the annual tax returns of all categorized places for accommodation; some hotel businesses did not report monthly the number of their guests; municipalities failed to impose sanctions on such non-compliant business owners in

⁵ Art. 26, para 1, item 4 of the Accountancy Act in effect as of 01 January, 2016.

line with the Law on Tourism; no penal interest was charged and collected for overdue tourist taxes;

✓ The revenue authorities **failed to issue protocols for administrative violations or tickets** for late filing of tax returns on real estate/ waste collection taxes;

✓ Failure on behalf of some municipal administrations **to take timely measures for collection of receivables**, incl. through invitation for voluntary payment, issuing penal protocols for overdue receivable, filing for forced collection, referring cases to the National Revenue Agency and to private bailiffs for collection. As a result, significant overdue receivables of local taxes and fees were written off based on statute of limitation.

✓ Certain municipalities introduced and collected fees for using **market places, exchanges, fairs, public squares and street space** in violation of the legal requirements, however, the municipal administrations failed to control this process. As a result, certain plots allocated for market places were used without paying taxes and issuing permits; the municipalities did not charge penal interest for delayed payments of fees for using market places, exchanges, fairs, sidewalk space, street sections and other terrains.

Some of the root-causes for the above weaknesses are as follows:

✓ The ordinances on introducing and administering local taxes, fees and tariffs for services adopted by some municipalities are not in line with the Law on the Local Taxes and Fees;

✓ Internal controls were applied only on the filing of tax returns with no additional control activities;

✓ Lack of official arrangements in place and instructions regarding the procedures and control over the different stages in administering the local taxes and fees;

✓ Municipal administrations failed to conduct checks and audits to identify the overdue local taxes and fees;

✓ Absence of controls on the operations of the revenue agencies and no monitoring of the implementation and outcomes of the internal controls at the municipal administration by managerial staff and local mayors.

4. OUTCOMES OF THE 2019 PERFORMANCE AUDITS

Performance auditing is a review of the planning, implementation and control at all levels of management within the audited entity in view of their effectiveness, efficiency and economy. **Effectiveness** describes the extent to which the audited entity has achieved its goals by comparing the actual to the expected outcomes of its operations. **Efficiency** is defined as achieving the maximum level of performance/output out of the inputs used to perform the

audited entity's operations, and **economy** focuses on acquiring the resources needed for the operations of the audited entity at the lowest cost, while meeting the requirement for quality.

The Bulgarian National Audit Office supports the national mid- and long-term efforts to achieve accelerated economic growth, enhance the standard of living of the Bulgarian citizens and ensure gradual convergence with the average European standards.

In 2019, BNAO's auditing priorities continued to focus on attaining the goals of the National Reform Program towards the implementation of the EU 2020 Strategy and the "Bulgaria 2020" National Development Programme, balanced and sustainable regional development, strengthening of the institutional environment and enhancing the implementation of EU-funded programs and projects.

In 2019, the BNAO endorsed 11 performance audit reports, while 3 performance audit projects were terminated⁶ and another 12 were carried forward in the following thematic areas:

Audit reports endorsed in 2019	Audits carried forward ⁷
Education, Science and Culture	
1. Preservation and Maintenance of Urban Architectural Heritage Sites	1. Vocational training for adults
Agriculture and Environment	
2. Effectiveness of measures for reducing the administrative burden for farmers	2. Plastic waste management
3. Effective management of NATURA 2000 to ensure protection of the environment and the local population in the areas covered by the network.	
Social Affairs and Employment	
	3. Effectiveness of measures to reduce poverty
Healthcare	
	4. Effectiveness of the system for psychiatric services
Public Finance	
4. Effective collection of state public receivables by the National Revenue Agency	5. Effective management of the VAT revenues 6. Effective use of program-based budgeting as a tool for optimal resource allocation
Economy, energy and tourism	

⁶ Effective management of excise duty revenues by the Customs Agency –due to the large-scale legislative and structural changes; Supervisory functions of the Council for Electronic Media, Administering of Irregularities

⁷ Incl. quality control stage

5. Reducing the administrative burden for businesses in tourism	
Regional Development and Infrastructure projects	
6. Favorable environment for Balanced and Sustainable Regional Development	
Institutional Development and Effectiveness	
7. Transparency and publicity of the public administration and access to public information	
Justice and Home Affairs	
	7. Effective organization and controls of the maintenance and storage of the Registry Agency databases
Management of EU-funded Programs and Projects	
8. Monitoring and Evaluation of OP Regions in Growth 9. Monitoring and Evaluation of OP Innovations and Competitiveness and OP SME Initiative 10. Effectiveness of measures and activities for enhancing household waste management funded under OP Environment 11. Effective management and control of OP Science and Education for Smart Growth 2014 – 2020	8. Effective implementation of OP <i>Good Governance</i> - axis 1 „Administrative Services and Management“ 9. Effective building and modernization of R&D infrastructure under OP <i>Science and Education for Smart Growth</i> 2014 – 2020 10. Effective planning and contracting of allocations under OP <i>Regions in Growth</i> , priority axis 1 “Sustainable and Integrated Urban Development” 11. Management of the direct grant scheme under OP <i>Human Resource Development</i> , measure BG05M9OP001-2.003 “Accept me” (2014 – 2020) 12. Monitoring and evaluation of the Community driven local development approach 13. Monitoring and evaluation of OP Environment

1.1. Conclusions of the performance audits finalized during the year

4.1.1. Education, Science and Culture

Preservation and Maintenance of Urban Architectural Heritage Sites in the period 2015-2018



The key audit question was: Are the activities for preservation and maintenance of urban architectural heritage sites effective?

Audited entities were the Ministry of Culture (MoC) and the National Institute for Immovable Cultural Heritage (NIICH).

The audit concluded that the activities related to preservation and maintenance of the urban architectural heritage sites carried out by the Ministry of Culture and the National Institute for Immovable Cultural Heritage **are not effective and efficient.**

There is a real risk to the preservation of the immovable cultural heritage, incl. urban architectural sites, due to:

- Lack of strategic documents in the area of culture;
- Poor management of the activities related to the preservation of immovable cultural heritage;
- Poor regulation of the activities, failure to provide the necessary financial allocation for the completion of works and restricted scope of the performed works;
- No arrangements in place for the preservation of over 90 percent of the immovable cultural heritage sites; poor coordination and collaboration between the agencies and individuals in the National System for the preservation of immovable cultural heritage.

The audit conclusion is based on a number of findings. The audit identified that the national system for cultural heritage preservation encompasses a number of bodies and structures at national and regional level, however, it is not completed.

The legal requirements for the adoption of a National Strategy for the development in the area of culture and a Strategy on the Cultural Heritage have not been met. As a result, there is unclear **vision, goals and priorities of the government policy on management and preservation of the immovable cultural heritage.** The activities in the area of preservation of the immovable cultural heritage are performed in the absence of annual goals, monitoring and reporting.

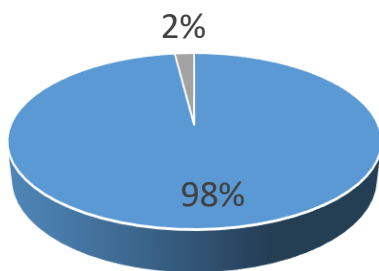
There are significant **discrepancies, irregularities and inconsistencies in the internal regulations regarding the National System for the preservation of cultural heritage,** and in the rules and procedures concerning the identification, declaration and assigning of status to the sites, incl. regulating the deadlines for the individual stages of this procedure. The secondary legislation envisaged in the Law on the Cultural Heritage is incomplete. **The**

operations of the key stakeholders in the system, and the efficient coordination between them and control thereof **are poorly regulated**. The decentralization of the National System for the preservation of immovable cultural heritage is not implemented. The Ministry of Culture, the National institute on the Immovable Cultural Heritage and the municipalities have not established the regional structures required by the Law on the Cultural Heritage.

The management and performance of the identification, declaration and assigning of status to the immovable cultural sites is ineffective due to a number of weaknesses, namely: lack of planning and monitoring; failure to perform a number of activities, and only partial performance of others; failure to meet the statutory deadlines; lack of updated information on the immovable cultural heritage; poor coordination among the players in the system for the preservation of immovable cultural heritage. A significant number of architectural sites were not assessed and **there are no arrangements in place for the preservation of 98% of the declared cultural sites and 93 percent of the sites that have a status of immovable cultural sites.**

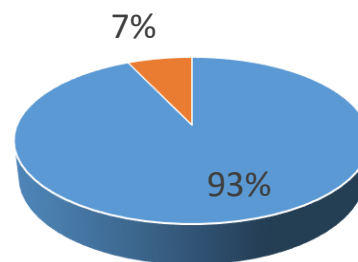


Declared architectural sites



- no preservation regimes
- with assigned preservation regimes

Sites with national heritage status



- no preservation regimes
- with assigned preservation regimes

Ensuring sufficient financial, human, material and information resources is one of the most significant issues in implementing the statutory functions related to the immovable cultural heritage. The funding of the activities for preservation of the immovable cultural heritage is outside the priorities of the Ministry of Culture.

No national documentary records are maintained in line with the regulatory provisions, which require setting up of files for each site. These files should be duly updated and stored.

Updating the Public register and the national register of immovable cultural heritage with data regarding the newly issued acts for declaration of cultural heritage and acts for the termination of the temporary regime for preservation is slow. This hampers all activities requiring use of data from the Register.

4.1.2. Agriculture and Environment

Effectiveness of measures for reducing the administrative burden for farmers in the period 2015-2018

The key audit question was: Are the measures put in place to reduce the administrative burden for farmers effective?



The audited entity was the Ministry of Agriculture, Food and Forestry and the State Agriculture Fund.

The audit concluded that in the period between 01 January 2015 and 30 June 2018 **the Ministry of Agriculture, Food and Forestry introduced measures to reduce the administrative burden for citizens and businesses**, incl. farmers resulting in observable trends towards optimization of the regulatory regimes and administrative services. The measures were taken mainly in 2017 and 2018 as a result of a decision passed by the Council of Ministers.

Despite the efforts, there were weaknesses regarding the timely use of the opportunity to refine some procedures; incomplete implementation of all changes proposed by the Ministry of Agriculture, Food and Forestry; reducing the required documents when submitting and receiving information ex-officio; and providing access to registers and information to primary data administrators. **Due to the above weaknesses, the measures undertaken to reduce the administrative burden for farmers were not effective throughout the period.**

Building an integrated information systems and electronic registers and providing e-services is a challenge for the Ministry of Agriculture, Food and Forestry. The Ministry started taking actions to address this issue in 2017, however, by 30 June 2018 no e-services were introduced in practice.

The audit conclusion was drawn based on a number of findings. The audit identified that the priorities and goals concerning the reduction of administrative burden and the development of e-government set out in the national documents were reflected in the operational documents of the Ministry of Agriculture, Food and Forestry between 2015 and 2018.

However, a specific document outlining a plan for the refinement of administrative regulations was not developed after 2017. **The expected outcomes of the measures to reduce the administrative burden** in line with the specialized legislation and the interventions set out

in the “Third action plan for reducing the administrative burden for the businesses in the period 2015 - 2017” **were not completely achieved** . The implementation was hampered due to the underutilized statutory options and delayed arrangements for: ensuring access to registers maintained by different primary data administration agencies; refining of procedures; ex-officio information exchange among agencies; introducing options for electronic filing of applications; reducing the time for service provision; reducing the number of documents required from the stakeholders. **Part of the legal amendments** relating to cutting the number of documents required from farmers and exchanging them ex-officio **were not reflected and introduced adequately in the practices of the Ministry of Agriculture, Food and Forestry.**

There are arrangements and coordination mechanisms in place at the Ministry **for annual review of the effective regulatory regimes, for putting forward proposals for their liberalization**, optimization of the regulatory regimes and reduction of red tape. However, measures to identify the possibilities to curtail the administrative burden and to reform the regulatory regimes/ administrative services accordingly were taken mainly in 2017 and 2018. The Ministry of Agriculture, Food and Forestry and the State Agriculture Fund removed 7 regulatory regimes, introduced one new regime and liberalized another one. Sixteen administrative services were discontinued, while three new ones were introduced. The Ministry and the Fund optimized some of their procedures, removed requirements for document provision, and introduced arrangements for receiving this information ex-officio. Changes were made to the deadlines for application and the period of validity of permits to facilitate the farmers. However, **some farmers did not make use of the opportunities for reduced red tape** when accessing the administrative services.

The Ministry of Agriculture, Food and Forestry conducted monitoring of the measures for reducing the administrative burden through annual review of the regulatory regimes and administrative services. **However, there were some omissions in reporting the outcomes of the 2015 and 2016 monitoring.**

Part of the statutory registers and databases are maintained using the standard software for compiling and editing documents and tables, and there is no interoperability and connectivity with other parts of the registers. Therefore, it is impossible to ensure the validity and up-to-date nature of the information used for providing the relevant administrative services. **The identified irregularities and diverse practices for registering and disclosing of information** are due to the weak controls and give an indication **that the databases are insufficiently updated.**

Since 2017, the Ministry of Agriculture, Food and Forestry has taken action to build an integrated information systems and electronic registers and to launch e-services. Nonetheless, **no electronic services were introduced through 30 June 2018, since the process of centralization of registers was not completed.**

The Monitoring Committee of the Rural Development Program 2014-2020 did not undertake timely measures to introduce a function for reviewing proposals, monitoring the

interventions and discussing issues relating to the reduction of the administrative burden for farmers.

The electronic administration of the measures under the Rural Development Program 2014 – 2020 using the Information System for administration and monitoring of the EU funding (IACS 2020) in the middle of the programming period **contributed to the reduction of the administrative burden for part of the farmers.**

Effective management of NATURA 2000 to ensure protection of the environment and the local population in the areas covered by the network in the period 2016 - 2018

The key audit question was: Does the management of the Nature 2000 network ensure effective protection of the environment and the local population in the areas covered by the network?

The audited entities were the Ministry of Environment and Water (MoEW) and the Ministry of Agriculture, Food and Forestry.

The audit concluded that the management of the Natura 2000 network has not yet ensured effective protection of the environment and the local population, due to:

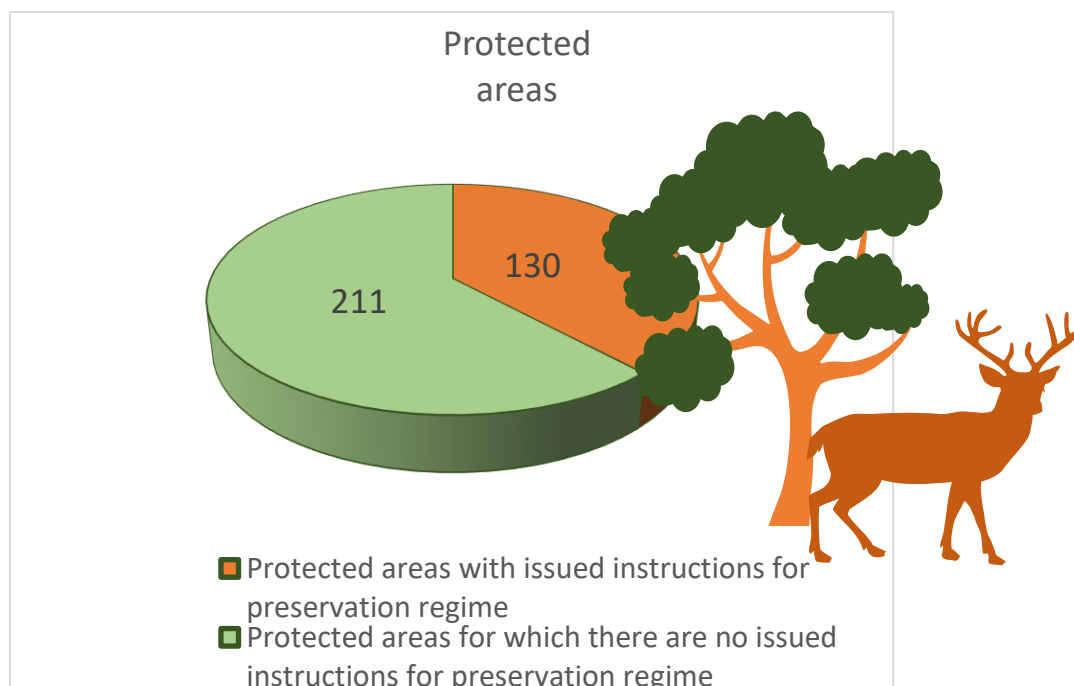
- The incomplete and sometimes contradictory transposition of the EU Directives into the Bulgarian legislation;
- Insufficient effectiveness of the organization for the management of the network and inefficient issuance of orders for designating all NATURA 2000 sites;
- Underdeveloped system for monitoring and control, reporting and updating of the National Priority Action Framework and insufficient transparency and accountability of the expended public resources and the achieved outcomes/ benefits resulting from the implementation of measures. All this poses a risk of loss of biodiversity and rare species.

The audit conclusion was drawn based on a number of findings. The audit found out a number of discrepancies in the efforts of the Ministry of Environment and Water to harmonize the national legislation and partial transposition of the Directives on Habitats and Birds. **The deadlines** (up to 6 years following approval by the EC) **for designating protected areas** (through issuance of instructions thereof by the Minister of Environment and Water) **were not met. This served as grounds for the EC to launch an infringement procedure against Bulgaria.** Through 31 July 2019, there were no ministerial instructions for designating special protection areas or special areas of conservation in line with the Directives regarding 211 out of 341 sites. **No specific conservation targets** and measures to prevent deterioration of the conservation status of habitats and species **were set out** for the NATURA protected areas. Because of the lack of management plans for some protected areas, **no conservation measures corresponding to the environmental requirements** for the specific habitats and species **were set out.** There is absence of adequate measures to prevent deterioration of the status of habitats and the disturbance of species. **Due to absence of instructions outlining bans and restriction of activities, there is a risk that owners or users of estates may harm or**

destroy habitats or species through their activities. It also restricts the possibility to for compensating them for opportunity costs or incurred expenses.

There is no strategic framework in place regarding the long-term policy of national goals for preservation and sustainable use of biodiversity and no plan for preservation of biodiversity.

The adopted National Priority Action Framework in relation to NATURA 2014-2020 sets out the key priorities, measures and activities that need to be implemented in view of ensuring effective management of the network. However, the mandatory requirements for the EU member states to apply a uniform standard for strategic planning of the NATURA 2000 interventions is yet to be regulated. Many of the measures under Priority 1 'Planning the Governance of Protected NATURA 2000 sites' in the National Priority Action Framework have not yet been implemented, which **prevents the active and efficient governance of the areas part of the network.**



There are no adequate arrangements in place for the effective management of the network due to unclearly defined responsibilities of the MoEW units regarding the building and maintenance of the network. There is no functional mechanism in place for effective communication and coordination among the stakeholder institutions and entities at national, regional and municipal level, the NGO sector and the consultative bodies to the Minister of Environment and Water.

There is an adequate mechanism for monitoring the natural habitats, species and birds that are subject to conservation through the NATURA 2000 protected areas. The audit identified some discrepancies in designating the sites and in the methodologies for monitoring

and monitoring schemes, however actions were taken to improve the monitoring mechanism. Due to the lack of conservation regimes with defined bans and restrictions, **the efficiency of monitoring and reporting of the protected areas status is limited.**

No reliable management information is ensured regarding the financing of the implementation of measures, **which prevents the objective evaluation and transparent reporting of the public expenses and outcomes.** The budget of the National Priority Action Framework for 2014-2020 is 1 584 636 583 euro. Different sources of funding have been planned for priority measures and activities outlined in the framework. The budget programs of the two line ministries – MoEW and Ministry of Agriculture do not contain individual targets and target values of the performance indicators related to the management of NATURA 2000; there is also no information on the amounts needed and amounts actually spent for the management of the network.

Registers and an information system for the management of NATURA 2000 have been put in place. The lack of internal rules and procedures outlining information and the documents for publication **poses a risk of not ensuring complete and adequate network data.**

The statutory requirements for drafting and publishing annual national reports on the environmental status have been met. These reports contain information of the NATURA 2000 coverage. **Data on the current state of play of the protected areas are not reported,** since there are no arrangements in place for reporting.

There is also a delay in the collection and provision of information in relation to the reporting of the Habitats Directive and the Birds Directive, **which may result in failure to meet the reporting deadlines and hence to sanctions on behalf of the EC;** absence of up-to-date information on the status of NATURA 2000 in Bulgaria; and a **risk of incapability to avoid harmful impacts on the protection of the environment and biodiversity in the European environmental network.**

4.1.3. Public finances

Effective collection of state public receivables by the National Revenue Agency between 2013 and 2016

The key audit question was: Did the National Revenue Agency ensure effective collection of public receivables?

The audited institutions were the Ministry of Finance and the National Revenue Agency.

The audit concluded that between 2013 and 2016 the National Revenue Agency continuously increased its effectiveness in collecting tax and social security revenues payable to the central government budget and the budgets of the National Social Security and the National Health Insurance Fund, incl. through forced collection of overdue receivables.

Additional efforts should be made to ensure:



- Systematic, consistent and objective application of the incentives for voluntary payment of the overdue payables regulated by the Tax Procedure Code;
- Applying the possibility of deferral or postponement of public receivables in line with the statutory requirements;
- Enhancing the collaboration with external collection agencies to improve the efficiency of NRA's enforced collection;
- Timely, comprehensive and up-to-date examination of the debtors' wealth to support the efficient collection;
- Proper submissions of the notifications for voluntary repayment; significant reduction of the public debt that is time barred or written off;
- Achieving balance between the protection of the fiscal interests in case of enforcement proceedings and the solvency of debtors by issuing permits for urgent/ non-deferrable payment.

The audit conclusion is based on a number of findings. The audit identified that between 2013 and 2016 (with the exception of 2014) **there was a trend towards over-execution of the planned tax and social security revenues** administered by the NRA. The reasons behind this trend were the economic environment that proved to be more favorable than the medium-term budget projections for the respective year, and the efforts of the revenue agency to improve the effectiveness of their operations.

The NRA ensured maximum coverage of all tax and social security debtors and enabled enforced collection thanks to the maintenance of registers, databases and information systems and constantly enhancing its digital environment, and electronic data exchange with other competent authorities. However, **there is no information on the impact of the implemented measures related to the tracing of delinquent payers.**

There is a need for a uniform methodology for the regular monitoring of tax-related irregularities at national level to ensure regularity, reliability and comparability of data contributing to an increased revenue collection.

There are effective arrangements in place for the timely receipt and processing of the filed tax returns and for control and corrections in case of identified discrepancy between the tax assessments contained in them and the registered receivables and payments to the accounts of the taxable persons. Between 2013 and 2016, there was **an increasing number of taxable persons who filed their tax returns within the statutory deadlines** and a reduction of the number of tax returns containing irregularities.

The arrangements put in place by the NRA for electronic exchange of information with the commercial banks, the Bulgarian Post Office and the social security funds, as well as the automatic update ensured the precise and timely accounting of all public receivables paid to the individual accounts of the taxable persons in the Revenue Management System. **In the period 2013 – 2016 there is an increase in the number of taxable persons who paid in their due taxes and social security within the required deadlines. There was also an increase in**

the total amounts paid. On the other hand, during the same period the methods of deferral regulated in the Tax Procedure Code were not applied. The total value of the simplified bad public debt is insignificant relative to the value of the applications for remission. The relative share of taxes and social security revenues collected through offsetting accounts to only 2% of the total revenues, although the NRA had sufficient grounds for applying this method.

Before resorting to enforced collection, the NRA may apply different measures for stimulating voluntary debt payment. Out of all measures for voluntary payment applied by the NRA in the period 2013-2016, a positive fiscal impact was generated mainly as a result of the telephone campaigns and direct e-mailing to the delinquent payers; monitoring of the delinquent payers of debt categorized as collectible and partially collectible; and transferring collection to third party public entities.

By force of the Tax Procedure Code, the NRA has the possibility to notify the relevant authorities that issue statutory permits or licenses conditioned upon a proof of clear tax record. **The National Revenue Agency, however, does not maintain a list of the taxable persons performing licensed operations.** In the period 2013-2016, NRA sent an insignificant number of notifications to the licensing authorities, and received feedback on revoked licenses only in 13% of the cases in 2016.

The NRA maintains only 2 lists of debtors on its official webpage. These lists are not easy to find, which makes it difficult for the users to check the tax record of the entities.

Between 2013 and 2016 the revenues received through enforced collection grew constantly, while the new receivables that remain unpaid at year-end decreased. During the audited period, the number of debtors to the National Revenue Agency and the total value of the overdue receivables dropped. The most significant decrease of the total overdue receivables was seen in 2016, however this resulted mainly from writing off of time-barred debt.

To ensure objectivity, impartiality, transparency and even distribution, the NRA transferred debt collection to public bailiffs through an automated system that factors in bailiffs' workload and the rules set by the NRA. During the period 2013-2016, **the revenues from selling the property of bad public debtors increased. Each BGN 1 in costs for organizing and conducting public tenders generated between BGN 16.96 and 77.55 in proceeds for the NRA.** Over the same period there was also an increase of the receivables collected through insolvency proceedings.

To ensure the selection of adequate measures to address its debtors, the Agency conducted ongoing monitoring and analyses of the structure and size of public receivables in all types and categories. Nonetheless, the analysis of the changes in overdue public receivables that are past their five-year limitation period (under art. 171, paragraph 1 of the Tax Procedure Code), which may not be subject to enforced collection by public bailiffs shows an increasing trend of the time barred debt, **the 2016 value being 37 percent higher compared to 2013.** The biggest increase was due to overdue public receivables identified

through tax assessment notice. The same period also saw an increase in the time-barred debt written off ex officio after the expiry of the so-called absolute statute of limitation of 10 years, which was introduced as of January 1, 2016 with the amendments to Art 171, paragraph 2 and Art. 173 of the Tax Procedure Code.

4.1.4. Economy, Energy, Tourism

Reducing the administrative burden for business in tourism in the period 2016-2018.



The key audit question was: Is the policy for reducing administrative burden for business in tourism implemented effectively?

The audited institution was the Ministry of Tourism (MoT).

The audit concluded that the measures undertaken to reduce the administrative burden for businesses in tourism result from the implementation of the decisions/ protocols of the Council of Ministers concerning the replacement of the required provision of official paper documents by e-government services.

There needs to be a comprehensive analysis and planning of measures to:

- Improve the quality, timeliness and cost of the administrative services;
- Conduct research, reviews, analyses and introduce interventions leading to initiatives on behalf of the Ministry of Tourism to reduce the administrative burden and increase the efficiency of their services.

The audit conclusion was drawn based on a number of findings. The audit found that there were no official arrangements and concrete provisions in place at the MoT aiming at reducing the administrative burden in order to achieve efficiency, coordination and timeliness of actions. Since the setting up of the Ministry through the date of the audit, no analyses of its administrative functions were performed with a view of their prioritization, incl. to achieve reduction of the administrative burden for businesses to the minimum possible level and ensure higher effectiveness of the administrative services.

The National Strategy for Sustainable Development of Tourism in Bulgaria 2014 – 2030 (updated in 2017) outlines the enhancement of the regulatory framework as one of the main challenges before MoT to ensure effective policies in tourism. **The strategy plans for amendments to the regulatory framework; however, the reduction of red tape is not among the key priorities and goals for this reform.**

Between 2016 and 2018, the **MoT did not have an active policy to reduce the administrative and regulatory burden for businesses in tourism.** This was rather addressed through the implementation of Council of Ministers decisions. There were no arrangements for designing and implementing other interventions targeting the restriction of red tape for tourism businesses.

The Act on the Amendment of the Law on Tourism, effective as of 04 May 2018,

introduced the necessary regulatory changes to eliminate the requirement for submission of paper certificates.

In relation to the drafting of a new bill to amend the Law on Tourism, **MoT conducted a review of the possibilities for further simplification of the procedures related to administrative services. They planned to reduce the time necessary** for the registration of travel agencies and tour operators, categorization of hotels and restaurants and issuing certificates for balneological, SPA, wellness and thalassotherapy centers that are stand-alone or part of accommodation sites in cities and resorts.

During the audited period, **there were no comprehensive analyses and assessments of the quality of regulations in tourism** to identify possibilities for simplification and synchronization with other regulations.

One of the pending issues outlined in the Action Plan, containing interventions to address the main barriers to investments, is whether to remove the categorization of stand-alone dining and entertainment sites. The users show no interest in the newly introduced system for categorization of stand-alone dining and entertainment sites. **The process of registration, categorization and certification is not perceived as being quick, simple and beneficial for the businesses. This categorization lacks significance/ gravity in the eyes of the population and the businesses.** Businesses see no benefits in it; they consider the fees for this service to be objective, but rather unnecessary, while the timeframe for the categorization is lengthy and burdensome. The businesses share their satisfaction with the information published on the MoT webpage, which is up-to-date and comprehensive.

The approach applied for defining **the tariff of fees charged under the Law on Tourism does not provide assurance for their adequate calculation**, since the authors of the law did not follow strictly the methodology for calculating such fees set out in the Law on Restricting Administrative Regulations and Control on Economic Operations. The financial justification for changing the tariff does not contain a reliable and traceable analysis of the man-hours necessary for providing each one of the services, which does not give assurance of the cost-efficiency of fees. They are seen as just another source of revenues, and not as a justifiable basis to cover the expenses incurred for provision of administrative services

Through a specialized platform, as of 03 December 2018, the Ministry of Tourism provides the opportunity for electronic filing of documents. The possibility for cashless payment using POS terminals contributes to reducing the administrative burden for businesses. The Ministry of Tourism also invests efforts in building integrated information systems, National Tourism Register, maintaining electronic registers and providing e-services.

4.1.5. Regional Development and Infrastructure Projects

Favourable environment for Balanced and Sustainable Regional Development in the period 2012 - 2016



The key audit question was: Is the process of planning and performance monitoring of the regional development policy effective?

The audited entities were the Ministry of Regional Development and Public Works, district administrations and municipalities.

The audit concluded that the planning and progress monitoring of the regional development policy is absolutely inconsistent, incomplete, and accompanied by a number of irregularities. There is a high risk to the economic, effective and efficient attainment of the state policy objectives to reduce the inter- and intra-regional differences in economic, social and territorial development, ensure favorable environment for economic growth and high employment rates, and develop territorial cooperation. The auditors **cannot provide reasonable assurance that the current environment is conducive to the balanced and sustainable regional development.**

The audit conclusion was drawn based on a number of findings. The audit identified that the necessary documents for strategic planning of regional development at national, regional, district and municipal level have been enacted as required by law. **The National Strategy for regional development 2012 - 2022, the regional development plans 2014 – 2020 of the level 2 audited regions, one of the district development strategies, and the development plans of 67% of the audited municipalities were adopted later than the statutory deadlines, which poses a risk to the attainment of the sustainable regional development goals.**

The legal requirement for aligning the strategic plans for regional development of the individual territorial levels with the spatial development documents for the respective territories was not met. The reason is **the absence of national system of spatial development documents.** The National Concept Paper for spatial development was the only adopted document. Another issue is the **failure to provide financial allocations for designing regional spatial development schemes** for the level 2 and 3 regions (districts) and the master plans of municipalities. The few spatial development documents that have been adopted at district and regional levels were developed in the absence of the respective higher-level documents.

The absence of spatial development schemes makes it impossible to design high quality documents for strategic planning of regional development, and to ensure favorable environment for balanced regional development.

The procedures for aligning and ensuring consistency among the strategic documents for regional development of the separate territorial levels were followed only superficially.

The principle of partnership was not applied effectively in implementing the state regional development policy.

The strategic documents for regional development of all three territorial levels do not reflect the projections and investment intentions set out in the sectoral strategies for the respective territory.

The monitoring and assessment of the regional development conducted through review of the compliance with the strategic documents of the individual territorial levels is incomplete and unreliable. The uniform information system for governing regional development required by law was not introduced. The administrative units and/ or consultancy teams do not have access to timely and adequate information to be able to assess duly and reliably the specific benefits (outcomes) of the implementation and effectiveness of the planned activities and interventions.

The outcomes of this audit were presented to the European Court of Auditors during their visit to the Ministry of Regional Development and Public Works to discuss the decentralized regional development.

4.1.6. Institutional Development and Effectiveness

Transparency and publicity of the central administration and access to public information in the period 2016 - 2018



The key audit question was: Are publicity and transparency of the administrations and the access to public information effectively ensured?

The audited entities were the Council of Ministers' administration and the State Agency for E-governance.

The audit concluded that the efforts of the public administration are focused on ensuring publicity, transparency and access to public information. **The conflicting legal provisions, the discrepancies in the organization of operations and the lack of controls have a negative impact on the effectiveness of measures to ensure publicity, transparency and access to public information.**

In the course of the audit, the central executive bodies took actions to meet their obligations of informing the public in order to achieve the goals and priorities of publicity and transparency.

The conclusion was drawn based on a number of findings. The audit identified that the government made a number of clear strategic commitments to provide publicity and transparency of the functioning of the public administration, and adopted strategic and operational plans for the implementation of these commitments. The key strategic documents set out the requirements for monitoring and assessment of implementation, and outline the

entities responsible for coordination, monitoring and control of the implementation. **The government also took actions to adopt the necessary legal provisions and set up a specialized agency responsible for e-government.**

The absence of annual reporting, monitoring and control of the Public Administration Development Strategy poses a risk to the attainment of the planned goals and the effective publicity, transparency and access to public information in the public administration.

In relation to the publicity and transparency of the central government the audit identified the following:

- Delayed introduction and/ or incomplete internal rules for the implementation of the Law on Access to Public Information;
- Small number of trained officials;
- Individual ministries and agencies do not apply consistently the legal requirements for information disclosure in line with Art. 15 and Art. 15a, paragraph 2 of the Law on Access to Public Information;
 - Only one ministry has arrangements in place for control of the publication of information on its web page (in the course of the audit, thirteen ministries took steps to regulate the controls for compliance with Law on Access to Public Information and to provide for sanctions).
 - Fourteen ministries did not control the comprehensive and up-to-date nature of the information published on their webpages and did not apply administrative sanctions for non-compliance with the Law on Access to Public Information;
 - The majority of ministries did not take action to design and implement controls for compliance with the obligations for information disclosure;
 - The statutory obligations regarding the rules and recommendations to the web-page user interfaces were not implemented within the required deadlines;
 - The outlook of the web-pages of the public entities is not consistent and does not ensure equal access to people with disabilities;
 - Twelve administrations have not published policies for making contents accessible for people with disabilities, and the webpages of ten administrations do not support versions for visually impaired persons or persons using specialized means for access;
 - The information in the sections for access to public information is provided only in Bulgarian language, and the English versions are incomplete;
 - Three ministries maintain sections entitled 'Archives' that are empty, while two of the ministries do not have such sections on their webpages at all;
 - The State Agency for E-Government did not apply controls for compliance with the legal requirements.

The audit identified the following discrepancies in relation to the introduction and maintenance of information systems for access to and disclosure of public information:

- The platform for access to public information is in a process of introduction and is not yet fully functional;
- The Consultative Boards Portal that was launched is not fully conducive to meeting the goals for enhancing transparency and accountability of the Consultative Boards operations, enabling cooperation and providing feedback in real time. No changes were introduced in the visualization and functionalities of the portal since its launch in 2018; the published information has not been reviewed for compliance; the uploaded information regarding the activities of the Boards is not complete and up-to-date. There is no secondary legislation regulating the deadlines for publishing information in this portal and there are no evaluation mechanisms and controls for compliance with the disclosure requirements;
- The regulations regarding the conditions for reuse of public sector information and its publication as an open source contain conflicting provisions;
- In 2017 and 2018, the State Agency for E-governance did not perform analyses of the public significance and usefulness of the databases selected for publication on the Open Source Gateway. Through 30 November 2018, the list of data planned for publication in 2018 was not yet endorsed. Thirteen months past the deadline set out in the Council of Ministers resolution, the State Agency for E-governance still had not submitted the 2017 progress report to the Council of Ministers;
- The open source portal does not provide the expected benefits due to: unclear regulation in the internal rules and procedures for its maintenance; lack of regulations regarding the selection of datasets for publication; poor organization of the processes in place for prioritization and updating of datasets; datasets published in formats that are not open source and are not machine-readable; unclear allocation and/ or overlapping of functions and absence of internal rules and procedures;
- Some ministries did not apply administrative controls for compliance with the statutory requirements for planned gradual publication in internet-based open source format of the databases and free access resources;
- The responsible authorities and the Head of the State Agency for E-governance did not put in place arrangements for controlling the compliance with the requirements for disclosure of information in the open source portal and for identifying the administrative violations of the Law on the Access to Public Information.

The audit identified the following irregularities concerning the information for reuse provided by public entities:

- Failure to submit triannual summary reports regarding the information for reuse provided by public sector entities; the conditions for provision thereof and the legal defense practices;
- Failure to put in place timely arrangements to ensure compliance with the Law on access to public information regarding the provision of information for reuse on behalf of the public entities.



In relation to this audit, the BNAO received for the second time the Golden Key award of the Access to Information Program in the category “Institution ensuring best information provision to citizens”.

4.1.7. Managing EU-funded programs and projects

Monitoring and evaluation of OP Regions in Growth in the period 2014-2018.

The key audit question was: Is the monitoring and evaluation of OP Regions in Growth effective?

The audited entity was the Ministry of Regional Development and Public Works (MRDPW) – managing authority of OP Regions in Growth 2014 – 2020 (OPRG).

The audit concluded that the system in place for monitoring and evaluation of OPRG 2014 - 2020 is effective, however there are certain weaknesses. The managing authority invests efforts to overcome the registered issues in relation to compliance with the regulations, deadlines and arrangements for monitoring, with the key stakeholders, the failure to update internal rules and the delays in contracting the interim evaluation during the audited period.

The audit conclusion was drawn based on a number of findings. The audit identified that the activities, deadlines and structural units outlined in the Internal Rules by the Managing Authority of OPRG are in line with the EU and national legislation and create a conducive environment for effective monitoring. **The adequate monitoring mechanism of the OP provides sufficient, reliable and up-to-date information regarding its progress.**

There are clear and strict arrangements for the functioning of the Monitoring Committee (MC). The Internal Rules of the Monitoring Committee provide for the



appointment of a deputy chair of the MC for OPRD 2014-2020, however, such function is not regulated by the Law on the management of funding from the EU structural and investment funds.

The MA of OPRG 2014-2020 has a designated unit responsible for information, communication and visibility. The arrangements in place for promoting the OP activities contribute to the disclosure of reliable and accessible information to different users and stakeholders.

There are arrangements in place for identifying weaknesses and taking corrective action, incl. preventing the risk of irregularities and fraud. However, the Internal Rules on preventing the irregularities and fraud risk adopted in 2016 have not been updated to reflect the amendments in the Rules of Operation, the Description of the Management and control systems and the Manual on the management and implementation of OPRG 2014-2020.

A system of indicators has been adopted for the purpose of monitoring the implementation of the program. It contains more indicators than the minimum required by Regulation (EU) 1303/2013. The indicators follow the intervention logic of OPRG 2014-2020 and are related to and compliant with the specific goals of the OP.

The project monitoring is focused on the implementation of contracts and is conducted through technical reports or documentary checks and on-site inspections.

The implementation of projects under OPRG 2014 - 2020 is expected to contribute to the effective implementation of the national polycentric model outlined in the National Concept Paper for Spatial Development. The monitoring of the inspected projects should provide timely and reliable information to inform adequate managerial decisions. **The failure of beneficiaries to provide their technical reports within the required deadlines poses a risk to the monitoring of projects**, while the occasional delayed checks of the technical reports by the MA experts is an indication of discrepancies in the organization of workflow and creates a risk to the adequate progress monitoring.

The internal controls introduced by the MA for project monitoring are capable of timely identification of omissions. A proof of this is the larger relative share of internal indications of irregularities. **These indications of irregularities led to a number of financial corrections.**

There are adequate arrangements in place at the MA for compilation, approval and submission of the annual reports. This is a prerequisite for **the timely and effective reporting of the OP implementation and progress.** The deadlines for submitting annual reports on the OP implementation to the MC and EC were met.

The deadlines set out in the Manual for the approval of the annual reports of OPRG 2014 - 2020 by the MC were met; however, the checklists used to document the outcomes of the control for compliance with the annual reports' format and contents requirements were drafted after the endorsement of the reports by the MC.

All priority axes of OPRG 2014 – 2020 contain targets for 2018 and 2023. The interim targets for 2018 include financial indicators of the program implementation and, where applicable, outcome indicators, which are closely related to the interventions in support of the policy. **There was a significant progress in implementing the interim targets, however, there is still a significant risk that they will not be met in full 31 December 2018.** Adequate and timely corrective measures have been taken to mitigate the risks of non-compliance with the interim targets of the program.

As a result of delayed key activities related to planning, organizing and coordinating the evaluation of OPRG 2014 – 2020 during the programming period **there were delays in the issuance of an independent external opinion on the program implementation** focusing on the processes, relevance of the MA procedures, the progress in achieving the interim and ultimate goals of the outcome and output indicators, the financial absorption, etc. Through 30 June, the risk of delays of the interim evaluation remains pending.

Monitoring and evaluation of OP Innovations and Competitiveness and OP SME Initiatives in the period 2014 - 2018 r.

The key audit question was: Is the monitoring and evaluation of OP Innovations and Competitiveness (OPIC) 2014 - 2020 and OP SME Initiatives (OPSMEI) 2014 – 2020 effective?

The audit concluded that in the period 2014 through 2018 the MA invested continuous efforts to improve the effectiveness of the monitoring and evaluation of OPIC 2014 – 2020 and OPSMEI 2014 – 2020 by:

- Setting out and updating rules and procedures in the OPIC Manual and the Outline of Functions and Procedures of OPSMEI – the documents that regulate the monitoring and evaluation process;
- Timely implementation of the activities related to the interim and annual reporting on the progress of OPIC 2014-2020 and OPSMEI 2014-2020;
- Adopting and implementing the annual plans for on-site inspections of OPIC 2014-2020;
- Ensuring constant increase in the number of planned and executed checks and ensuring compliance of the actions and procedures with the requirements introduced in the internal documents;
- Ensuring disclosure of information to the stakeholders regarding the implementation of the two programs.

At the same time, there is a need for the following:

- Further specification and refining of the procedures in place for drafting and updating the annual schedules for on-site inspections;
- Evaluation and identification of projects at risk and the intensity of their monitoring;

- Outlining arrangements for ex-post on-the-spot inspections, incl. the method for monitoring and evaluating the progress on meeting the indicators of the funded projects;
- Ensuring effective control of the administration of alerts for irregularities;
- Managing effectively the risk of delays in awarding public procurement contracts for external evaluators of the OP.

The audit conclusion was based on a number of findings. The audit identified lack of arrangements regulating the actions by MA officials in the following cases:

- Taking actions ex-officio in case of indications of incomplete execution of the finalized projects whose monitoring is within MAs mandate;
- Initiating on-site inspections of finalized projects that are risky;
- Participating in the drafting of the Plan for on-site inspections of OPIC 2014 - 2020;
- Setting up a register/ database of the grant contracts for which the experts conducting on-site inspections have identified irregularities/ non-execution; and designing action plans for follow-up on the irregularities;
- Conducting control and/ or coordination procedures in relation to the on-site inspections.

After the completion of the audit and the filing of the draft audit report, the OPIC manual was updated in October 2018.

There was compliance with the procedures for monitoring the grant scheme contracts implementation, **however some significant irregularities were identified in relation to the monitoring of individual projects.**

The head of the MA of OPIC 2014 - 2020 approved procedures for administering of irregularities in relation to projects funded by the OP. **There were discrepancies in applying the MA procedures for administering irregularities in OPIC 2014 - 2020.** The monitoring of OPSMEI 2014 – 2020 was conducted in line with the requirements and the procedures outlined in the Agreement for Funding between Bulgaria and European Investment Fund and in the Description of functions and procedures under OPSMEI 2014 – 2020 approved by the head of MA.

The process of evaluation of OPIC 2014 - 2020 is regulated in the Manual of the operational program. The MA of OPIC 2014 - 2020 **failed to prevent a delay in the contracting of the interim assessment.** Detailed and clear procedures need to be introduced for corrective measures on behalf of the MA in cases of identified delays of the OP interim assessment. With the signing of the Funding agreement between Bulgaria and the European Investment Fund the evaluation of OPSMEI 2014 - 2020 was delegated to the European Investment Fund.

The drafted and endorsed **annual reports of the MA and the operational programs provide sufficient, comparable, true and fair information regarding the implementation of the OPs during the audited period.**

The audit identified indications of fraud with EU funds. BNAO referred the matter to the competent authorities, incl. the Prosecutor's Office.

Effectiveness of measures and activities for enhancing household waste management funded under OP Environment in the period 2015 through 2018

The key audit question was: Are the measures and activities for enhancing the household waste management funded under OP Environment 2014-2020 effective?

The audited entity was the Ministry of Environment and Water (MoEW) –Managing Authority of OP Environment 2014 - 2020.

The audit concluded that between 2015 and 2018 MoEW, MA of OP Environment 2014 - 2020 invested efforts to enhance the effectiveness of measures and interventions for improving household waste management. **In order to achieve compliance with the best practices, the MA needs to make additional efforts** to optimize the evaluation, contracting and implementation of projects under priority axis 2 - „Waste“, improve the control environment in place in relation to the monitoring procedures, incl. procedures for administering irregularities.

The audit conclusion was drawn based on a number of findings. The audit identified that the MA of OP Environment (OPE) 2014-2020 **has introduced the necessary arrangements for adequate programming and planning of the OPE-funded measures and activities aimed at implementing the national policy in the area of household waste.** The thematic goal, investment priority and the specific target under priority axis 2 – “Waste” have been aligned with the objectives and priorities set out in the national strategic and programming documents in keeping with the EU policy on household waste, although the National Waste Management Plan and the National Program for Preventing Waste Generation were adopted later than the statutory deadlines. The program ensured compliance with the EU requirements and planned measures and indicators under priority axis 2 – Waste”. They are well targeted to contribute to the attainment of the specific goal for “less landfilling of household waste”. Nonetheless, certain **discrepancies were identified in relation to the unclear distinction of the activities for preventing waste generation and for waste recovery in one of the measures** under the same priority axis. In addition, the measures funded under OPE 2014-2020 were not included in the National Program for Prevention of Waste Generation. The financial allocations for project implementation are aligned with the hierarchy of the waste management activities, even though **there are no sufficient arrangements in place for assessing the specific contribution of the planned allocation under priority axis 2 as compared to the budget-funded program of MoEW related to waste management** and the planned allocations for the implementation of the national strategic documents in the same area.

The inclusion in the annual reports of information regarding the identified risks and difficulties in the implementation of priority axis 2 – “Waste” **facilitated the informed**

decision-making regarding any corrective actions, although the 2017 annual report on the implementation of OPE 2014 – 2020 was not published within the set deadlines.

The Managing Authority demonstrates continuous efforts to enhance the effectiveness of measures and activities related to improving household waste management financed under OPE 2014-2020 by:

- Developing and updating rules and procedures in the Procedural Manual regulating the programming and planning, evaluation and contracting, monitoring and administration of irregularities under priority axis 2 – “Waste”;
- Evaluating and contracting projects with the beneficiaries under priority axis 2;
- Ensuring the necessary environment for monitoring of the implementation of administrative contracts for grants;
- Verifying the payment claims of the beneficiaries.

At the same time, additional efforts are needed in relation to:

- Further specifying and refining of the procedures in place for drafting and updating annual plans for on-site inspections and evaluation and identification of the risky project and the intensity of their monitoring;
- Ensuring effective controls of the processing of alerts for irregularities;
- Effectively managing the risk of delays in the implementation of the activities laid down in the contracts with the beneficiaries under priority axis 2 of the OP.

Effective control and management of OP Science and Education for Smart Growth 2014 – 2020 in the period 2014 through 2017

The key audit question was: Has the control and management of OP *Science and Education for Smart Growth* (OPSESG) 2014 – 2020 been effective?

Audited entities were the Ministry of Education and Science (MES) - Managing Authority of OPSEGS 2014 – 2020, Ministry of Finance – National Fund Directorate and the Executive Agency for Auditing of EU Funds.

The audit concluded that during the audited period **despite the efforts of the MA, MC and the responsible control and audit authorities at national level, there was no adequate management and control of the planning and implementation of projects**, and oversight and monitoring under the OP. **Urgent action needs to be taken** to speed up the contracting under priority axis 1, implementation under priority axes 2 and 3, and relocation of the funds under the program **to avoid losing financial resources**.

The audit conclusion was based on a number of findings. The audit identified that the planning **under priority axis 1** did not fully take into consideration the difficulties of synchronizing the documents in the area of science and innovation and some risk factors included in the Risk Assessment Plan, which led to **frequent changes in the annual working programs, prevented the launch of some planned operations, etc.** The root causes have to do with the insufficient preparedness of some beneficiaries, **frequent turnover of the MA**

leadership, amendments in the strategic and legal framework, etc. A significant root cause for the delay in the contracting and implementation processes under priority axis 1 **is the late adoption of some strategic documents** concerning the R&D infrastructure and the action plans to them.

Regardless of the indicative nature of the annual work programmes and the possibilities for their yearly update, **the planning of procedures took place against the backdrop of objective factors that hamper their launching. Such an approach does not ensure good management of processes.** As a result of the failure to launch some of the planned procedures for grants, timely actions were not taken to support the R&D entities in developing strategies for the implementation of interventions contributing to meeting the goals under priority axis 1.

The programming of OPSESG 2014 – 2020, priority axis 1 was based on the analysis and needs assessment for achieving the goals related to developing the research infrastructure laid down in the National Roadmap on Research Infrastructure (NRMRI) from 2014 that does not cover all sites of national and EU significance. The specific needs in the updated NRMRI - 2017 were developed once the allocations for priority axis 1 had already been approved. **The selection of procedures and operations in the Indicative Annual Work Program was not systemic and based on prioritization informed by needs assessment and analysis, projections and justification.** The manual on the management of the operational program does not set out rules and procedures to that end and does not outline procedures for such commitments in the long run. As a result, **the priorities, budget and indicators are not based on the interventions logic to ensure the successful implementation of the OP goals.**

In relation to two of the launched procedures for building and developing excellence and competence centers under priority axis 1, the Managing Authority adopted measurable and adequate criteria for project evaluation ensuring the attainment of the specific goals and outcomes. These criteria are linked to the OP conditions for funding of non-profit operations, such as development of research infrastructure, scientific research and publication of research data. **Because of the lack of clear focus on commercialization of the research outcomes in the approval of projects under OPSESG 2014 – 2020**, which corresponds to the program logic and distinguishes it from OPIC 2014-2020, **there is a risk of shifting the focus away from the priority for innovations.**

The minutes of meeting of the MC and the documentation to them published on the webpage of the MES do not provide an audit trail of the discussions leading to decision-making. **The monitoring by the MC of the goal implementation under OPSESG 2014 – 2020 is not effective.**

The extension of the timeframe for public consultations of the draft Guidelines for Implementation and the documentation to them is an indication of inadequate understanding of the potential beneficiaries. In 2017, there was a delay in the contracting of OPSESG 2014 –

2020. After the launch of the programme up until the end of the first semester of 2017 only a quarter of the planned funds were contracted. **There was a serious delay in contracting priority axis 1. So far, no contracts have been signed, which questions the very implementation of the priority axis.**

The slowing growth in the share of R&D investments as a percentage of GDP over the recent years in Bulgaria is an indication that the difficulties in implementing priority axis 1 of OPSESG 2014 – 2020 have a negative impact on the implementation of this national goal. **The MA has not taken corrective actions to prevent the loss of financial resources** under this priority axis for the purposes of investment priority 1a. There is a risk of non-fulfillment of the interim goals.

The frequent replacements of the MA leadership create difficulties for the effective programme management. The Minister of Education and Science performed the function of MA head, which sets prerequisites for combining the functions of project contracting, implementation and monitoring. All this is against the logic of effective division of responsibilities and good governance. The instructions for authorizing the head of MA are signed by the Minister of Science and Education. In the cases when the Minister was appointed head of the MA, the Minister had to sign all administrative acts, while at the same time the Ministry was the key beneficiary of a number of grant schemes.

The high personnel turnover led to inconsistency in the work processes, discrepancies and errors, poor organization and controls. The main reasons for the turnover are the resignations of key employees in some units. Turnover of staff was not identified as a risk prior to 2017 and adequate measures to mitigate its impact on the implementation were not put in place. The MA did not adopt rules for staff substitution, consistency of the information and documentation, and arrangements for protection and storing of information in case of resignation of key staff members. The staff of the MA of OPSESG was not provided enough adequate training.

The MA failed to ensure effective execution of the contracts under the grant schemes of OPSESG 2014 – 2020. There were no certified funds under the OP through 30 June 2017. **The relative share of funds paid out to the beneficiaries was 18% of all contracted funds.** The MA verified some 9% of all contracted funds, while the paid out verified funds constituted 5% of the total value of all contracts. Verified payments account for roughly 1/3 of all payments to the OP beneficiaries.

To ensure regular payments to the program beneficiaries, the MA used resources from the preliminary funding provided by the EC and the corresponding national co-financing. After the end of 2016, due to the lack of certified funds, the MA used up their limits on borrowed funds from the National Fund Directorate.

To 30 July 2017, there were no completed projects under OPSESG 2014 – 2020. The use of a large number of MES employees in the project management without clear allocation of responsibilities and regulated hourly rates creates the risk of overlap of functions in

planning of education policies on the one hand, and implementing the operational program, on the other.

The main difficulties in selecting projects were as follows:

- Failure to ensure clear correlation between the goals, the investment priority and indicators;
- Weaknesses in setting the project indicators for reporting on the actual impact of the project implementation;
- Including activities that are not key for meeting the goals; failure of some beneficiaries to submit semi-annual reports and delays in projects implementation.

The analysis of the verified budget expenditure and the reported project activities shows a need for simplified reporting/ flat rates for different expenditure categories to ensure equal treatment in offering support to the target groups. The delayed adoption of a national methodology for simplified reporting **curbed the possibilities for reducing the administrative burden in managing and implementing projects** financed by the EU structural and investment funds.

To September 2017, the MA introduced reductions in the projects with MES as a beneficiary. **This created a potential for mitigating the risk of losing budget allocations in 2018** and non-compliance with the interim goals in 2019.

Internal procedures for processing irregularities were introduced. However, in case of alerts for irregularities, there are no clearly outlined arrangements and responsibilities for performing checks, conducting and documenting on-site inspections, clearing irregularities, informing the affected stakeholders, etc. This creates grounds for poor management of the risk of fraud and lack of transparency. **During the audited period, there were no effective monitoring and control functions performed by the national authorities responsible for the implementation of OPSESG 2014 – 2020.** No rules and procedures were put in place for ongoing monitoring and progress reporting at the Managing Authority, and respectively between the Managing Authority and the Monitoring Committee in relation to the implementation of indicators, interim goals, disclosure of information regarding the financial management and execution, etc. Therefore, **there were no conditions for effective monitoring of the program.**

Risk management was inefficient. The necessary controls were not introduced to mitigate the risks to attaining the OP goals. Through May 2017, there was no analysis regarding the meeting of indicators and goals. The audit identified issues relating to the choice of indicators, their design and the reported outputs, which raises of the question of the availability of reliable and adequate indicators/ measures for effective monitoring of the program goal implementation. **The delayed start of priority axis 1 procedures and the slow progress on the outcome indicators under priority axes 2 and 3** poses a risk to the meeting

of the planned targets and interim goals in the implementation framework, **which may lead to non-absorption of the reserve and loss of funds under the program.**

Since the launch of the program through 30 June 2017, the Audit Authority performed following: drafting an annual report on the accreditation of the authorities of the OPSESG; annual control reports and a position on the two reporting years with no clearly stated audit opinion; reports on the systems audits of the Certifying Authority and the IT systems for monitoring and accounting in relation to all programs. **Through 30 June 2017, the Audit Authority had not conducted any systems audits.**

The Certifying Authority identified the risk of loss of funds in 2017, following an audit mission of the EC and analysis of the progress report on the program for the second semester of 2016. The delayed response of the Certifying Authority (two years after the launch of the program) is an indication of incapacity to identify timely and send notifications on the risks to the program using the introduced tool for ongoing monitoring.

The Manual on the management of **OPSESG** was reviewed and expanded several times with the aim of improving the controls in place. Through the end of the first semester of 2017 it was not updated to reflect the changes in the legislative framework, incl. those relating to the contracting, verification, disbursement of payments and monitoring. There still remains a need for expanding/ completing the Manual even after its last review from August 2017 following the introduction of approved rules and controls.

After the end of the audited period and before the audit report was issued the MA of OPSESG took steps to improve the management and control of the OP, incl. through updating the Manual on its management, introducing additional controls, strengthening the administrative capacity, reducing the administrative burden for beneficiaries, etc.

4.2. Summary of the performance audit conclusions

Parallel with the positive results achieved in specific areas that bring Bulgaria closer to the best European practices, the 2019 audits identified deviations from the principles of good financial governance. Almost all weaknesses, negative practices and their root causes identified in 2019, were also detected in the audits during the preceding 2 years.

Some of the significant weaknesses are:

- Non-compliance with the EU and national legislation;
- Lack of internal rules and/or non-compliance with the internal rules and regulatory requirements;
- Unclear strategic goals and priorities;
- Underfunded public needs and planned measures.

- Inconsistent management and process implementation;
- Inefficient internal control systems;
- Lacking or inadequate criteria and indicators;
- Failure to meet the criteria and indicators;
- Delayed implementation and multiple extension of deadlines.

Some of the key and most common root causes for the above irregularities are, among others:

- Significant discrepancies, inconsistency, conflicting provisions in the legal framework and internal regulations;
- Poor coordination among the responsible institutions;
- Inefficient and delayed planning;
- Unrealistic planning of funds for the implementation of policies, strategic national priorities, measures and activities;
- Insufficient administrative capacity for efficient implementation;
- Frequent structural and personnel changes.

5. OUTCOMES OF THE SPECIFIC AUDITS CONDUCTED IN 2019

Specific audits are reviews conducted in line with the provisions contained in specialized legislation. They may combine the approaches typical for financial, performance and compliance auditing.

In 2019, BNAO endorsed 12 specific audit reports, including:

- ✓ Execution of the State Budget of the Republic of Bulgaria,
- ✓ Budget execution of the Public Social Security System and the National Health Insurance Fund;
- ✓ Budget management and expenditure of the Bulgarian Central Bank;
- ✓ Operations and management of commercial companies and state-owned enterprises and hospitals;
- ✓ Controls over the implementation of concession agreements;
- ✓ Financial operations and management of the estate allocated to political parties.

The audits issued constructive recommendations to the management of the audited organizations on how to overcome the root causes for the identified irregularities and to improve the audited operations and processes.

5.1. Conclusions of the specific audits conducted during the period

5.1.4. Audits on Budget Execution and Expenditure

[Audit of the 2018 State Budget Execution Statement of the Republic of Bulgaria](#)

The audit concluded that the 2018 Statement on the Execution of the State Budget is **compliant with the requirements** set out in the Law on Public Finances, the internal regulations in effect during the audited period and the guidance issued by the Minister of Finance.

Between 2016 and 2018, there was a trend towards **increasing revenues to the state budget** and the Bulgaria's contribution to the EU budget.

The period marked an over execution of the revenues, support and donations planned in the 2018 Budget Law of 101.3 %. It was due to the **collected tax proceeds that exceeded the estimated values**.

The audit did not identify any committed expenditures in 2018 that were in excess of the maximum planned limit or any excessive new commitments for expenditure made in 2018, **which is in compliance with the regulatory requirements**.

The expenditure, budget relations (net) and contribution to the general EU Budget reported in the 2018 State Budget Execution Statement show a 98.7 % execution of the projections laid down in the 2018 Budget Law.

The net balance is negative – BGN 619 348.7 lower than projected in the 2018 Budget Law.

Three first-level budget spenders incurred more expenditure than planned in the Budget in violation of the 2018 Budget Law and the budget discipline. All financial justification forms attached to the requests by the first-level budget spenders for approval of additional expenditure/ transfers (that were checked as part of the audit sample) were in line with the applicable requirements.

There was an increase of the revenues by 12.3% YoY and of the expenditure by 14.6 YoY, while the **generated surplus in the 2018 Consolidated Fiscal Program amounted to BGN 135,128.2 thousand**.

The systems for financial management and control of the drafting and submission of the State Budget Execution Statement are in line with the legal requirements. **There are effective mechanisms in place for control and ongoing monitoring of the drafting, execution and reporting of the state budget**.

The budgeted annual rate of **the state subsidies to political parties and coalitions, and the actual subsidies** paid out during 2018 **were not in line with the regulatory requirements**, since their calculation was based on an incorrect count of the actual electoral votes. During the audited period, the Ministry of Finance did not introduce sufficient and adequate controls

to ensure compliance with the relevant legal framework. During the course of the audit, the Minister of Finance adopted Internal Rules on the organization and control of the planning, allocation and provision of state subsidies under the Law on Political Parties.

Audit of the Statement on the execution of the 2018 Public Social Security Budget

The statement on the execution of the 2018 Public Social Security Budget was drafted, endorsed and submitted to the National Audit Office and the Parliament **in line with the statutory procedures and deadlines**. The structure and contents of the statement is in line with the 2018 Law on the Budget of the Public Social Security System. All **transfers in, expenditure and transfers out** carried in the statement **are disclosed in compliance with the legal requirements**.

The **actual proceeds to the system exceed the projected revenues by 3.9 percent**, which is due to the higher number of individuals covered by the system, the increased income base, and a higher collection rate.

The total actual expenditure of the Social Security budget is 1.1% higher than the projections, which is due to the increased spending for paying out pensions, social benefits and welfare allowances.

2018 saw a **decreasing trend** (compared to the preceding 2 years) **in the state budget subsidy used to finance partially the social security expenditure**.

The 2018 Social Security Budget Execution Statement **disclosed a deficit of BGN 819,5 thousand**. No deficit (surplus) was planned in the 2018 Social Security Budget.

The controls introduced in the Internal Rules are efficient and were applied consistently throughout the audited period, which prevented irregularities in the examined processes. The financial management and control system ensured the compliance of the examined processes with the legal requirements.

Audit of the 2018 Statement on the Execution of the National Health Insurance Fund (NHIF) Budget

The 2018 statement on the execution of the NHIF budget **was drafted in compliance with the structure and indicators laid down in the 2018 NHIF Budget Law**. All proceeds, expenditure and transfers disclosed in the statement are in line with the requirements of the Health Insurance Law.

The 2018 statement on the execution of the NHIF budget was endorsed by the NHIF Supervisory Board and submitted to the National Audit Office in keeping with the relevant statutory requirements. The statutory deadline under Art. 30, paragraph 1 of the Health Insurance Law regarding the submission the annual statement through the Minister of Health to the National Parliament by 30 June 2019 was not met.

The reported revenues and transfers were 2.3% higher than the planned in the 2018 NHIF Budget Law.

The audit identified that the 2018 **actual revenues from health insurance contributions exceed the planned proceeds by 3%**: the surplus was allocated to cover health insurance payments.

The reported expenditure and transfers are 2% higher than the projections in the 2018 NHIF Budget Law.

The reserve funds in the budget amounting to BGN 114,554 thousand **were spent to cover health insurance payments in keeping with the statutory requirements.**

The endorsed 2018 NHIF budget is balanced. **A positive balance of BGN 10,943 thousand** was reported at year-end.

During the audited period **the financial management and control systems were functioning well, with the exception of the processes related to the submission of the 2018 NHIF annual statement** where the controls failed to ensure compliance.

[Audit of the budget expenditure and management of the Bulgarian National Bank](#)

The audit concluded that in all audited areas, namely **managing the planning, execution and reporting of the budget spending of the Bulgarian National Bank and management of the public procurement processes** there was **compliant in all significant aspects.**

The planning of the budget spending and the endorsement of the 2018 budget of the National Bank was done in keeping with art. 48, paragraph 1 and Art. 50 of the Law on the Bulgarian National Bank and the Internal Rules on drafting, execution and reporting the BNB budget.

The allocations for operational costs and investments of the BNB were not spent in full. **The Bank reported 85.7% execution of the planned operational costs, and 32.4% execution of the planned investments.**

The adjustments of the expenditure in the 2018 BNB budget was done in line with the requirements contained in the Internal Rules on drafting, execution and reporting the Bank's budget.

The expenditure incurred by the BCB in 2018 is compliant with the law and backed with underlying documents. The spending was within the limits for the separate accounts set out in the 2018 BNB Budget law.

The management of the **public procurement processes** during the audited period **was in line with the statutory requirements.**

1.1.1. Audits of commercial entities, state-owned enterprises and concessions

Audit of the Bulgarian State Railway Company (BDZ) – Freight Service for the period 2015 - 2016

The audit includes examination of the management of BDZ-Freight (the Company), its financial status, estate management, public procurement and execution of contracts.

Based on the audit work and audit evidence, the auditors concluded that the examined **management controls** were not efficient during the audited period, **which resulted in non-compliance with the provisions of the legal framework and the contracts**, including:

- The Company's manager failed to deposit a cash guarantee in violation of the contract for management;
- the contract for management does not set out an obligation for the manager to report to the Ministry of Transport, Information Technologies and Communication, which is in violation of Council of Ministers' Decree No 114 from 2010;
- contrary to the statutory requirements, the Company does not have an internal audit unit established;
- the contracts for financial services are not aligned with the legal framework.

Regarding the **financial status of the company** the audit concluded that **during the audited period it was in line with the requirements of the effective legal framework and the agreements with several exceptions**, namely:

- the indicators for "sales revenues" and "financial result" were not met;
- failure to meet the deadlines for payments under the Company's contracts for access and use of the railroad infrastructure and for traction electric power;
- failure to pay in the required installments in line with the novation agreement during a six-month period in 2015 for which penalty interest was charged;
- failure to submit reports of the ex-post controls of the incurred expenditures and payments to the Bulgarian State Railroad Holding in line with the signed agreement;
- failure to sign a separate agreement to regulate the terms and conditions for the BDZ-Freight payables used to cover the payments made by the Holding in the period 2011 – 2013 amounting to BGN 2,059 thousand.

In relation to the **company's estate management** the audit identified that **the controls concerning the estate were inadequate in terms of contents and scope, and were inconsistent during the audited period**. Therefore, the Company was unable to prevent non-compliance with the legal framework, including:

- the Company does not hold title deeds for parts of its real estate;
- the Company's Balance Sheet contains entries of estates that are public state property, which is in violation of the legal framework;

- the Company leased housing units to persons, who are not employees of the Company;
- the starting rent rates for one of the properties were defined without an assessment by an independent assessor;
- the Company contracted an assessment of the fair market value of a real estate in contradiction with the agreement signed with an independent assessor.

The controls regarding the movable property were continuous and consistent and therefore efficient during the audited period.

The examination of *planning and awarding public procurement contracts and implementation of the signed agreements* identified significant non-compliance with the legal requirements, such as incurring expenses for supplies and services without a public procurement procedure in cases when such procedures are mandatory under the Law on Public Procurement (supplies of fuel and electricity; technical office supplies; renting freight wagons; insurance and financial services; overhaul; maintenance and supplies of spare parts; 24-hour and night-time physical security). The audit identified **non-compliance with the legal norms in relation to public procurement**. For example, one of the procurement procedures contained a requirement that restricted the possibility for participation of certain entities; in some cases bidders were selected to participate in the next stage of the tender despite filing bidding documents that do not correspond to the initial criteria; in one case the Company selected a contracting procedure without a call for proposals, which against the legal requirements; a bidder was selected that did not meet the initial criteria set by the contracting authority, etc.

In implementing the agreements only part of the provisions were followed. The audit identified non-compliance with contract provisions relating to changing the place of delivery and not meeting the deadlines for implementation. In the case of one agreement a bank guarantee was accepted whose validity expired before the expiry of the agreement itself.

[Audit of the Company for Metropolitan Electric Public Transport for the period 2016 - 2017](#)

The audit objective was to identify whether the company complied with the statutory regulations, its internal rules and the agreements, as well as to examine the situation of the financial and control systems in the following areas: management of the commercial company and implementation of the Public Contract for Passenger Service (PCPS).

The audit found out that *the commercial company was managed in line with the effective statutory requirements and the agreements with the exception of significant irregularities, such as:*

- The Company did not meet all financial indicators laid down in the Loan Agreement with the European Bank for Reconstruction and Development (EBRD). A tripartite

agreement for municipal support was signed among the Metropolitan Electric Public Transport Company, Sofia Municipality and EBRD. Under this agreement Sofia Municipality is bound to take the necessary measures to ensure that the Company will comply with the provisions of the Loan Agreement;

- due to vacancies for tram and trolleybus drivers in the Company, employees had to work overtime beyond the maximum permissible limits to ensure continuity of the passenger service in line with the PCPS.

The examination of the ***implementation of the Public Contract for Passenger Service identified that was in line with the statutory framework and the agreements with some exceptions in significant aspects of the operations:***

- there is lack of assurance that the requirements for ensuring compensations to cover the expenses incurred for providing the public service (incl. preventing insufficient compensation) were met;

- the analyses regarding the need of capital overhaul in keeping with the technical standards for the respective vehicles were not taken into consideration in drafting the economic frameworks for 2016 and 2017;

- standards were not introduced for the technical servicing and overhaul of part of the vehicle categories;

- the technical servicing and maintenance of part of the vehicles in use was done without taking into consideration the actual operating mileage or after exceeding the limits.

The quality indicators for passenger service set out in the Contract for Public Service were met to a large extent with the exception of the non-compliance with the route/ time schedule. The Urban Mobility Center imposed sanctions on the Company thereof. The company **failed to comply with the contract requirement to introduce internal procedures for the processing of complaints, questions and proposals.**

During the audited period **the Company's system for financial control and management was in good shape, however, additional efforts are needed for the introduction of internal rules and controls** in the audited areas to ensure compliance with the relevant requirements.

[Audit of the Multi-profile Teaching Hospital for Active Treatment "Pirogov" for the period 2016 -2017](#)

The audit covered the following areas: management of the Company, estate management and public procurement contracts.

The audit identified the **following irregularities** in relation to the **Company's management:**

- the form of management guarantee required from the members of the Company's Board of Directors;

- Rules of operations that are not in line with the requirements of the legislation and the agreements;
- Absence of approved annual and tri-annual business programmes of the Board of Directors that was in office in 2017.

In audit area “***financial analysis of the Company***” the audit **identified some irregularities in significant aspect of the operations, such as:**

- Failure to meet the statutory deadlines for submitting justification letter to the National and Regional Health Insurance Funds in cases of treatment of patients for which the company incurred expenses exceeding the maximum monthly limits;
- The company passed a decision to increase the value of health care revenues and hence improved its reported financial result, despite the uncertainty whether the National Health Insurance Fund would approve the health services exceeding the limits for 2016 and 2017;
- There was no test for depreciation of the company’s overdue receivables. Time-barred overdue receivables that were not written off;
- The following indicators planned in the Operational Program for 2016 and 2017 were not achieved: operating revenues, operating expenditure, financial result and overdue payables.

A number of irregularities were identified in relation to ***estate management***, **including:**

- Absence of internal rules for leasing real estate owned by the Company;
- In some cases of real estate leasing certain mandatory tendering documents were missing; there were cases of irregular selection of bidders, direct agreement without a permission thereof issued by the single holder of capital and without a decision by the Board of Directors; signing lease agreements without consultations; agreeing on lower rent than the rate calculated by an independent assessor;
- In relation to implementing the lease agreements – lower guarantees were paid in than the agreed rate; delayed rent payment for certain months for which no penalty interest was charged; signing open-ended lease agreements in violation of the legal provisions.

The examination of ***the public procurement contracts execution*** identified the **following significant irregularities among others:**

- Failure to update the internal regulations to reflect the amendments to the Law on Public Procurement;
- Failure to implement ex-ante compliance controls prior to signing part of the contracts and incurring expenses in line with them;
- A large number of contracts were signed without a decision thereof on behalf of the Board of Directors;
- Failure to meet the deadlines under some contracts and absence of penalty charges for that;

- Some of the signed contracts were not in line with or significantly distort the provisions of the Framework Agreement;
- Payments made for activities that are not outlined in the Framework Agreement and the contracts;
- Signing contracts without adherence to the applicable provisions of the Law on Public Procurement.

[Audit of the State Construction and Refurbishment Company in the period 2016 - 2017](#)

The audit task covered the management of the entity, its financial status and estate management.

Significant inconsistencies with the law and the agreements were identified in relation to the *management of the entity*:

- The sole proprietor did not take action to bring the Company's capital in line with the legal requirements and the Statute;
- No contract was signed between the Company and the executive member to regulate their relations and to assign specific functions;
- Discrepancies in relation to the guarantees paid in by the Managing Board members and the deadlines for publication of annual financial statements;
- The Managing Board did not pass Rules on their operations;
- The sole proprietor of capital did not provide projections for the indicators included in the contract for management with the aim of defining the annual business goals for the Managing Board members;
- The applicable requirements for drafting, submission and approval of business programs were not met.

The following inconsistencies with the law and the agreements were identified in relation to *the company's financial situation*:

- Branches of the Company signed contracts for construction works that exceed the values for which the branch managers are authorized to pass decisions and exceeding the limits set out in the Company's Statute;
- There are no arrangements in place for ex-ante compliance control and the double signature approach was not applied when signing contracts for construction works and when awarding contracts for supplies, services and construction.

The examination of *estate management in the company* identified non-conformity with the legal requirements in some significant aspects of the operations, such as:

- Absence of insurance for company-managed real estate that is public private property;
- Failure to implement the decisions of the sole proprietor of capital for submission of analytical data to the Ministry of Regional Development and Public Works

regarding the spending of proceeds from selling real estate/ disposal transactions with real estate;

- Non-conformity with the legal requirements for ex-ante compliance control and double-signature when signing contracts for sales of real estate;
- Non-compliant sales of decommissioned buildings without issuing title deeds.

During the audited period **the examined aspects of the financial management and control system were not in line with the applicable requirements and therefore failed to ensure compliance of the company's operations with the legal framework and the agreements.**

[Audit of the Specialized Hospital for Active Hematology Treatment, Sofia for the period 2016-2017](#)

The key audit question was: Does the Hematology Hospital effectively meet the public need of quality hematology care?

The audit concluded that **the hospital did not meet effectively the public's needs for high quality hematology care in the period 01 January 2016 – 31 December 2017.**

The management decisions during the audited period may not be considered consistent and adequate. They **did not fully contribute to ensure the efficient operations of the hospital.** This conclusion was drawn based on **a number of identified discrepancies with the criteria and evaluation indicators, such as:**

- Failure to submit a programme for the entity's development for the period October 2015 – September 2017;
- Absence of Risk Management Strategy and Risk Register;
- Failure to set up all the necessary consultative committees to support the hospital's operations;
- A number of organizational and structural changes in the hospital were not timely reflected in the Internal documents;
- Absence of needs analyses regarding human resource and training;
- Failure to invest the targeted subsidies for refurbishment of the hospital premises;
- The management did not collect penalty charges and did not ensure the collection of overdue rent from the tenants in line with the lease agreements.

The hospital facilities are equipped with the necessary medical and laboratory equipment. An information system was introduced, which ensures effective diagnostics and medical treatment. The financial result of the hospital **was improved** during the audited period; however, the efficiency rates of revenues and expenditure did not reach the recommended margins. **The monitoring of measures for financial recovery was not officially assigned to any specific officials,** and the efficiency of these measures was not evaluated to

inform the decision of their possible continuation to achieve financial recovery of the company.

The audit identified that **the operations of the hospital were not efficient enough during the audited period regardless of the efforts invested by the management** to ensure high quality health care services. The hospital made efforts to optimize the number of beds; the occupancy rate was improved and it achieved higher average stay thus improving its effectiveness. The number of tests reported by the lab unit exceeded the minimum set out in the medical standard. The laboratory performs high quality hematological tests. The internal and external quality controls indicated that effective lab services were offered to all in- and out-patients. The number of reported health care activities exceeds by far the minimum set out in the medical standards. **The number of patients who died in hospital was reduced, both in absolute and relative terms as a percentage of the total number of hospitalized patients, which is an indication of effective health care services.**

The audit also **identified a number of irregularities, including:**

- Lack of indications that efforts were made to receive feedback regarding the incurred expenditure and recovered amounts for transplantation;
- In 2016, the hospital did not have in place a program for prevention and control of nosocomial infections, which hampers the reporting of the prevention and control activities, the monitoring the measures taken, and their impact.

Part of the interviewed medical personnel reported their dissatisfaction with their salaries and working conditions. They also reported that the hospital does not have in place a system for recruiting, offering incentives and retaining young professionals, which is a prerequisite for ineffective health care services. **The hospital was subject to continuous supervision** on behalf of the competent authorities that **issued specific recommendations. However, the hospital did not take action to address these recommendations,** which diminishes the effectiveness of the inspections

[Audit of the controls over signing and execution of concession agreements by the Ministry of Transport, Information Technologies and Communications in the period 2016 - 2017](#)

The key audit question was: Has the Ministry of Transport, Information Technologies and Communications (MTITC) put in place effective controls on the award and execution of concession agreements?

During the audited period there were controls in place regarding the award and execution of 17 concession agreements, 13 of which for port terminals, 2 for airports, 1 for rail station and 1 for intermodal terminal. Four of the agreements were annexed by force of signing a total of eight additional agreements.

The audit concluded that **the control by the MTITC over the execution of concession agreements was ineffective.**

The audit found out **that there were arrangements in place to facilitate the effective controls over the award and execution of concession agreements set out in the Internal Rules** regulating the functions of the directorate in charge of concessions and supervision over the commercial entities and state-owned enterprises, however these Rules did not regulate the following:

- Minimum required contents of the protocols of findings from the on-site inspections and of the annual reports by the officials;
- Terms and conditions for reporting the execution of investment programs and the programs and plans included in the business proposals, as well as the information and documents that demonstrate the progress on the implementation of commitments;
- The terms and conditions for collaboration among all structures/ units reporting to the Minister of Transport, Information Technologies and Communications supporting the Minister in the supervision of concession agreements;
- The specific control activities during documentary and on-the-spot checks that should correspond to the specific characteristics of the concession site, the obligations of the concession holder, etc.

The applied controls on the award and execution of concession agreements were inefficient for a number of reasons. **The ongoing control was mainly documentary and predominantly reliant on data disclosed by the concession holders.** The officials failed to document the performed control activities that informed the findings in their ongoing supervision reports.

The control over the financial execution by the concession holders was not adequate. **No actions were taken against concession holders who did not meet their obligation.** No checks were performed as to whether the investments reported by the concession holders were calculated based on the market value.

The control over the implementation of the investment programmes by the concession holders was inefficient because of:

- Non-compliance with the deadlines for issuing decisions to endorse/ not-endorse the execution of the investment programs;
- Failure to offer assistance to one of the concession holders in relation to the implementation of the annual investment program;
- In the case of one of the concession agreements - absence of control over the actual investments made in execution of the annual investment plan approved by the concession granting authority.

The audit identified **lapses in the work of the control committees.** With the exception of one agreement, **in all other cases the concession granting authority did not perform on-the-spot checks** in the concession sites, and resorted only to planned inspections, which do not guarantee adequate and efficient control. The approved 2015 and 2016 annual reports on the execution of the concession agreements were not sent to the concession granting

authority and the Minister of Finance, which is not in conformity with the requirement for timely disclosure of information regarding the execution of concession agreements.

5.1.5. Audits of political parties, coalitions of parties and nomination committees

[Audit of the financial operations and estate management of political parties in 2017](#)

The 2017 annual financial statements of political parties and the notes to them were submitted to the National Audit Office within the statutory deadlines.

All audited political parties prepared their 2017 annual financial statements in line with the requirements laid down in the Law on the Political Parties, the Accountancy Act and the applicable accounting standards. The accounting systems of the audited political parties were organized in keeping with the regulatory requirements, with the exception of one party that had **not designated an official (officials) in charge of its revenues, expenditure and accounting** as required by art. 30, paragraphs 1 and 2 of the Law on Political Parties.

The state subsidies reported in the 2017 financial statements of the audited political parties eligible for subsidy correspond to the actual amounts transferred by the Ministry of Finance. The audited parties complied with the prohibition prescribed by the Law on Political Parties for transferring the state subsidy for use by third parties.

The audited political parties generated revenues from sources that are in line with the Law on Political Parties, namely subsidies, membership fees, donations, economic activities permitted by the Law on Political Parties and interest within the statutory limits. One of the political parties did not disclose in its 2017 financial statements revenues amounting to BGN 28,266 and expenses at the same value incurred in relation to their 2017 election campaign. One of the political parties misstated their proceeds from membership fees reporting a higher value by BGN 1,345.

The management of estate provided for use to the political parties by the central or local governments was in line with the effective legal framework and the agreements, with the exception of the following significant irregularities: one political party did not disclose in its 2017 statements rent amounting to BGN 444; certain political parties delayed rent payments for more than 3 months for state or municipal owned estate leased to 11 political parties under 70 lease agreements, which gave grounds for the termination of the lease agreements in line with article 32, paragraph 3 of the Law on Political Parties. Through the end of the audited period, **7 political parties were using premises provided by the state or the relevant municipalities for conducting their operations, which was in contradiction to the provisions of article 31 of the Law on Political Parties.** These parties were no longer eligible for using such premises after the elections for 44th National Assembly.

The audited political parties have introduced public registers on their webpages where they publish all circumstances for which the Law on the Political Parties requires disclosure.

Audit of the financial operations and estate management of political parties in 2018

The 2018 annual financial statements of the political parties and the notes to them were submitted to the National Audit Office within the statutory deadlines. They contain all elements required by the Accountancy Act and the applicable accounting standards. The form, structure and presentation of the statements is in line with art. 34 of the Law on Political Parties. The organization and functioning of the accounting systems of all political parties is in line with the requirements of the Accountancy Act.

The audit examined the cash balance of all audited political parties. The auditors identified that **the cash at hand kept by the political parties headquartered in Sofia corresponds the accounting balances** through the date of the check, with the exception of one party for which the auditors identified an insignificant surplus. The checks did not identify any third-party cash or loans kept in the safes of the political parties.

The generated revenue and incurred expenditure by the political parties is in keeping with the effective legal framework, except for the rate of received state subsidies.

The value of the state subsidies carried in the financial statements of the political parties corresponds to the transfers made by the Ministry of Finance. In line with § 5, paragraphs 1 and 2 of the Transition and Final Provisions of the Law on the Amendment of the Political Parties Act, **the Ministry of Finance adjusted the value and the annual state subsidy extended to political parties and coalitions** for the period between 26 May 2016 through the effect of the Law. As of 01 October 2019, five political parties had paid back in full the difference between the transferred subsidy and the adjusted value. Seven political parties paid back the difference by setting it off against the state subsidy for 2019 in line with § 5, paragraph 4 of the Transition and Final Provisions of the above Law. One political party that is no longer eligible for state subsidy is required to pay back the transferred amount by 31 December 2020.

The **management of the estate** provided by the state or municipalities for use by the political parties **was in line with the legal framework and the agreements with the exception of the identified significant irregularities:**

- Six political parties did not pay rent for over than three months for the state and municipal premises provided to them under 40 contracts;
- One political party uses 6 municipal and 1 state-owned real estates for its operations in violation of Art. 31 of the Law on Political Parties, since it lost its eligibility after 25 June 2018.

Regarding the maintenance and updating of the public register of political parties the audit identified non-compliance with the effective legal framework.

Regarding the conformity with the requirements set out in the Election Code in relation to the election campaigns for partial local elections that took place in 2018, the audit identified compliance in all significant aspects by two of the audited parties. **One political**

party demonstrated significant departure from the requirements of the legal framework, namely:

- Failure to submit within the deadlines the required statements from the bank account used for the purposes of the election campaign;
- Inconsistency between the declared expenditure for election campaigns and the expenditure identified during the check;
- Non-compliance with the requirement of the Election Code for disclosure of information for publication in the Uniform Register regarding the property provided for free use to the political parties by natural persons and the declarations of ownership for this property.

6. FOLLOW UP ON THE RECOMMENDATIONS ISSUED BY THE NATIONAL AUDIT OFFICE

In **2019**, BNAO conducted in total **37 checks on the implementation of the audit recommendation; ten of these were repeated checks**. In 2019, the Audit Office conducted a smaller number of follow-up audits compared to 2018 when **they were 43**. One of the reasons for the reduced numbers is the fact that some of the checks follow up on the recommendations issued in the horizontal compliance audits, i.e. audits that cover more than one audited entity⁸ or follow up on performance audits that also have more than one audited entity.⁹ Horizontal audits bring about higher added value. They are planned and conducted in cases when the checks need to cover and analyze systems and issues of national importance. They also require significant resources. The Bulgarian National Audit Office makes efforts to conduct more complex audits that analyze overarching issues. Therefore, we can expect to see more horizontal audits in the future.

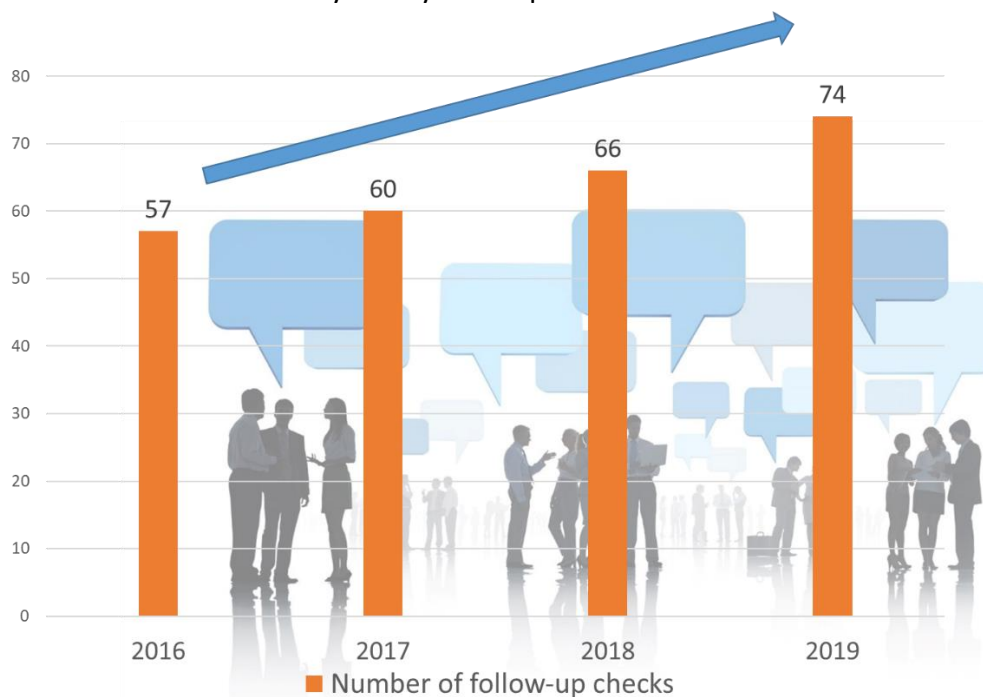
The 2019 follow-up audits checked the implementation of a smaller number of recommendations (**315**) compared to 2018 (**579**). The reduced number of checks and respectively recommendation is not a matter of concern, since these numbers depend of the nature of conducted audits, number of issued recommendations and the deadlines for their implementation. It is also noteworthy, that one of the reasons for the smaller number of issued recommendations is the fact that the management of the audited entities took action to address the irregularities and their consequences both during the course of the audits and following the handing of the audit reports, as well as between the handing of the draft audit

⁸ The recommendations of two horizontal audits were followed up; the checks covered 10 audited entities.

⁹ The recommendations of three performance (conducted in 6 audited entities) audits were followed up.

report and the endorsement of the final report by the BNAO Board. This was demonstrated in a number of the performance audits described above. **The actions taken by the management during the course of the audits lead to a reduction of the recommendations issued in the audit report, which is a positive indication both of the efforts on behalf of the audited entity and the work done by the National Audit Office.**

Based on the performance data over the past four years, we may conclude that **there are two positive trends**. On the one hand, **the relative share of BNAO recommendations that were implemented grew from 57% in 2016 to 74% in 2019, while at the same time the share of non-implemented recommendations went down to 10%**. The relative share of **recommendations that were not addressed** remained unchanged year-on-year and was at **10%**, meanwhile the number of non-implemented recommendations decreased in absolute terms. More than half of the non-addressed recommendations (18 or 60%) were identified in follow-up on **specific audits** of mainly commercial entities. The most probable reason for the failure to address the recommendations being that the systems for financial management and control of these entities are not yet fully developed.



2019 saw a significant reduction of the recommendations that were only **partially addressed** (16 in total, i.e. 5%), while between 2016 and 2018 their relative share was **11-12%**.

The recommendations **in the process of implementation** during the follow-up audit also marked a gradual decline. In 2019, they were 10% of all recommendations that BNAO followed up on (2018 – 12%; 2017 13%; 2016 -17%).

The relative share of recommendations that are considered **impossible to implement** remained unchanged – **2% in 2019 (2018– 1%, 2017 - 2%, 2016 -2%)** The reason why these

recommendations were categorized as impossible to implement are the amendments in the legal framework that rendered the recommendations obsolete.

In line with art 50 of the Law on the National Audit Office, BNAO informs the National Assembly, the Council of Ministers/ Ministries or respectively the municipal councils of all recommendations that are pending, partially implemented or in the process of implementation, so that these institutions can take measures to ensure that all recommendations have been addressed. In keeping with the above article, the reports of 12 follow-up audits were sent to: the National Parliament – 1 report; the Council of Ministers – 6 reports; one report was sent to the Minister of Transport, Information Technologies and Communications and to 7 municipalities – Sofia, Rila, Strazhitsa, Veliko Tarnovo, Maritsa, Dospat and Lovech. The number of reports sent to institutions exceeds the actual number of follow-up checks due to the fact that some reports have more than one addressee.

For the **first time in four years, in 2019 there was an increase in the number of notifications to BNAO from the addressed institutions that they had taken actions to ensure the implementation of recommendations.** The Audit Office was informed of measures being taken in 5 of the cases, compared to 1 case in each of the two preceding years.

No	INDICATOR	2016		2017		2018		2019	
1.	Number of follow-up checks	26		53		43		37	
2.	Total number of recommendations issued by NAO	180		514		579		315	
3.	Addressed recommendations - number/%	102	57%	307	60%	381	66%	232	74%
4.	Non-addressed recommendations - number/%	22	12%	74	14%	57	10%	30	10%
5.	Partially addressed recommendations - number/%	21	12%	57	11%	62	11%	16	5%
6.	Recommendations in the process of implementation - number/%	31	17%	67	13%	72	12%	32	10%
7.	Impossible to implement - number/%	4	2%	9	2%	7	1%	5	2%

8.	Institutions addressees of the follow-up reports	12	32	20	15
9.	Responses received from the addressed authorities	0	1	1	5

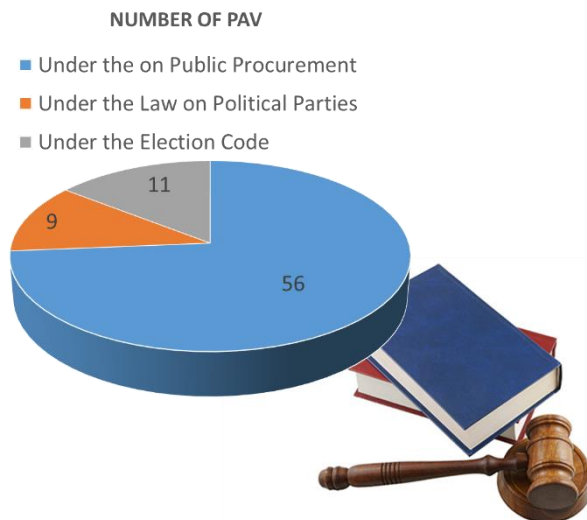
The reports from the follow-up audits [are published on BNAO's official web-page.](#)

7. ADMINISTRATIVE SANCTIONS

In 2019, the National Audit Office performed functions related to administrative sanctions in line with the following legal acts:

- Election Code;
- Law on Political Parties;
- Law on Public Procurement;
- Law on Concessions.

Following the audits on public procurement contracts and in implementing the functions related to administrative sanctioning vested in the National Audit Office under the **Law on Public Procurement**, in 2019 BNAO issued 56 protocols for administrative violations (PAV). Through 31 December 2019, the relevant institutions responsible for administrative sanctioning passed decisions on 41 of these protocols: penal orders were issued in 14 cases; 21 warnings under art. 28 of the Law on Administrative Violations and Sanctions; 4 resolutions for suspension of the proceedings and 2 resolutions for termination of the proceedings. In the remaining cases the administrative bodies with mandate to impose sanctions passed their decisions within the statutory deadlines, but later than 31 December 2019. In addition, in 2019, 1 penal order was



issued, 2 resolutions for termination of proceedings and 9 warnings in line with art. 28 of the Law on Administrative Violations and Sanctions in relation to 12 administrative proceedings initiated in 2018.

In implementing its functions related to administrative sanctioning in line with the **Law on Political Parties**, in 2019 BNAO issued 9 protocols for identified administrative violations. The relevant institutions mandated to impose administrative sanctions passed their decisions on these protocols through 31 December 2019 and issued 4 warnings under art. 28 of the Law on Administrative Violations and Sanctions and 5 resolutions for terminating the proceedings. In 2019, 2 penal orders were issued under 2 penal administrative proceedings initiated in 2016 and 2017.

In implementing its functions related to administrative sanctioning in line with the Election Code, in 2019 BNAO issued 11 protocols for identified administrative violations. The relevant institutions mandated to impose administrative sanctions passed their decisions on 5 of these protocols through 31 December 2019 issuing 5 warnings under art. 28 of the Law on Administrative Violations and Sanctions. In the remaining cases the sanctioning institutions passed their decisions within the statutory deadlines but after 31 December 2019. One penal order was issued in 2019 under one penal administrative procedure initiated in 2018.

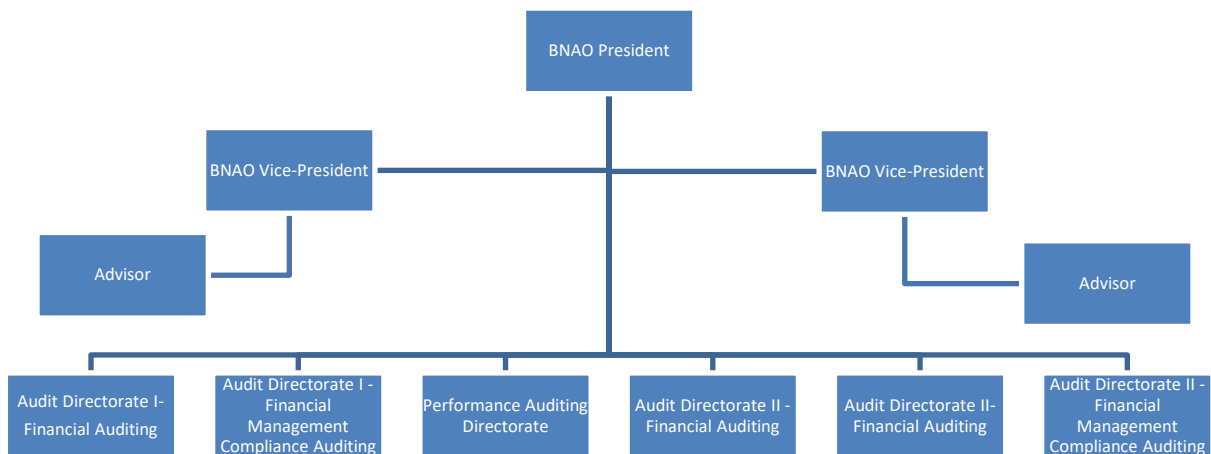


MANAGEMENT AND ORGANIZATIONAL STRUCTURE

II. MANAGEMENT AND ORGANIZATIONAL STRUCTURE OF THE NATIONAL AUDIT OFFICE

1. STRUCTURE

In 2019, the six audit directorates of the National Audit Office remained unchanged. They reflect the types of audit performed by the audit institution, namely: two financial audit directorates; two directorates auditing compliance of financial management; one performance audit directorate; and one Specific Audits Directorate that conducts audits mandated by specialized legislation. The audit directorates have a number of central departments and regional units throughout the country. Audit directorates are managed by Directors.



In its operations, the National Audit Office is supported by an administration consisting of: Office of the President; six directorates and departments reporting to them; and an Internal Audit Unit.

2. INSTITUTIONAL AND ADMINISTRATIVE CAPACITY

In line with its staff establishment plan, through 31 December 2019 the National Audit Office **had 402 employees**.

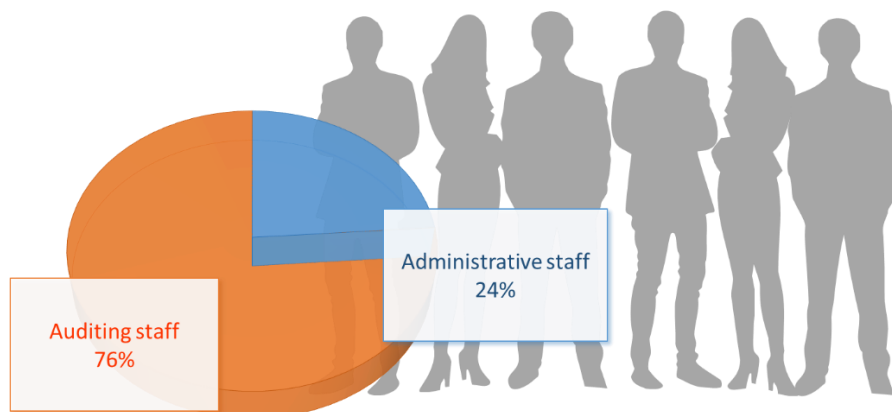
Between 01 January 2019 and 31 December 2019, **the employment relations of 53 employees were terminated** for the following reasons:

- ✓ Eligibility for retirement based on length of service – 19 cases;
- ✓ Upon request by the employee – 18 cases;
- ✓ Mutual consent of the two parties – 8 cases;
- ✓ Taking up government office – 5 cases;
- ✓ Termination during the testing period – 2 cases;
- ✓ Lowest annual score in the performance appraisal – 1 case.

In 2019, **40 employees** were appointed at the following positions: chief auditor – 2; second degree senior auditor – 1; first degree senior auditor – 1; auditor – 6; trainee auditor – 21; experts – 5; technical administrative staff – 4.

Through 31 December 2019 **the audit directorates of the National Audit Office had in total 306 employees**, holding the following positions: head of audit directorate – 6; head of department in the audit directorate – 16; senior auditor – 110; second degree senior auditor – 40; first degree senior auditor – 37; auditor – 51; trainee auditor – 38; experts reporting to the directors of the audit directorates – 8. A total of 276 positions for auditors and trainee auditors in the NAO are filled; out of them 123 are positions in the regional office.

TOTAL NUMBER OF STAFF - 402



All members of the NAO auditing staff hold master's degrees, four of them have PhD. The majority of employees have economic background (261) and legal background (26), and the rest have technical (15) or other background.

In line with the core staff establishment plan of the National Audit Office, there are 96 administrative employees working at the NAO. Of them 73 hold university degrees; 65 have master's degrees, three - PhD.

3. TRAINING AND QUALIFICATIONS

The training of the BNAO staff aims at offering new qualifications, upskilling and expanding the professional knowledge of the institution's employees taking into consideration the structural and/ or individual qualification goals. Training is conducted in line with an annual plan. **In 2019, there were 62 training courses in total covering 1182 employees** under the following training programs:

1. **Specialized professional training programs** – 36 trainings on specific topics related to the functions of the respective directorates or administrative units:

- Practical guidance on the implementation of ISSAIs and the Manual on the application of internationally recognized audit standards and BNAO audit functions;
- Topical practical issues related to the application of the Law on Public Procurement and the Rules on its implementation;
- Upskilling in specialized auditing techniques and methods;
- Audit sampling and analysis of the results;
- Budget accounting – good and bad practices;
- Program budgeting;
- Practical implementation of the requirement set out in the Regulation on the Protection of Personal Data and the Law on Personal Data;
- Countering tax fraud;
- Electronic applications and electronic document;
- HR auditing, and others.

2. **ITC training programs** – the topics were tailored to provide necessary knowledge and skills for work with specialized software products in the implementation of specific audit tasks. In total, there were 16 trainings in the following areas:

- Practical use of audit software for database analysis and control and/ or audit planning and management;
- Practical application of IT in auditing;

- Systems for IT security management;
- Protection of automated IT systems and networks;
- Administering infrastructure and databases; ethical hacking and cyber security; etc.

3. Programmes with organizational and managerial focus – these aim at providing leadership skills and specific personal qualities. In total, there were 8 trainings on:

- Encouraging compliance with the principles for integrity and ethics laid down in the Code of Ethics of the National Audit Office;
- Team management; personal efficiency;
- Business etiquette, conduct and protocol;
- Leadership skills, effective communication and conflict management, etc.

4. Courses in foreign languages – beginners' and more advanced language courses tailored to the needs of the institution. Two training courses were offered to 8 employees.

4. AUDIT METHODOLOGY

The BNAO audit function is regulated by the Law on the National Audit Office and the internationally recognized standards of auditing. The BNAO audit methodology is a living document updated constantly to reflect the changes in the standards, to ensure the best adaptation of their provisions to the Bulgarian reality and conditions and to apply the best auditing practices.

In 2019, BNAO updated its Manual on the Application of the International Standards of the Supreme Audit Institutions (ISSAIs) and on BNAO's auditing practices in the following aspects:

- strategic and annual planning of audits;
- endorsing the final audit reports and reports on the follow-up on recommendations;
- financial auditing and ongoing controls of the financial statements, as a stage in the financial auditing; financial audit letters; improved working documents regarding the checks for amortizations, studying the correlation between initial and end balances, compliance checks of the elements in the annual financial statement, etc.;

The successful application of the new methodologies and the introduction of new audit techniques, incl. by using specialized software, is ensured by the Directorate in charge of the Development of the Audit Function. It is responsible for enhancing BNAO's audit methodology. Trainers from this directorate conduct internal trainings and respond to a number of questions and specific case studies, e.g. relating to statistical audit sampling.

5. ICT

In 2019, BNAO undertook a number of initiatives **to ensure modernization of its IT infrastructure and information security**. The IT infrastructure underwent a complete transformation with **full deployment of a domain structure/ active directory**. BNAO started the introduction of an Information security management system, the ultimate goal being to get it ISO 27001 certified in 2020. All operational and information systems were updated to the latest versions. All data is fully backed-up. In 2019, the institution continued to migrate its existing databases on new servers equipped with new operating systems. **The virtualization of servers was completed** consolidating the physical resources, simplifying the installation and management and reducing energy consumption.

The audit function of BNAO is **supported by specialized audit software**. The overall audit management environment is based on Pentana. In 2018, BNAO deployed its latest version and 315 employees are now using this product on their desktops. Pentana was integrated with the active directory. BNAO uses for its audits the **specialized database analysis software – ACL**. Arrangements were put in place to ensure the training of all new employees on Pentana and ACL by a team of trainers. BNAO also uses the following software products for its audit work: Arbutus and EKVA *Ravnenie*.

6. IMPLEMENTING BNAO'S STRATEGIC AND OPERATIONAL GOALS

[The Strategy for the Development of BNAO: 2018 – 2022](#) outlines **16 strategic goals** in three priority areas to ensure an independent, effective and efficient audit function, development of the HR management system, and enhancing of public sector governance and accountability through improved stakeholder collaboration.

The outlined goals aim at overcoming the weaknesses identified through an in-depth analysis of the needs for capacity building that was conducted to ensure adequate targeting of resources for BNAO's modernization and development. Specific actions have been outlined for the attainment of the outlined goals coupled with performance indicators.

In 2019, BNAO adopted an Action Plan for the implementation of its strategy as a tool to ensure consistency between the strategic horizon of its development and the operational goals of each of its structural units. The action plan contains the **activities that will contribute to achieving the goals; it also outlines the timeframe and responsible persons**.

The 2019 BNAO Action Plan contains in total **125 activities contributing to the implementation of its strategic goals**, i.e. 40% more than the previous year (the 2018 Action Plan contained 89 activities), one of the reasons being that some of the pending activities from 2018 were carried forward to 2019. **BNAO managed to implement 8 more strategic activities compared to the preceding year. However, the share of activities that were completed in**

full dropped to 49.6%, because of the significant increase in the number of tasks. At the end of 2019, 29.6% of the activities were ongoing or pending, while the relative share of non-completed tasks remained almost unchanged – 20.8% in 2019 compared to 22% in 2018.

The reasons why some strategic activities remained pending are similar to the ones from the previous year and may be summarized in two aspects: **insufficient administrative capacity** (shortage of adequately qualified staff) **and external factors** relating to insufficient financial resources and delays in the publication of the international methodological tools.

The share of operational activities implemented by BNAO's structural units **is much higher compared to the share of implemented strategic tasks** from the 2019 Action Plan. The administrative personnel managed to implement 90% of their tasks, whereas the audit directorates – 85%. The weaknesses in the implementation have to do mainly with difficulties in administrative capacity building, such as insufficient number of candidates for the recruitment procedures. Another area of difficulties has to do with ensuring the implementation of all planned trainings.

BNAO will continue to invest efforts to overcome the root causes for the delays in implementation of its strategic activities. Meanwhile, it will try to find a sustainable solution to ensure the implementation of its 2018 – 2022 Development Strategy by prioritizing its strategic goals and channeling its limited funding towards the implementation of the most important targets.



COOPERATION

III. COOPERATION

1. GOVERNMENT AGENCIES, PROFESSIONAL AND NON-GOVERNMENTAL ORGANIZATIONS

In implementing the Law on the National Audit Office and the BNAO Development Strategy 2018-2022, in 2019 the **Audit Institution continued its collaboration with various government agencies, professional and non-governmental organizations**. It also initiated and took part in numerous professional discussions.

In implementing its core mandate – reporting to Parliament and providing reliable information on public sector accountability and efficiency, a **core priority for BNAO is enhancing its relations with the legislature**. The Budget and Finance Committee of the 44th National Assembly reviewed and endorsed the report on the outcomes of the audit of the 2017 BNAO Financial Statements. BNAO's management submitted to the Committee the 2017 Operational Report of the Audit Institution and the Report on the Financial Audits conducted in 2018 outlining the results of 292 financial audits. The outcomes of seven audits related to EU funds management were presented to the Committee on EU Affairs and Control of EU Funding in the 44th National Assembly. The audit reports regarding EU funding were also presented to the line Deputy Prime Minister, to the European Court of Auditors and the European Commission.

A key objective in the cooperation between the Audit Office and other government agencies is to enhance effectiveness of public sector controls contributing to more efficient governance. Having this in mind, in 2019 the National Audit Office signed a cooperation agreement with the State Prosecutor's Office. The agreement regulates the cooperation between the two institutions towards preventing, detecting and prosecuting crimes related to public funding, public procurement and corruption. The institutions will also engage in collaboration for identifying risk areas for public finances and the financial interests of the EU. The agreement plans for the establishment of interinstitutional teams to support the investigation, and exchange of information in case of identified infringements by entities and persons that fall within the scope of the BNAO's audit function.

BNAO also signed a cooperation agreement with the Academy to the Ministry of Home Affairs to join efforts in providing training to the Audit Office staff. The Academy will organize and conduct trainings to enhance the professional capacity of BNAO's Security Directorate. Security is an important aspect in the operations of the Supreme Audit Institution, because the SAI uses personal data and stores important information in relation to its audit functions.

BNAO continued its **fruitful cooperation with the Ministry of Finance** aimed at improving public sector accountability.

BNAO's President presented the institution's position on the 2017 Consolidated Annual Report regarding the Public Sector Internal Controls to the annual workshop of the heads of internal audit units of ministries and other central government agencies and the Directorate for Methodology and Internal Audit of the Ministry of Finance. The President stressed that internal auditors need to be proactive and innovative, seeking new audit areas such as protection of personal data, information security, integrity and new IT auditing tools and techniques.

With the aim of exchanging best practices and ensuring professional development, BNAO maintains good partnership with **employer and professional organizations, academia and NGOs**. Employer organizations participated actively in initiatives of the audit institution, such as conferences dedicated to youth unemployment, EU financial instruments, public procurement, etc. In 2019, the Audit Office discussed the possibilities for cooperation with the Bulgarian Industrial Association (BIA) at a leadership meeting. BIA was invited to propose issues that they consider of high public interest, which can be included in the BNAO's Audit Program.

Ensuring accountability and publicity restricts the possibilities for fraud and provides actual positive impact for society – this was the message of the conference organized by the Institute of Internal Auditors and attended by representatives of different organizations, leading experts and over 180 internal auditors. BNAO's President Mr. Tzvetan Tzvetkov presented the topic *"The Road to Good Governance Restricts the Temptation for Fraud"*. The conference discussed the possibilities for reducing the negative impact for society.

In implementing its Development strategy, the Audit Institution presented its activities to university students. The aim was two-fold: to attract young talent, and to inform the future professionals that cost-efficient control is a key aspect of good governance. The need for serious professional qualification was also discussed as a precondition for successful career development in external public sector auditing. Such meetings were organized with students from the Legal and Economic departments of the Sofia University. In keeping with its traditions, in 2019 BNAO's leadership presented an award in the national Young Auditor Competition, whose goal is also to promote the auditing profession among young Bulgarians and to stress the role of good governance for the wellbeing of society.

2. INTERNATIONAL COOPERATION

BNAO's international cooperation aims at achieving its priorities set out in the Strategic Plan for its Audit Function and its Development Strategy, and in particular strategic goal 1.9 – "More active participation in initiatives of the international auditing community that contribute to enhancing BNAO's institutional and administrative capacity". BNAO auditors and employees are members of one EUROSAI Task force and 4 Working groups,

4 INTOSAI Working groups and 4 Working groups of the Contact Committee of the Heads of EU Supreme Audit Institutions and the European Court of Auditors (ECA).

In 2019, BNAO representatives took part in the following initiatives: 13th Annual meeting of the Working Group on IT Audit, 17th Annual Meeting on EUROSAI Working Group on Environmental Auditing, 5th Annual meeting of the Working Group on the Audit of Funds Allocated to Disasters and Catastrophes, the 10th meeting of the Task Force on Audit and Ethics, and the 3rd Annual meeting of the Task Force on Municipality Audit (of EUROSAI).

BNAO representatives took part in the 12th Annual meeting of the INTOSAI Working Group on Key National Indicators; in the session of the Public Debt Working Group and three meetings of the Forum for INTOSAI Professional Pronouncements (FIPP).

As part of the cooperation within the Contact Committee of the Heads of EU Supreme Audit Institutions and ECA, representatives of BNAO took part in a joint seminar of the Europe 2020 Strategy Audit Network and the Fiscal Policy Audit Network.

During the reporting period, **BNAO participated in the following international audits:**

- Coordinated audit on Workforce 2030 with a subtopic – “Vocational Training for Adults”;
- Cooperative Audit on “Managing Plastic Waste” (within the EUROSAI WG on Environmental Auditing);
- Cooperative audit on “Measures taken in poverty alleviation”.

BNAO continued its cooperation with the European Court of Auditors during the ECA’s audit visits in Bulgaria. BNAO auditors participate as observers in the preparation and implementation of ECA’s audit missions to Bulgaria.

A delegation led by BNAO’s President participated in a conference entitled “EU audit innovation and increasing the advisory role of SAI’s in the benefit of society” that took place in Bucharest, Romania. BNAO’s president made a presentation entitled “*How can SAI contribute to improve citizens’ lives?*”.

A delegation led by BNAO’s President took part in a Round Table under activity 3.5 „Training in assessing the audit reports (findings and recommendations) performed of Component 3 – “Sound cooperation between Parliament and State Audit Office in the anticipation of audit reports established” as part of the project “Further improvement of administrative capacity and external audit efficiency of State Audit Office,” that took place in Skopje.

A delegation led by BNAO’s President took part in a joint workshop of EUROSAI-AFROSAI dedicated to “Sharing experience about auditing for SDGs: A view from different Regions”. BNAO’s president took part in the discussion and presented the experience of the Bulgarian SAI in auditing the SDGs.

BNAO’s President and Vice President participated in the high-level workshop on

“Building Trust – the Role of Supreme Audit Institutions in Ensuring the Reliability of Fiscal Data”. The workshop discussed key topics such as statistics as a reliable source for informing the planning of fiscal policy and decision making, case studies based on the SAIs’ practice, and development of accounting standards and practices for public sector reporting, and the role of SAIs.

BNAO’s Vice Presidents took part in **the annual meeting of the Contact Committee of the Heads of EU Supreme Audit Institutions and ECA** that took place in Warsaw, Poland. A key topic in the discussions was “Digital Europe: challenges and opportunities for SAIs in the EU”. The high-level meeting was prepared during the spring session of the liaison officers in Bucharest, Romania where BNAO had its representative.

A delegation led by BNAO’s Vice Presidents took part in the 3rd EUROSAI-ASOSAI Joint Conference *“Emerging Issues and Emergency Situations”* in Jerusalem, Israel. The delegation shared BNAO’s experience in a presentation entitled “The new challenges before Bulgaria’s SAI require novel approaches”.

A delegation led by BNAO’s Vice Presidents took place in a conference entitled *“Making the circular economy work. Connecting policy, law and practice”* organized by the European Union Network for the Implementation and Enforcement of Environmental Law, (IMPEL) in Rome, Italy. The main discussion focused on the Manual on the regulations in the area of innovations related to circular economy – waste prevention and recovery.



A delegation led by BNAO President **took part in the XXIII INCOSAI** in Moscow, Russian Federation. There were two main topics on the agenda: “Information Technology for the Development of Public Administration” and “The Role of the Supreme Audit Institutions in the Achievement of the National Priorities and Goals”. BNAO participated actively in the discussions on the role of SAIs for maintaining and enhancing public confidence. The Bulgarian delegation presented the solutions implemented by BNAO in the following areas: focusing the audits on issues whose solutions would contribute to the improvement of citizens’ lives; SAI as an active role-model for institutional good governance; needs for summarized and

analytical information on the audit results; need for exchanging feed-back with the audited entities to improve public sector governance; using the modern tools of communication to promote BNAO's operations – social media and video channels.

In its capacity of EUROSAI auditor, the SAI of Bulgaria together with the SAI of Croatia conducted an on-site audit of the of EUROSAI's 2018 statements and their related documents at the organization's headquarters in Madrid, Spain.

BNAO representatives participated in trainings and meetings for sharing experience regarding the auditing of NATO's security and defense policies, IT control environment in auditing e-governance (CUBE) and the manual for IT and performance auditing, strategic planning, measuring and reporting performance, etc.

As part of the bilateral cooperation, BNAO shared experience on topics of mutual interest with the SAI of Croatia; it signed and updated cooperation agreements with the SAI of Russia, China, Kosovo, the Netherlands and Montenegro.

As part of the operational cooperation, BNAO shared information on different aspect of its audit practices in response to enquiries coming from other SAI's.

In its capacity as a member of INTOSAI and EUROSAI, BNAO sent publications to the journals of INTOSAI, EUROSAI, the INTOSAI WG on Environmental auditing and the Task Force on Municipality audit.



In September 2019, BNAO (lead partner) together with the SAI of Croatia (junior partner) **successfully completed Twinning Project MK 13 IPA FI 01 17 R „Further improvement of administrative capacity and external audit efficiency of the State Audit Office of the Republic of North Macedonia”**.

2019 marked the beginning of the triannual term of office of BNAO's representative in the INTOSAI Forum for Professional Pronouncements (FIPP). The role of this permanent INTOSAI body is to provide generally applicable auditing standards for the supreme audit institutions.



PUBLICITY AND TRANSPARENCY

IV. PUBLICITY AND TRANSPARENCY

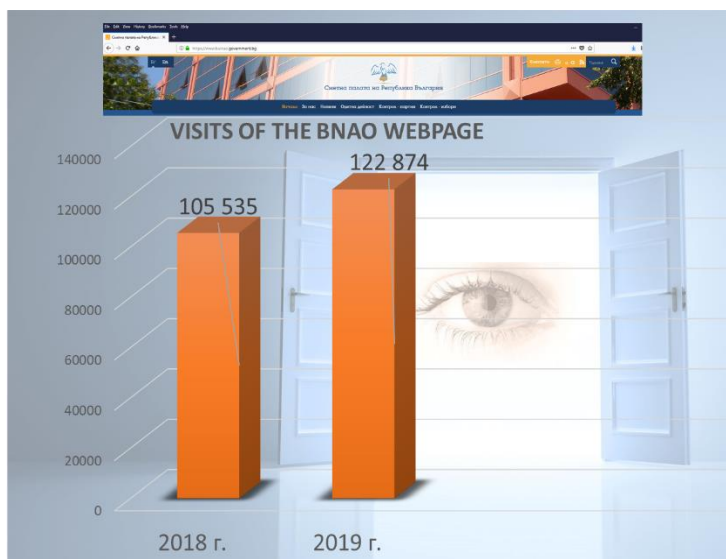
In implementing the Law on the National Audit Office and abiding by the strategic principles of publicity and transparency, **BNAO invests active efforts to keep the public informed of the results of its audits.** A testament to this is the Golden Key Prize awarded to the institution for the second time in 2019. Through this award the *Access to Information Program* recognized once again SAI's contribution. BNAO received this award, on the one hand, for the first-of-its kind in Bulgaria performance audit on Transparency and Publicity of the Public Administration and Access to Public Information (01 January 2016 through 30 June 2018), and on the other, for its official webpage which is fully compliant with the Law on Access to Public Information. The exceptional importance of the above audit was showcased because the open access to public information increases the confidence in the statehood and is also a prerequisite for enhancing the economic impacts and improving public services and the citizen's wellbeing.

Once again in 2019, BNAO **published all audit reports endorsed by its Board**, reports on follow-up on the recommendations, information about the handed draft audit reports and a lot of additional information.

Through its webpage BNAO also ensures **transparency of the financial statements of political parties and their donors.**

Two types of leaflets were published to assist the participants in the local elections and EU parliamentary elections. Due to the large number of participants in the local elections, to ensure that they would comply with the obligations for disclosure of information to the Uniform Election Register and to provide transparency regarding the financing of their election campaigns, BNAO prepared short videos that were aired on the Bulgarian National Television.

In 2019, the webpage of the National Audit Office had 122,874 visits, which constitutes an increase by 17 thousand year-on-year. During the reporting period, BNAO published 48 press releases and gave 9 interviews in electronic media and 2 in printed media. The leading news agency ITAR TASS did a coverage of the Bulgarian National Audit Office during the 23rd INCOSAI in Moscow. The Bulgarian SAI had 7 publications in the EUROSAI and INTOSAI journals and the editions of the EUROSAI WGs on environment and municipal auditing.



BNAO also uses social media (Facebook, Twitter, YouTube) to promote its results among a greater audience.

In keeping with the Law on Access to Public information, BNAO provides access to public information for journalists, citizens and NGOs.

Through its integrated IT system consisting of a record-keeping system and an internet portal, BNAO provides its staff with real-time access to all decisions, internal documents and other data, incl. from the mass media. **It also shares the good practices of other SAIs and their international organizations.**

The Auditor of the Year prize¹⁰ is awarded to auditors who demonstrate exceptional professionalism, pro-active behavior, contribution to improving the audit function and good team work skills. The Audit Team of the Year prize¹¹ is a recognition for exceptional



¹⁰ 2019 Auditor of the Year was Krassimira Angelova – senior auditor in the Specific Audits Directorate;

¹¹ 2019 Audit team of the Year became the team that conducted the audit of the 2018 consolidated annual financial statements of the Kardzhali municipality: Yordan Kamenov- senior auditor and team leader, Victoria Mandieva –

contribution to achieving significant results from audits that help improve public sector governance. The Leader of the Year award¹² recognizes the heads of directorates or departments who demonstrate exceptional leadership qualities, professionalism and competence.

The Bulgarian National Audit Office is constantly developing itself as a modern supreme audit institution implementing its mandate in an effective, efficient and economical manner.

In 2019, BNAO continued to perform independent external audits of public funds and conduct of public business in line with the provisions of the Law on the National Audit Office and the internationally accepted auditing standards.

The audits of the Bulgarian National Audit Office and its efforts to implement its mission, vision and strategic goals contribute to enhancing accountability, transparency and integrity of public governance and public entities. We firmly believe that through strengthening the institutional environment in Bulgaria, we will be able to achieve our ultimate goal – improving the citizens' standard of living.

trainee auditor and Valentina Marinova – trainee auditor;

¹² 2019 Leader of the Year was Diliana Krasteva – head of Department 3 – Local Government, Audit Directorate I – Financial Management Compliance Audits



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