



BULGARIAN NATIONAL AUDIT OFFICE

ANNUAL REPORT 2024



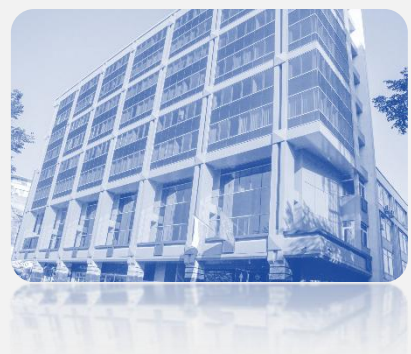
STABILITY IN TIMES OF CHANGE

The 2024 annual report of the Bulgarian National Audit Office is available on the BNAO's official website:

www.bulnao.government.bg/

Public relations phone:

02 981 7543





Ladies and Gentlemen,

I hereby present to Parliament the 2024 Annual Report of the Bulgarian National Audit Office in compliance with article 64, paragraph 1 of the Bulgarian National Audit Office Act.

This document contains a summary of the reports on 370 audits finalised in 2024. They provide a broad and objective picture of the state-of-play of public sector entities in Bulgaria in 2024, and contain proposals for the necessary improvements in the public sector management.

The report contains summarized outcomes of the different types of audits, findings, conclusions and recommendations regarding the

improvement in the management of public resources; information on the execution of our institution's administrative penal function; on the development and maintenance of its administrative capacity, and on ensuring publicity of its work.

Our financial audits helped adjust errors in the financial reports of public sector entities accounting for 4,1 billion BGN. We conducted compliance audits on roughly 2.2 billion BGN of budget spendings by central and local government entities. We checked areas of great importance for the Bulgarian citizens, namely the quality of school education, maternal and child healthcare, effectiveness of public registers providing services to citizens, etc.

The Bulgarian National Audit Office followed up on over 570 of its recommendations finding out that roughly three-quarters of them were implemented by the audited entities (14% more compared to the preceding year).

BNAO presented some of its audit reports to the Speaker of Parliament, Parliamentary Committees, the State Agency for Financial Inspection, the Public Procurement Agency, the National Revenue Agency, the Council of Ministers, and Presidents of Municipal Councils.

Our SAI referred to the Prosecutor's Office of the Republic of Bulgaria excerpts of seven audit reports containing allegations of crimes.

We mobilised our audit teams to conduct audits in relation to the three types of elections that took place in 2024. This required commitment of significant resources to carry out financial controls on the election campaigns for the national parliamentary elections held in June and October 2024, and the European parliamentary elections in June.

In recognition of the high professionalism of our auditors, BNAO was appointed for the third consecutive time auditor of EUROSAI – the European Organization of Supreme Audit Institutions.

2024 did not pass without challenges. During this year, in line with article 99, paragraph 5 of the Constitution of the Republic of Bulgaria, BNAO's President was appointed Caretaker Prime Minister for the first time. He remained on this position for ten months as a leader of two consecutive caretaker cabinets. Despite this difficulty, the National Audit Office managed to maintain its high professional standards.

I trust that our annual report will provide valuable input informing the adequate legal amendments and oversight practices of the Bulgarian Parliament. I am sure it will also be quite useful for all stakeholders – public organizations, non-governmental organizations, media and citizens helping them to draw conclusions and make improvements, and contributing to informing society and producing positive public impact.

Dimitar Glavchev
President,
Bulgarian National Audit Office



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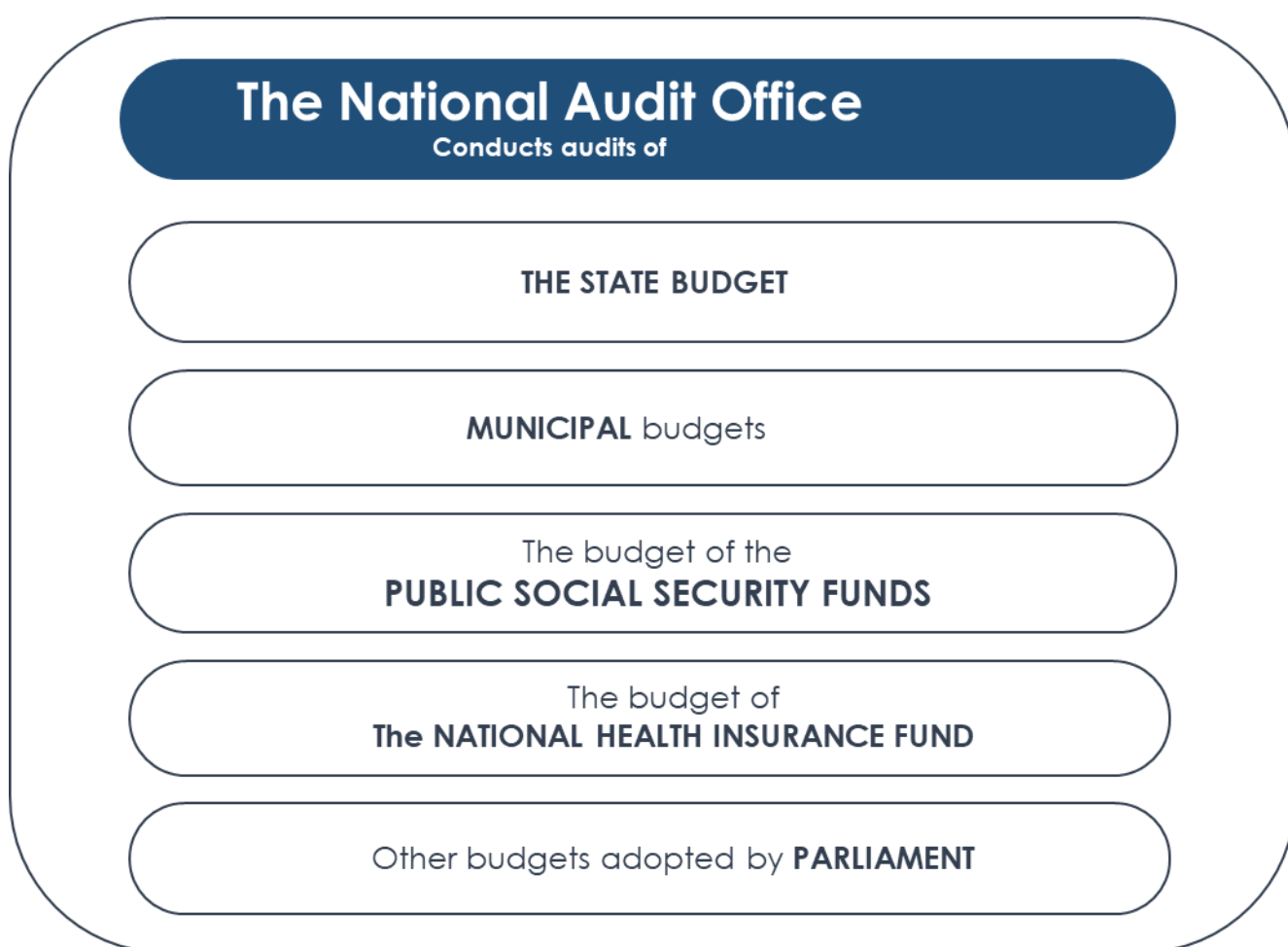
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SECTION 1: Our institution

1.1. BNAO's mandate and regulatory framework

The Bulgarian National Audit Office (BNAO) is the Supreme Audit Institution of the Republic of Bulgaria. Its mandate is based on article 91, paragraph 1 of the Bulgarian Constitution. BNAO's organizational structure, functions, and organization of activities, as well as its authorities are outlined in the Bulgarian National Audit Office Act.

Being among the institutions upholding the constitutional democracy in Bulgaria, the National Audit Office enjoys independence in implementing its functions and reports directly to Parliament.



1.2. Scope of BNAO's audit function

The National Audit Office controls the budget and other public spendings and conduct of public business. We achieve this through checking for reliability and validity of the financial statements of public sector entities, and for compliance, effectiveness, efficiency and economy in the management of public funds and public sector operations.

BNAO's mandate also covers the auditing of:

- Public entities financed by the national budget and the management of their estate;
- Incurrence and management of public debt, debt guaranteed by the government, municipal debt and the use of debt instruments;
- The budget spending and budget management of the Bulgarian National Bank;
- State-owned enterprises in line with article 62, paragraph 3 of the Commercial Act;
- Commercial entities with over 50% of state/ municipal holdings in their capital;
- The accounts of the EU funds and of other international programmes and agreements;
- Privatisation of state-owned/ municipal-owned estate, extended public funding and assets allocated for use;
- Legal entities taking state-/ municipal- guaranteed loans.

BNAO is equipped with tools and authorities to contribute for the improvement of the public resource management through the outcomes of its audits. Our institution is also vested with administrative penal functions in line with the BNAO Act, the Public Procurement Act, the Political Parties Act and the Election Code.

- In case of identified irregularities, BNAO issues recommendations aimed at improving the financial discipline and accountability.
- If its recommendations are not implemented, the Audit Office submits a report containing proposals for interventions to the National Parliament, Council of Ministers or the Municipal Councils, respectively.
- BNAO may put forward a proposal to the Minister of Finance to restrict or suspend transfers, reduce the limits of the allocations to budget financed public entities violating the budget discipline.
- BNAO may also put forward proposals for dismissal of public officials charged with governance whose action or inaction has led to legal infringements or failure to comply with the recommendations issued by the Bulgarian National Audit Office.

1.3. BNAO's accountability



In line with the BNAO Act (article 64, paragraph 1) by September 30th of each year the President of the National Audit Office submits to Parliament a report on BNAO's activities during the preceding year.

In line with article 65, paragraph 1 of the BNAO Act, the annual financial statements of the National Audit Office are audited by an independent committee whose final report is submitted to Parliament together with BNAO's annual report for the respective year.

1.4. Composition and decisions of BNAO's Board

The collegian body of the Bulgarian National Audit Office (its Board) is comprised of its President, two Vice-Presidents and two members, all of them appointed by Parliament for a seven-year term of office.

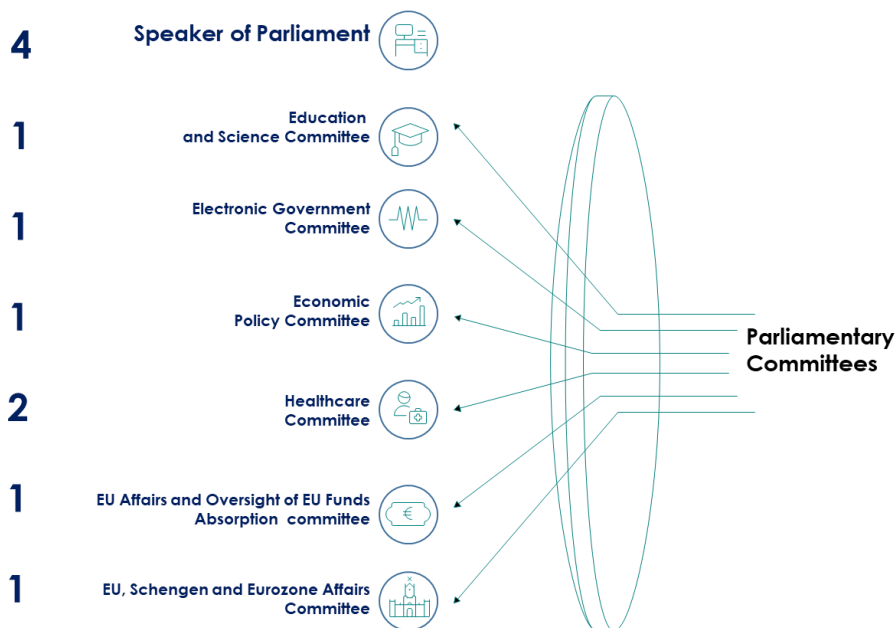
The President manages and organizes the conduct of BNAO's operations, while the Vice-Presidents are in charge of organizing the audit function and its quality assurance.

The Board Members are representatives of professional organizations – the Institute of Chartered Accountants and the Institute of Internal Auditors in Bulgaria. They take part in BNAO's Board meetings and in the endorsement of the audit reports.

The National Audit Office passes its decisions through an open vote where a majority of 4 votes is required. The Board members may not abstain from voting. Between 1 January 2024 and 31 December 2024, the Board passed 553 decisions, discussed and endorsed 370 audit reports.



Reports referred to various institutions



1.5. Capacity and organizational structure of the BNAO

BNAO's headquarters are located in Sofia in direct proximity to our key audited entities. To facilitate our operations in different parts of the country, to ensure more efficient audits and more effective communications with the audited municipalities, we have deployed our auditors (in so-called remote offices) to all central cities of the administrative regions. We serve the Bulgarian citizens and the European community.

The main structural units of the BNAO are its directorates specialized in specific areas of auditing and administrative management of the institution. This ensures the necessary administrative capacity and targeted resource management.

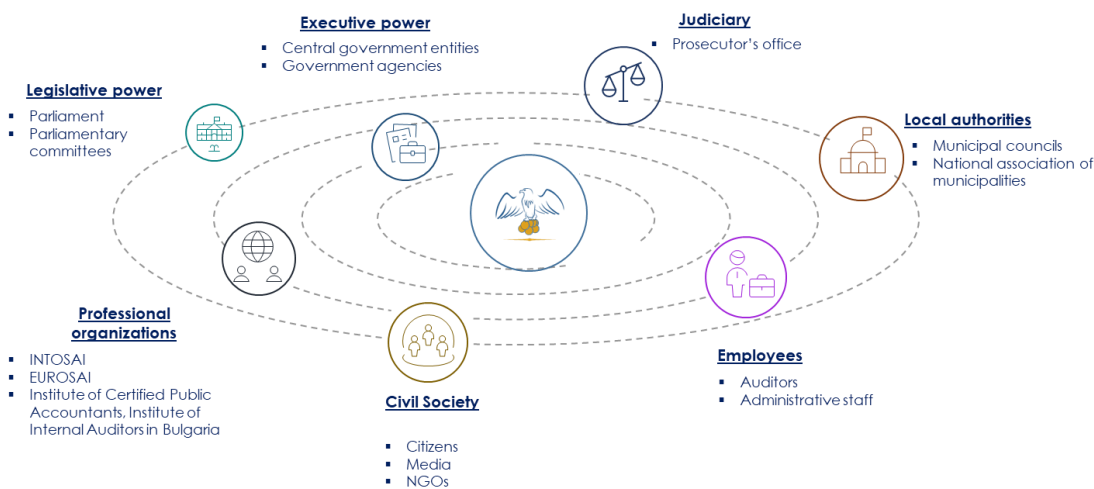
1.6. Significant changes during the reporting period

Based on article 99, paragraph 5 of the Constitution of the Republic of Bulgaria, BNAO's President was appointed Caretaker Prime Minister in two interim cabinets following the issuance of Presidential Decrees, respectively from 9 April 2024 and 27 August 2024. He stayed in this office until the nomination of a regular Council of Ministers by the Parliament on 16 January 2025. During these periods BNAO was managed by one of its Vice-Presidents.

1.7. Products of our work and their users

The main product of our activities are our audit reports. They are publicly available. We bring value by providing reliable and verified information regarding the compliant, effective, efficient and economic management of public funds and conduct of public business.

Users of our products are the audited entities and different institutions of the legislative, executive, judiciary powers and local governments, non-governmental organizations, civil society and other stakeholders.





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SECTION 2: BNAO's FUNCTIONS

2.1 Benefits and value of Supreme Audit Institutions (SAIs)

Being an INTOSAI¹ member, the Bulgarian National Audit Office abides by the principles outlined in the INTOSAI-P12 that speak of the way SAIs demonstrate their value and benefits for the public sector. The SAIs aim at contributing to a positive change in the lives of the ordinary citizens of their respective countries. The main philosophy of this standard is as follows:



The auditing conducted by SAI... has a positive impact on trust in society because it focuses the minds of the custodians of public resources on how well they use those resources, knowing that they are subject to oversight. Such awareness supports desirable values and underpins accountability mechanisms, which in turn leads to improved decisions...

The extent to which the SAIs are able to meet the fundamental expectations of improving the lives of citizens is underpinned on the following principles grouped in three pillars:

PILLAR 1

Strengthening the accountability, transparency and integrity of government and public sector entities



- Safeguarding the independence of SAIs
- Carrying out audits to ensure accountability
- Enabling those charged with public sector governance to discharge their responsibilities
- Making audit reports public

PILLAR 2

Demonstrating ongoing relevance to citizens, parliament and other stakeholders



- Being responsive to changing environments and emerging risks
- Communicating effectively with stakeholders
- Being a credible source of independent and objective insight and guidance to support beneficial change in the public sector.

PILLAR 3

Being a model organisation through leading by example



- Ensuring appropriate transparency and accountability of SAI
- Ensuring good governance of SAI
- Complying with the SAI's Code of Ethics
- Striving for service excellence and quality
- Capacity building through promoting learning and knowledge sharing

2.2 The standards we follow

The BNAO is an active member of INTOSAI and its working groups. We apply the International Standards of Supreme Audit Institutions (ISSAI). For the purpose of our financial audits we apply the

¹ INTOSAI-P-12.pdf

International Standards on Auditing (ISA) issued by the Board of the International Federation of Accountants (IFAC). These standards are available on BNAO's web-page.

2.3 Our principles

The BNAO Act sets out a number of principles serving as a moral and professional foundation of our operations and followed by all our employees in their daily work:

Independence, impartiality and reliability

Trust, cooperation and constructive behaviour

Professionalism, integrity, impartiality

Publicity and transparency

Consistency and predictability

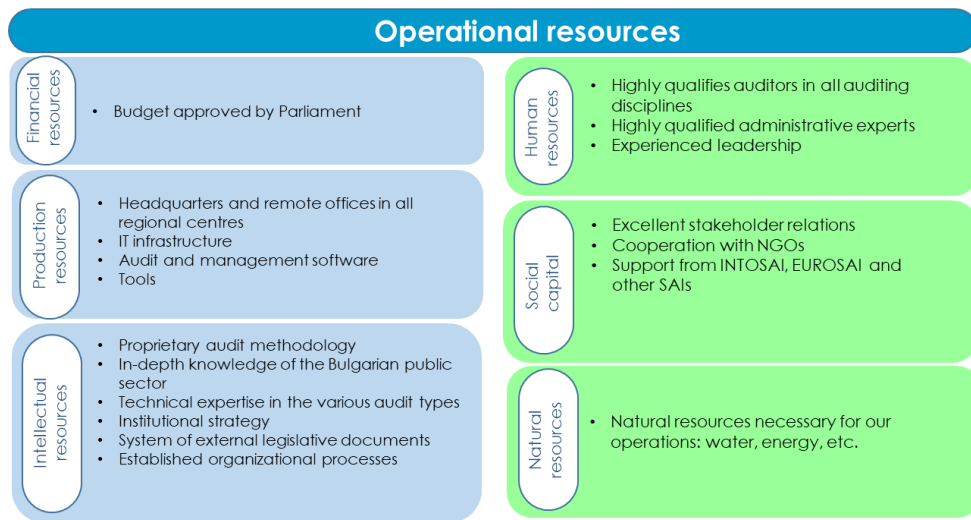
2.4 Our value model

BNAO's effective governance is based on the good understanding of the organization's model as an important element of our endeavour to ensure long-term value for the stakeholders and sustainable success of our institution. The clear understanding of the system through which we bring value is beneficial to a broad circle of internal and external stakeholders.

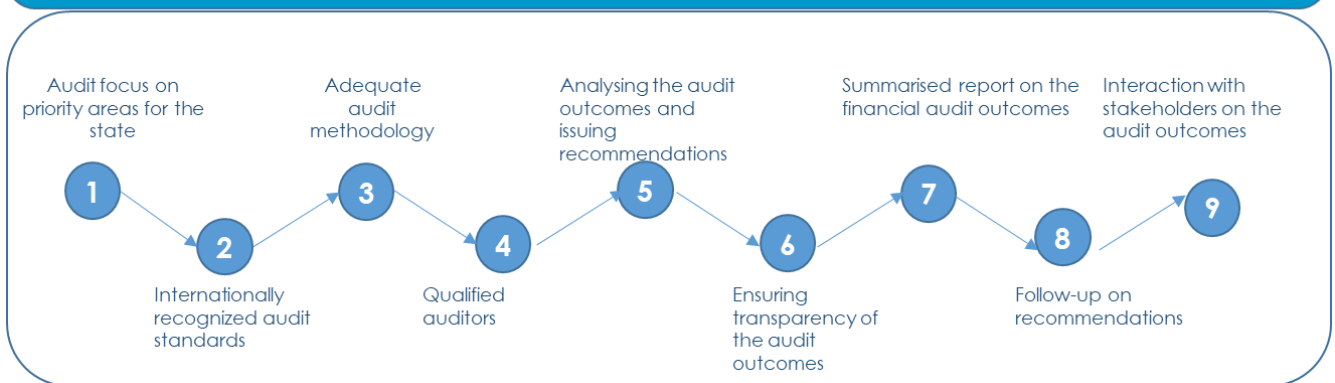
Our value model is based on BNAO's vision and mission, and ensures an overall integrated culture throughout the institution.

This model is described in the graph below and outlines the link between the available resources within the Audit Office (operational resources), the method of their use (BNAO-specific processes), the outcomes of our operations, incl. our products (reports, recommendations, position papers, etc), and the effect and impact of our work over the public sector in Bulgaria. The model details the value chain, i. e. the process through which we ensure high quality audits and provide reliable information to the stakeholders.

BNAO's value model



Value chain



Outcomes and impact

Outcomes

Audit reports

- 326 financial audit reports
- 29 compliance audit reports
- 5 performance audit reports
- 10 specific audit reports

Position papers

- On the report of the Supreme Judicial Council
- On the consolidated reports concerning the public sector internal controls

Impact

Transparency in the management of public resources

Identifying departures from the good governance of the public finances and putting forward recommendations to improve the management of public resources

Audit conclusions contributing to improving the mandate execution of the audited entities

Continuous building of our knowledge of the public sector

Warranted constitutional independence

2.5 Stakeholder value

The value we bring to different stakeholders is summarized in the table below:

Stakeholders	
Bulgarian citizens	<ul style="list-style-type: none">▪ In selecting our audit topics we take into consideration the issues raised by citizens in the media.▪ We publish the outcomes of our audits for further use by the stakeholders.▪ We serve as a model public institution with good administration.
Parliament	<ul style="list-style-type: none">▪ We are a source of independent and reliable information based on deep public sector understanding derived from our audits.
Public administration	<ul style="list-style-type: none">▪ We provide a true representation of the public sector financial management and execution by identifying departures from the standards for financial management and the root-causes thereof.▪ We allow audited entities to rectify the identified discrepancies.▪ We issue recommendations to improve the management of public assets and resources.
Our employees	<ul style="list-style-type: none">▪ We enable our employees to contribute to the good public sector performance, hence contributing to improving the lives of Bulgarian citizens▪ We provide stable career paths, professional working environment and good salaries.
European community	<ul style="list-style-type: none">▪ We support the efforts of the European Union and the regional organizations to achieve good governance in the member states by introducing professional standards and practices.
INTOSAI, EUROSAI, other SAIs	<ul style="list-style-type: none">▪ We support SAIs' common efforts in ensuring publicity, transparency and good governance globally.▪ We participate in the exchange of good practices.

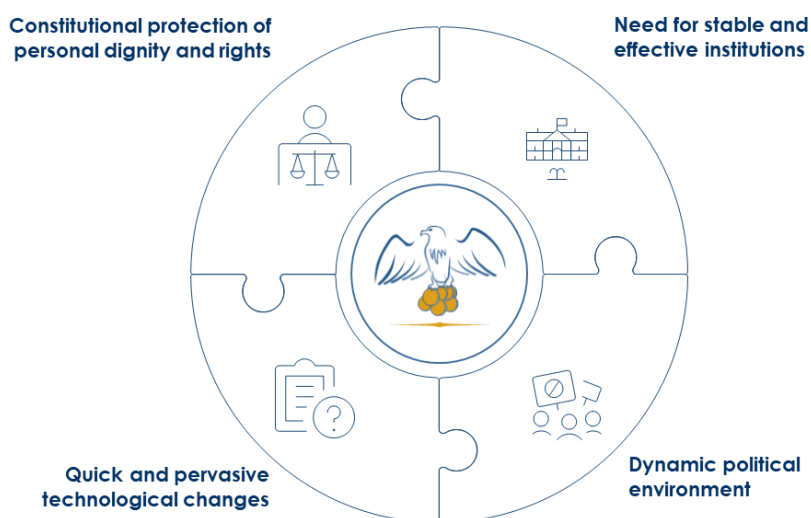
2.6 Our environment

The environment in which a SAI functions has a great impact on its operations and consequently on the effective discharge of its constitutional function. In line with INTOSAI-P12, each SAI should consider the expectations of citizens, Parliament and other stakeholders when planning, executing and

reporting on its activities. This is made possible when SAIs actively follow the changes in their environment and respond adequately to them and to the emerging risks.

We plan our audits in response to the challenges in our environment and seek to ensure a positive impact on the functioning of public sector entities and the citizens' lives.

To adapt to and develop in the changing environment, we need to understand and analyse it. In executing our mandate we take heed of the following factors with potential impact on our operations:



Dynamic political arena

As an EU member state, a large portion of Bulgaria's external and internal policies are driven by the community goals, which in turn provides a degree of political and economic stability and regulatory framework. On the other hand, frequent early parliamentary elections **may restrict the possibilities for any SAI's interaction with Parliament and its committees**, and hamper the introduction of new regulations and policies.

Our audits are based on deep understanding and they offer information on the use of public resources. The BNAO Act obliges us to provide to Parliament reliable information on the outcomes of our audits, which in turn informs the public debate and responsible decision-making. Our strengthened efforts to address corruption in the Bulgaria are conducive to better transparency and accountability, which is of great **importance for BNAO's efficiency and the value of our audits**.

One of BNAO's specific functions is auditing the financial operations and the estate allocated to political parties in line with the Political Parties Act, and the financing of election participants in line with the Election Code. The citizens' high expectations of the institutions and the enhanced public awareness create **pressure for better transparency and accountability**, which is an important factor for planning BNAO's work.

Need for stable and efficient institutions

Having stable institutions that support our constitutional democracy is a key requirement both for our EU membership and membership in the Organization for Economic Cooperation and Development (OECD). Therefore, **the building and continuous development of BNAO's institutional capacity is central** for our ability to conduct our oversight and control of public resources.

Quick and pervasive technological changes

The speed of technological changes in recent years, and specifically digital innovations, have had an irreversible impact on the functioning and reporting of public sector entities. Now more than ever, it is important for our auditors to use both structured and non-structured information and big data and to have analytical skills and skills for identifying errors, irregularities, and opportunities for improving the spending of public resources.

The availability of cloud-based technological solutions, robotisation of processes, computer-aided audit tools and machine-learning, and the growing use of AI in the audit profession are changing the audit landscape making the processes more efficient, precise and predictive. Applying enhanced audit tools and techniques helps improve many audit processes such as **planning, execution, documentation and follow-up on recommendations, identifying and assessing risks, real-time data analytics, documenting findings, preparing detailed reports with key recommendations**, etc. They add to the depth and scope of the audits enabling the analysis of entire data sets instead of samples and quick identification of patterns and anomalies.

This also enables the audit teams to manage more effectively the audit cycles, **to enhance the audit quality, transparency and certainty of the audit opinion**, which inevitably improves the accountability of the entities spending public money. In conclusion, the new technological hyper-changes result **in the need for building new skills and capacity, which will be in the focus of BNAO's new strategy**.

Together with multiple opportunities, technological changes also bring new risks. As audits grow increasingly dependable on digital data, there is a growing importance of ensuring the safety of sensitive information. **Cyber-security and data protection are already in the focus of attention of our Audit Office**.

2.7 Risk management

Risk management is a structured, consistent and continuous process integrated in BNAO's operations. We have adopted an integrated approach to risk management which enables the centralization of our assessment of the risks for our structural units, sectors and functional divisions.

BNAO's President ensures the implementation of the Risk Management Strategy by appointing a Specialized risk management committee (SRMC) as a permanent body assisting, coordinating and controlling the risk-management efforts in the organization.

BNAO's Board discusses the reports of the SRMC regarding risk management, decides on the acceptable level of institutional risk, adopts a register of BNAO's strategic risks and passes decisions regarding the execution of controls for effective management of residual risks exceeding our risk appetite.

The following were routine activities during the reporting period: identification of new risks, review of previously identified risks; updating and developing new risk registers of the structural units. All structural units coordinated their efforts for introduction, execution and monitoring of the outcomes of risk management measures.

As a result of our efforts in this area, we can report that BNAO has created adequate conditions for effective risk management, organizational culture and understanding of the need and benefits of risk management. There is a need for deepening the risk assessment, specifically the analysis of root-causes, which will enable our Audit Office to focus its efforts to better manage the latter.

In 2024, the key risks were once again related to:



BNAO's leadership provides opportunities for enhancing the auditors' level of competency by offering trainings and self-learning opportunities tailored to their needs; participation in international fora; exchange of experience among the audit teams within BNAO and with other SAIs, using external expertise and other adequate practices.

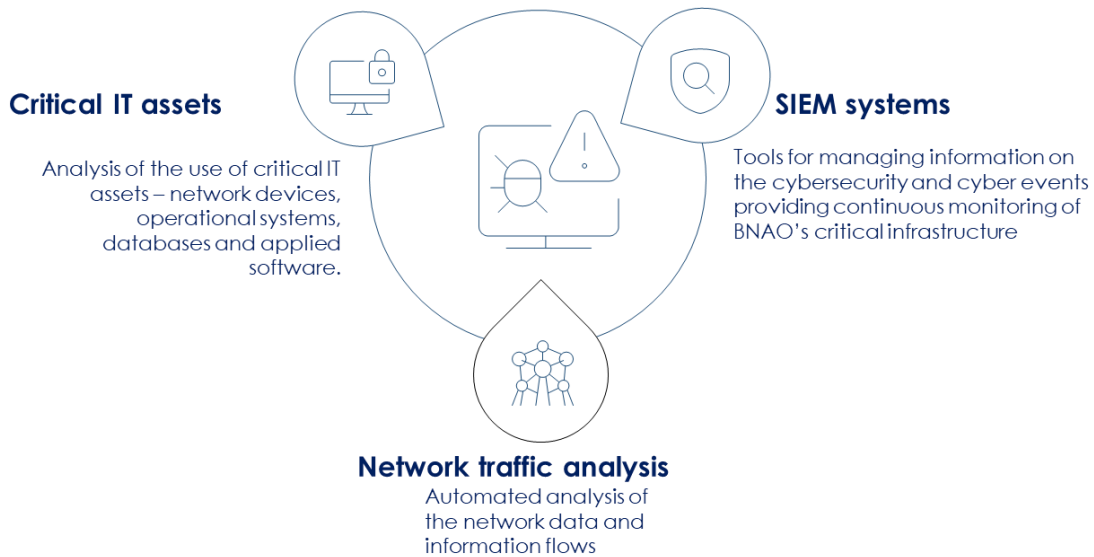
2.8 Cybersecurity

In the public sector environment in which BNAO conducts its audits, cybersecurity has a growing importance parallel with the growing dependence on digital data and technologies. Auditing processes use big data analytics and cloud-based technologies, which increases the risk of security breaches. Therefore, BNAO invests efforts in capacity-building, deploying and enhancing tools for protecting the information received from the audited entities and its own information.

BNAO's cybersecurity system is based on a combination of practices, technological solutions and processes to ensure the protection of our computer systems, networks and data against unauthorized

access, attacks or destruction thus preventing the loss of sensitive information, financial damages or breach of confidence in the institutions.

The level of BNAO's cyber risk is low due to the deployment of various security solutions corresponding to the assessed risks, the combination of which ensures a reliable level of information security. Below is a graph of the deployed solutions:



2.9 Fighting corruption

BNAO follows closely the changes in the anti-corruption, bribery and money laundering regulatory framework, including the guidance on its application issued by the competent authorities to make sure that its internal documents are in line with the updated legislative acts.

Our institution has a specialized structural unit responsible for addressing all whistleblowing reports and complaints in line with the Protection of Persons Who Report or Publicly Disclose Information on Breaches Act, together with all reports concerning the involvement of institutions and authorities, incl. BNAO's employees, in alleged corruption, bribery or money laundering.

During 2024 there were no such reports filed against BNAO employees.

The reviewed reports and queries under the Administrative Procedure Code were as follows:

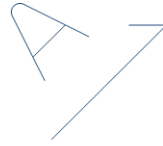


Received reports and queries in line with the Administrative Procedure Code



Anonymous reports

5 reports were considered anonymous and were not processed.



Referred reports

22 Reports were referred to other organizations for checks.



Processed reports

41 reports were processed and responded to.

Such reports/ complaints were filed by central or local government bodies, individuals or legal entities and contained allegations of breaches in public procurement procedures, competitions, violated employment rights, property rights, etc.

BNAO sent responses to all entities that filed complaints/ reports, with the exception of the anonymous ones. The responses were in line with BNAO's legal mandate.

In 2024, BNAO introduced a Register of all received whistleblowing reports and complaints processed in line with the Administrative Procedure Code. The SAI's web-page contains detailed explanation of the procedure for filing reports of alleged corruption.

BNAO invests efforts to maintain and enhance its institutional capacity to fight corruption through targeted trainings.



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SECTION 3: Auditing function

3.1 BNAO's Audit Strategy

Based on an analysis of the outcomes of its auditing function during the previous strategic period, in 2024 the Audit Office developed and adopted a Strategic Plan on BNAO's Auditing Function 2025–2027. The planned strategic goals are aimed at achieving concrete audit results and direct impact of the audit reports for the audited entities during the three-year period. The attempt is to enhance the benefits of the audit function in social and economic areas of significance for the Bulgarian society and to ensure better impact of the audit reports over the public sector governance and accountability.

Therefore, the strategic plan on BNAO's auditing function 2025–2027 envisages targeting audits (outside the ones mandated by the BNAO Act) in specific priority sectors and additional focus on horizontal audits.



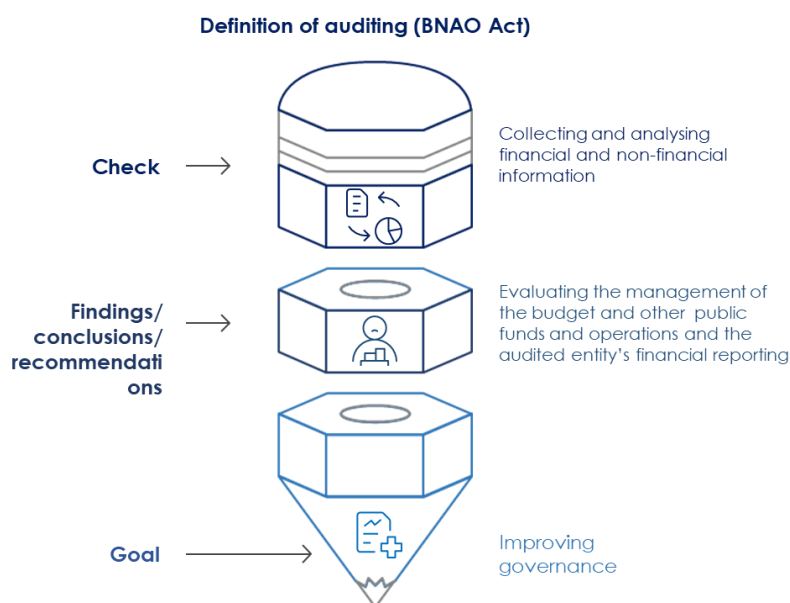
The sectoral focus of the audit function is defined based on the priorities laid down in the National Development Programme “Bulgaria 2030” and supplemented by additional areas of strategic importance for the country. The list covers crucial public sector areas that are key for ensuring good standard of living for the Bulgarian citizens.

The horizontal dimensions of the audit function cover important auditable questions and issues relevant to several sectoral dimensions. They are linked to the strategic and annual audit planning.

BNAO plans to draft and adopt a new institutional development strategy that will outline the direction for the SAI's future development towards meeting its new strategic goals and building upon the achieved results. The planning of the audit function will be based on these strategic goals.

3.2 Definition of the types of audits conducted by BNAO

The BNAO Act defines auditing as a check providing **assessment of the governance and financial reporting by the audited entities in view of their improvement.**



BNAO conducts its audits in line with well-designed, approved and published Annual Audit Programme.

In selecting which entities to audit, BNAO takes into consideration the available human, time and financial resources and applies criteria to ensure a maximum impact of its audits on the management of financial and non-financial public sector resources and conduct of public business.

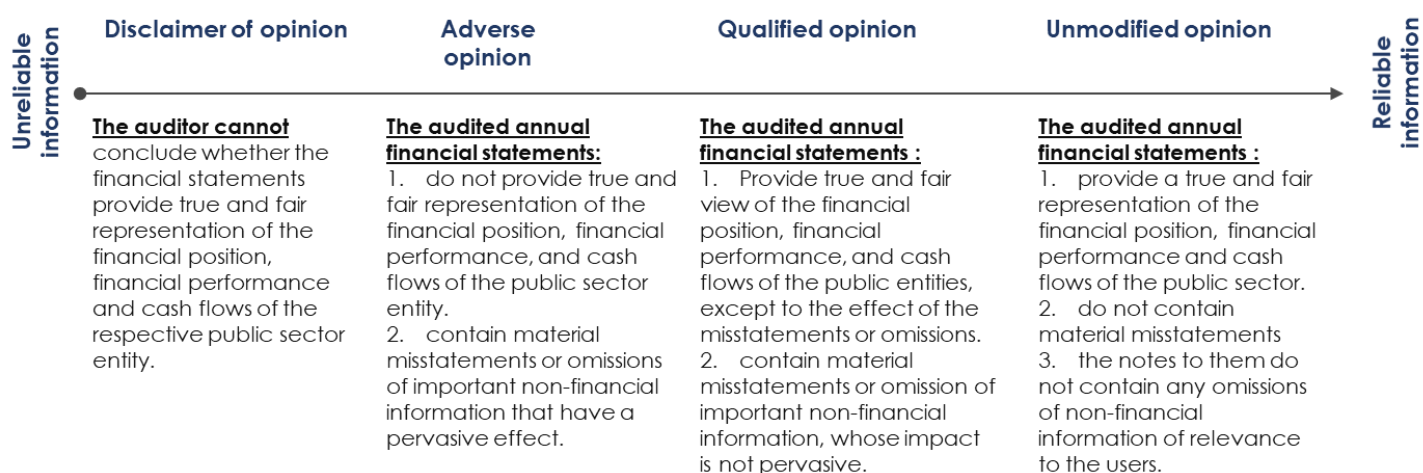
By definition, audits are not thorough checks. Using risk-based sampling, they provide a reliable, valid, independent and transparent assessment of the audited entities and contribute to increasing the confidence of the users of information in the management of public resources and conduct of public business.

3.3 Outcomes of the financial audits conducted in 2024

Financial auditing is an expression of an independent audit opinion with a reasonable degree of assurance on whether the annual financial statements of public sector entities are in line, in all material aspects, with the generally applicable financial reporting framework. The audit opinion on them does not express certainty about the future viability of the public sector entity, or the efficient and effective conduct of its business.

In line with the Internationally accepted standard of auditing, once they have obtained reasonable assurance, the auditors are required to express an opinion if the financial statements as a whole contain any material misstatements, regardless of whether these are due to fraud or error.

The audit opinion may be unmodified, modified or adverse. In rare occasions, when the circumstances prevent the auditor from performing the necessary audit procedures, the National Audit Office issues a disclaimer of opinion.



Financial reporting framework

Public sector financial reporting in Bulgaria is regulated by the following:



The diverse legal requirements, different understanding of the majority of public entities regarding their key purpose, and the numerous requirements issued by the Minister of Finance create a lot of difficulties for the reporting entities and for the financial auditors.

Below are examples of the complex financial reporting environment:

During this reporting period, Letter No 20 dated 14/12/2004 containing guidance on the **application of the National Accounting Standards for public sector entities** remained in effect. Between 2004 and 2024, this guidance of fundamental nature for public sector financial reporting was updated on multiple occasions by means of additional guidelines issued by the Treasury Directorate and Municipal Finance Directorate of the Ministry of Finance. The additional guidance regulates various issues concerning the financial reporting, such as the Uniform Budget Classification for the respective year, the Chart of Accounts, Guidelines on the monthly, quarterly and annual financial statements, requirements for information provision and, last but not least, changes in the disclosure of assets, liabilities, income and expenditure.

The general provisions of the National Accounting Standards that are in effect in the public sector require from the entities to apply the concept of financial capital maintenance. **This is contradictory to the broad understanding that the main purpose of public sector entities is providing public services, rather than generating profit and return for the shareholders.** The aforementioned guidelines help adapt the accounting standards for the public sector, however the framework upon which this is done remains designed for the private sector.

Some of the guidelines by the Minister of Finance introduce requirements that are not always in full compliance with the principles laid down in the Accountancy Act. An example is item 18.1 of guidance No 20 issued by the Treasury Directorate of the Ministry of Finance in 2004, and item 21 guidance No 10 from 2009 requiring cash-based accounting of taxes, customs duties and tax-related fees. Therefore, these revenues and the respective receivables are not recognized on a current basis, but are disclosed upon receipt. This is contradictory to the accrual principle, which requires recognition of the effects of transactions and other events and circumstances in the period when they occur, even if the resulting cash revenues and payments may take place in a different period. The disclosure in the financial statement should be made for the period of occurrence. The reporting of taxes on an accrual basis is a challenge identified at EU level and described in a number of analyses. Some future interventions are planned to address this challenge.



BNAO has put forward relevant proposals to the Ministry of Finance for ensuring uniform interpretation and application of certain rules.

Where the ISSAIs set out specific responsibilities for the national SAIs, regardless of whether the financial reporting framework contains requirements to that end, BNAO informs the Ministry of Finance and the audited entities of these responsibilities.

An example is the principle of going concern which gained importance after the onset of the Lock-down in 2020. This principle is defined in article 26, paragraph 1, item 1 of the Accountancy Act, however, the respective provisions of National Accounting Standard 1 are not applicable to public sector entities in line with item 7 of Guidance No 20 of the Treasury Directorate of the Ministry of Finance, dated 2004. Meanwhile, ISSAI 2570 sets out specific responsibilities for BNAO, regardless of whether the financial reporting framework contains requirements to that end, or it simply introduces the going concern principle.

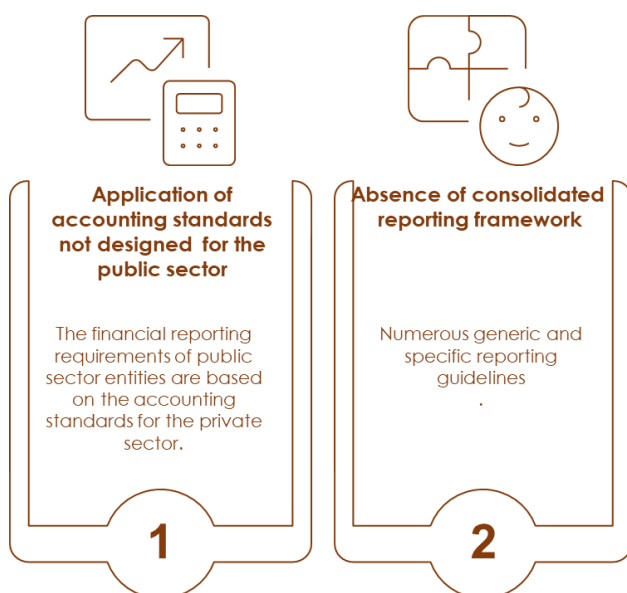
The Ministry of Finance is the contracting authority in a project for the development of an Integrated Financial Information System for Municipalities (MIFIS) and a Uniform Integrated Financial Information System (UIFIS) for the first-line budget spending entities. BNAO requested from all relevant entities information on the overall project in order to identify the current state-of-play, progress and possible difficulties in the software deployment. Their responses were analysed and BNAO will continue to monitor the project's development and report on the challenges in the introduction, use and application of the two systems.

Adequacy of the public sector financial reporting framework

International Standard of Supreme Audit Institutions (ISSAI) 2210 – “Agreeing the terms of audit engagements” sets out the requirements and provides guidance regarding the auditor’s consideration of the adequacy of the applicable financial reporting framework.

The financial statements issued by the public sector organizations in Bulgaria are general purpose financial statements and therefore should satisfy the general information needs of a broad group of users.

The qualitative features of the information contained in the financial statements of public sector organizations are described in the requirements of the only internationally recognized set of accounting standards – the International Public Sector Accounting Standards (IPSAS) published by the International Federation of Accountants. These standards cover all key aspects that have to be reported in the financial statements of public sector organizations.



Bulgaria risks failing to satisfy the strict requirements of the internationally recognized financial reporting framework due to the following two key factors:

Future development of the public sector financial reporting framework

The European Commission’s initiative to develop European Public Sector Accounting Standards (EPSAS) aims at achieving harmonization of the accrual principle in the public sector accounting practices corresponding to the needs in the EU. The EPSAS are expected to provide a more solid basis for the understanding of the financial positions and execution in public organizations of all levels, and to increase the transparency of member states’ public finances and the comparability of the accounting information contained in them. This initiative will contribute to the attainment of the Commission’s overarching goal of strengthening the capacity of public sector administrations in the EU.

BNAO supports the initiative for development and adoption of ESPSAs and the introduction of a consolidated public sector financial reporting framework to replace the current framework consisting of numerous general and individual reporting guidelines.

BNAO will support the efforts of the Ministry of Finance to modernize public sector accounting practices and will take active part in forums and events on the topic of public sector financial reporting. We will also continue to provide an objective evaluation of the current state of play of the financial reporting practices.



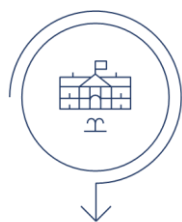
BNAO recommends revising the financial reporting framework in Bulgaria, and starting as soon as possible the preparation for adoption of the International Public Sector Accounting Standards in line with the Law on Public Finances or the European Public Sector Accounting Standards.

Execution of the annual financial auditing plan



326

Endorsed audit reports



100%

Audited central government entities



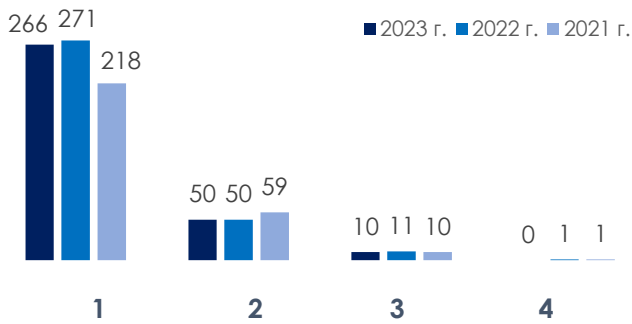
98%

Audited municipal budgets

All audits of the 2023 financial statements of public sector entities planned in the 2024 BNAO Annual Auditing Programme were completed successfully.

The majority were unmodified audit opinions constituting 82% of all audit opinions issued on the financial statements. This is an indication of the degree of compliance with the applicable financial reporting framework, but not of the quality of public sector reporting in Bulgaria, the latter being conditioned upon the quality of the financial reporting framework.

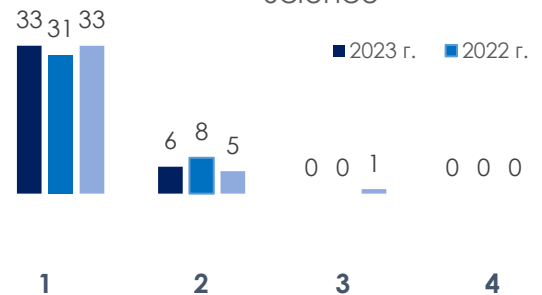
Audit opinions - all audits



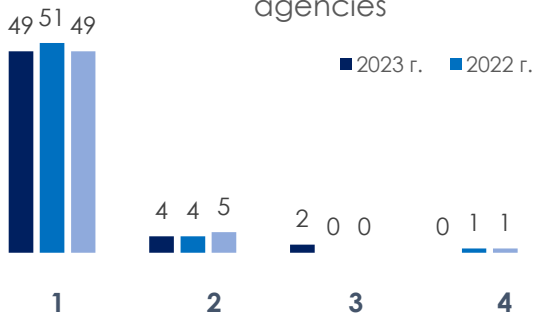
The number of modified opinions regarding central government entities and public universities stays relatively the same over the past 3 years.

Unmodified opinion 2- Qualified opinion
3- Adverse opinion 4- Disclaimer of opinion

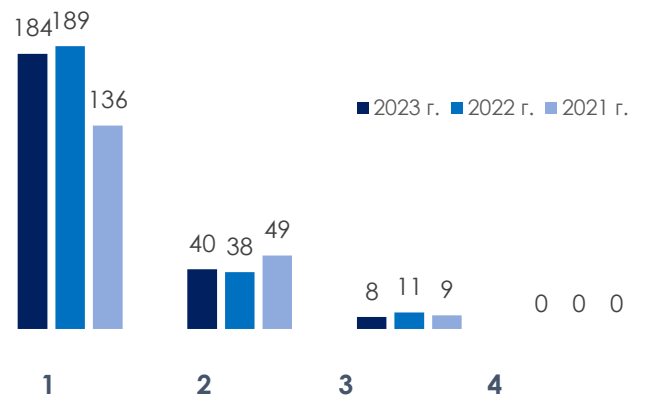
Audit opinions - public universities and Bulgarian Academy of Science



Audit opinion - ministries and agencies



Audit opinions - municipalities



We are glad to report that in the past two years the number of modified opinions on the municipalities has declined and remains relatively constant (from 30% on the 2021 annual financial statements down to 21% on the 2022 and 2023 annual financial statement). A key reason for this decline is the provided possibility to correct the misstatements identified by the auditors in the financial statement in the course of the audits.

The detailed analysis of the audit opinions by size

of municipalities shows that the positive trend of increased unmodified and qualified opinions v. s. adverse opinions is valid for municipalities with population of less than 50,000. It is specifically noteworthy that BNAO has managed to issue opinions on all audited annual financial statements.

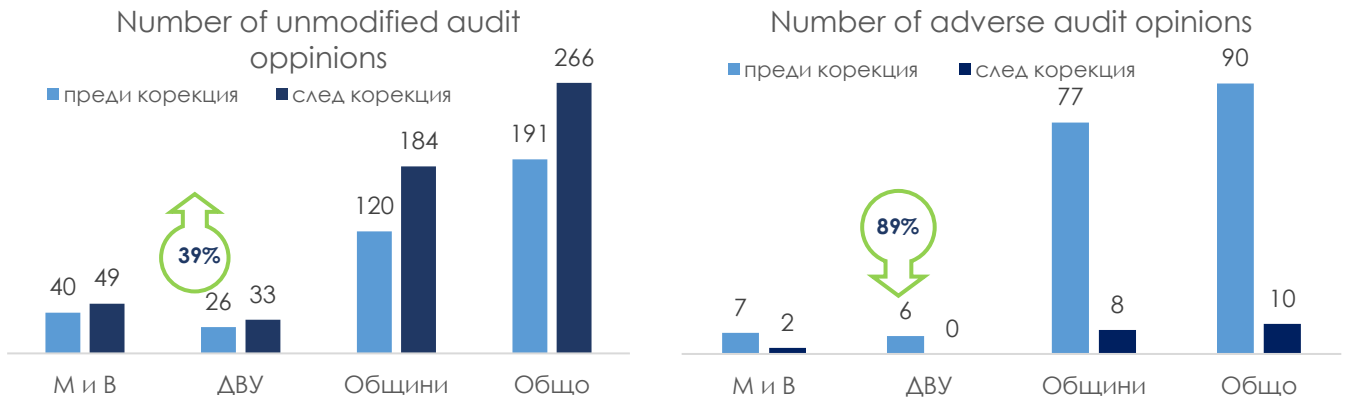
Outcomes of the municipal financial audits

	Unmodified opinion	Different from the previous year	Qualified opinion	Different from the previous year	Adverse opinion	Different from the previous year	Disclaimer of opinion	Total
Population over 200000 citizens	3 100%		0 0%		0 0%		0 0%	3
100001 – 200000 citizens	5 100%		0 0%		0 0%		0 0%	5
50001 – 100000 citizens	9 75%	8%	3 25%	8%	0 0%		0 0%	12
10001 – 50000 citizens	87 84%		16 16%	2%	0 0%	2%	0 0%	103
0 – 10000 citizens	80 74%	1%	21 19%		8 7%	1%	0 0%	109

Our analysis shows that one of the reasons for the positive audit outcomes is the provided possibility to adjust misstatements during the course of the audit. The goal is to ensure that the annual financial statements provide true and fair representation of the financial positions, financial performance and cashflow of public sector organizations, and serve as a reliable basis to inform governance decisions at institutional, regional and national level.

In forming its audit opinion, BNAO identifies the impact of each error based on its pervasiveness in the audited financial statements. Errors that have zero impact on the accounts disclosed in the financial statements are not taken into consideration. Other errors have an impact on the reported amounts in the annual financial statements and result in misstatements. These are identified as findings both in the Profit and Loss and the Balance Sheet Statements.

As a result of the correction of errors identified by BNAO's auditors, the number of financial statements providing true and fair representation of the financial positions, financial performance and the cashflow of public sector organizations has increased significantly. Following the corrections, the number of adverse opinions declined by 89%, while unmodified opinions grew by 39%. The most significant change is achieved by municipalities where the unmodified opinions grew by 64 (i.e. 53%).



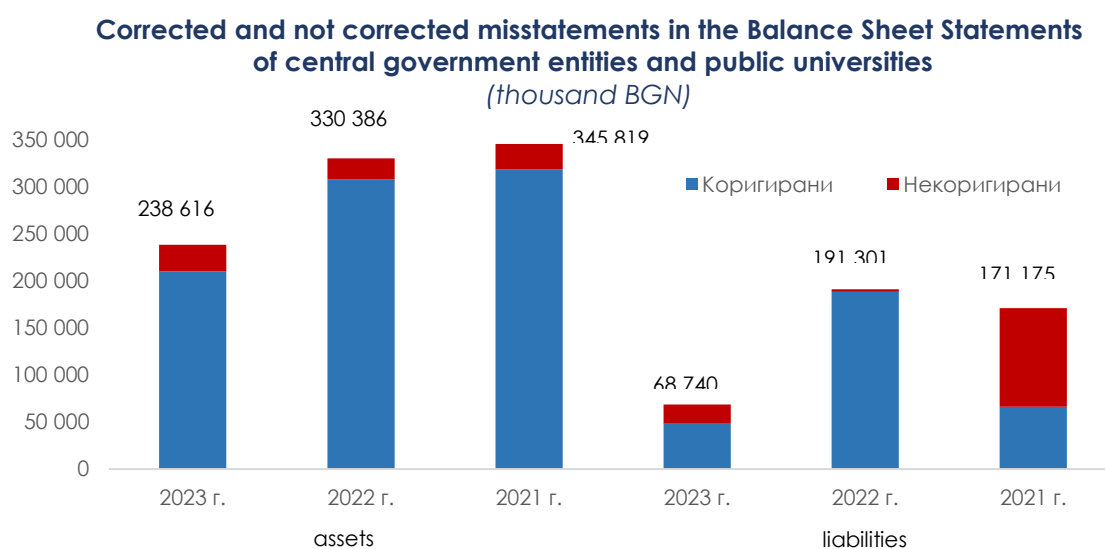
Systemic weaknesses identified during the financial audits of ministries, agencies and public universities

The following groups of errors and irregularities were identified in the financial statements:


<p>Wrong corrections of errors</p> <p>Resulting in incorrect representation of amounts in the AFS</p>	<p>Non-compliance with MF guidance</p> <p>regarding contracts provisions for advance payments</p>	<p>Wrong definition of depreciation costs</p> <p>Following the occurrence of events</p>	<p>Wrong classification of assets, liabilities, income, expenditure and transfers</p> <p>In Public Sector Chart of Accounts and the Uniform Classifier</p>
<p>Incorrect recognition of provisions for personnel</p> <p>Resulting in incorrect disclosure of amounts in the P&L Statement</p>	<p>Excessive liabilities to suppliers</p> <p>exceeding the admissible cap</p>	<p>Absence of stock-taking and analysis of receivables</p> <p>Related to advance payments made during previous reporting periods</p>	<p>Incorrect reporting of guarantees</p> <p>Resulting in under or over-reporting of off-balance sheet assets and liabilities</p>
<p>Absence of depreciation or revaluation reviews of non-current assets</p> <p>Resulting in inability to corroborate significant entries in the annual financial statements</p>	<p>Misrepresentation of EU funds</p> <p>Resulting in incorrect entries in the Balance Sheet, P&L and Cash-Flow Statement</p>	<p>Non-recognized liabilities for reimbursements to Management Authorities</p>	<p>Changes in capital</p> <p>Incorrect disclosure of shares and equities, and related revenues</p>

It is noteworthy that certain weaknesses, for example the incorrect calculation of depreciation costs, inaccurate classification of assets, liabilities, income, expenditure and transfers, incorrect disclosure of guarantees, securities and commitments, etc. were identified repeatedly over the years.

In 2023, the auditors observed less errors in the disclosure of assets, liabilities, income, revaluations and financial transactions with assets and liabilities compared to 2022, while there were more incorrect disclosures of transfers. Two central bodies – the Ministry of Regional Development and Public Works and the Sofia University St. Kliment Ohridski were responsible for roughly 68% (161,295 thousand BGN) of the incorrect disclosures of assets in all balance sheet statements.




During the course of the financial statement audits some errors and irregularities in the reports of ministries, agencies and public universities were adjusted (as was done in previous years):



**Corrections of the
amortization costs**

Fair representation of the
balance sheet value of
depreciable assets


from 2018 through 2023.



**Corrections of technical
errors in the annual
financial statements**

True representation of
information.

from 2017 through 2023



**Correct classification of
assets, liabilities, income,
expenditure and transfers**

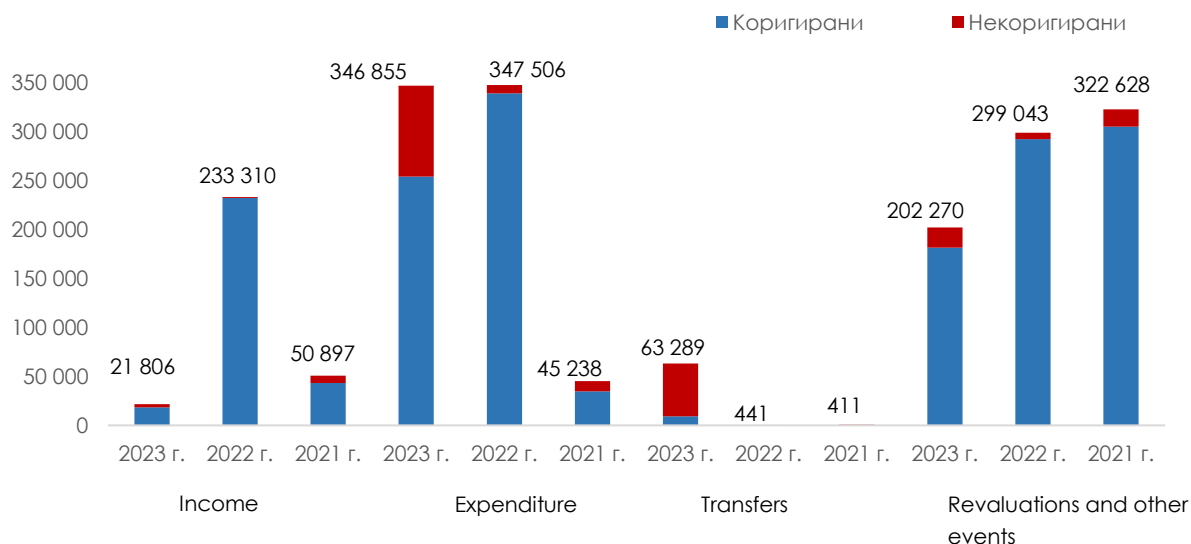
Correct representation of
the positions in the balance
sheet, P&L and Cash-Flow
Statement

from 2016 through 2023

The level of misstated expenditure in the Income and Expenditure Statements remained roughly unchanged, while the structural relative share of the non-adjusted misstatements increased compared to the adjusted ones from 2% in 2022 to 27% in 2023. In the Income and Expenditure

Statements, some 62% (215,419 thousand BGN) of the misstated expenditure, 80% (50,827 thousand BGN) of the misstated transfers and 65% (132,083 thousand BGN) of the misstated revaluations and other events were identified in the statements of one ministry – the Ministry of Regional Development and Public Works. In 2023, some 94% (73,45 thousand BGN) of the misstated transactions of financial assets and liabilities were identified in the statements of the same ministry.

Adjusted and non-adjusted misstatements in the Income and Expenditure Statements of central government entities and public universities



Where our auditors identified instances of non-compliance with the authorities and regulations, they applied article 57, paragraph 1 and article 58, paragraph 1 of the BNAO Act referring the matter to the relevant competent authorities – State Financial Inspection Agency and the Prosecutor's Office of the Republic of Bulgaria (regarding one ministry) for taking action.

In line with article 49, paragraph 3 and article 54, paragraph 16 of the BNAO Act, during 2024 some audit reports were referred to other competent authorities for information and taking action – Ministry of Finance regarding two central government entities and the National Revenue Agency regarding one ministry.

Systemic weaknesses identified during the financial audits of municipalities

Numerous groups of errors and irregularities that were identified in the audits of central government entities and public universities were also identified repeatedly (some of the since 2016) and remain uncorrected in the financial statements of municipalities.

	Inadequate classification of assets, liabilities, income, expenditure and transfers	2016 till 2023
	Inadequate disclosure of municipal shareholdings in commercial companies	2016 till 2023
	Wrong calculation of depreciation costs	2017 till 2023
	Absence of underlying documents for transactions	2018 till 2023
	Undisclosed/ incorrectly disclosed and new obligations for expenditure	2019 till 2023
	Absence and/ or partial stock-taking of assets and liabilities	2019 till 2023
	Wrong classification of capital expenditure for construction and repairs of non-current tangible assets	2019 till 2023
	Incomplete disclosures of the positions and changes in the assets, liabilities, income and expenditure	2019 till 2023

Other errors identified in the past 2-3 years include:

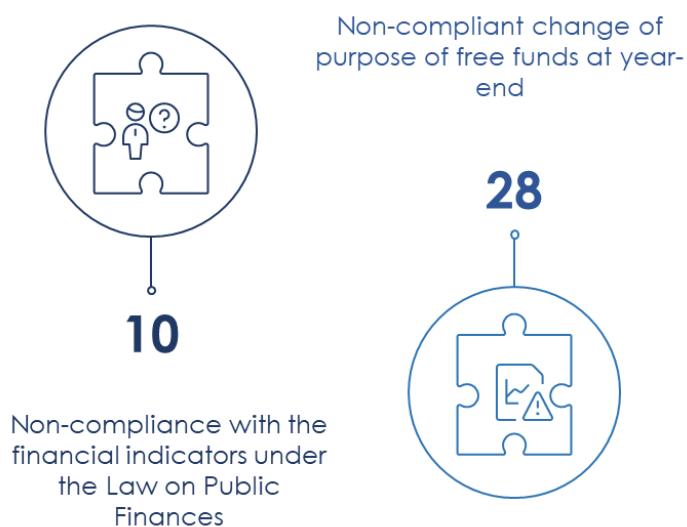
- Misrepresentation of changes to the purpose of municipal-owned estate allowing for significant under-reporting of assets (also identified during the audits of the 2022, 2021 and 2020 annual financial statements).
- Failure to apply the linear method in recognising revenue from the usage rights on assets under contracts with water supply and sewage utilities (also identified during the 2022 and 2021 annual financial statements).
- Non-compliance with fundamental accounting principles laid down in the Accountancy Act (also identified during the audits of the 2022 and 2021 annual financial statements).
- Failure to analyze the advance payments provided to counterparties for the purpose of determining an approximate estimate of the asset acquisition costs; for initiating checks by management and the responsible persons regarding completed construction and assembly works and/or other services covered by the advance payments; and where grounds exist — for seeking reimbursement through legal channels from counterparties for amounts relating to

unfulfilled deliveries or services. Absence of accounting estimates for construction works in progress, usually resulting in understating the assets and overstating the receivables (also identified during the audits of the 2021 and 2022 annual financial statements).

- Failure to write-off expired bank guarantees (also identified during the audits of the 2021 and 2022 annual financial statements).
- Errors in the consolidation of the annual financial statements in the system of first-line budget entities, and in entering data into the template forms of the Ministry of Finance (also identified during the audits of the 2021 and 2022 annual financial statements).
- Non-compliance with the requirements contained in the approved and generally accepted policies for provisioning of receivables (also identified during the audits of the 2021 and 2022 annual financial statements).
- Absence of or superficial depreciation or revaluation reviews of non-current assets.
- Reporting incorrectly advance payments under EU projects as short-term interest-free loans.
- Non-compliance with the requirements for classification of transfers, income and free-of-charge transfer of other assets and liabilities from the central to the local government.
- Inadequate adjustment of errors from previous reporting periods.

Without prejudice to the audit opinion, the audit reports on the annual financial statements of some municipalities contain emphasis of matter regarding the use of short-term interest-free loans out of third-party accounts contrary to the legal provisions.

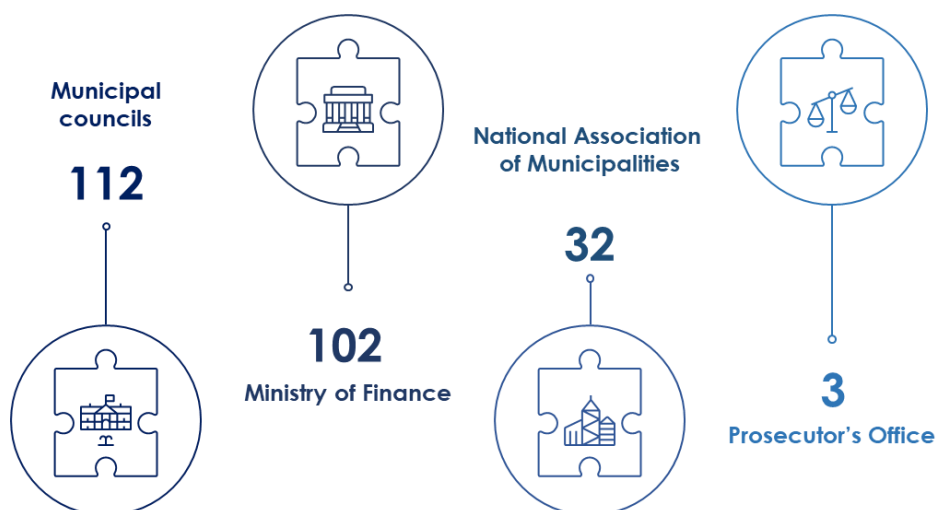
In the cases of identified infringements of the legal framework, BNAO applied article 57, paragraph 1 of the National Audit Office Act, and referred the matters to the relevant competent authorities State Financial Inspection Agency for taking action (similar cases were identified during the audits of the 2022, 2021, 2020 and 2019 annual financial statements).



Examples of the above are: non-compliance with the financial indicators, commitments for expenditure and delinquent debt payments under the Public Finances Act, which are considered breaches of the budget discipline in line with § 2 of the Supplementary Provisions of the Public Finance Act; as well as the incorrect change of purpose at year-end of free funds in the municipal budgets coming from targeted subsidies but being used to finance other expenditure.

In line with article 57, paragraph 1 of the BNAO Act, the State Agency for Financial Inspection informs regularly the Audit office of its initiated financial inspections and the outcomes thereof.

In line with article 49, paragraph 3 and article 54, paragraph 16 of the BNAO Act, in 2024, audit reports were referred also to other competent authorities for taking action – Ministry of Finance, Municipal Councils and the National Association of Municipalities in Bulgaria. When in the course of the audits BNAO identified actions that could lead to unlawful collection or spending of budget allocations or other public funds, or alleged crimes, it applied the provisions of article 58, paragraph 1 of the BNAO Act referring the matter to the Prosecutor's Office.



In the course of the financial audits, some misstatements and irregularities were adjusted:

- ✓ Adjustments of depreciation costs to achieve fair representation of the carrying value of depreciable assets (such adjustments were also introduced in the course of the audits of the 2022, 2021, 2020, 2019 and 2018 annual financial statements).

- ✓ Disclosing the changes in the municipal shareholdings in commercial entities to achieve fair representation of the investments in shares and equities and the related revenue (such adjustments were also introduced in the course of the audits of the 2022, 2021, 2020, 2019, 2018, 2017 and 2016 annual financial statements).

- ✓ Disclosure of commitments (taken and implemented) under contracts and bank guarantees (such adjustments were also introduced in the course of the 2016 – 2022 AFS audits). These corrections helped achieve fair representation and complete disclosure in the financial statements of off-balance sheet assets and liabilities.

- ✓ Recognition of non-disclosed assets, liabilities, revenues, and expenses (such adjustments were also introduced in the course of the 2016 – 2022 AFS audits). These corrections ensured fair representation and completeness of the financial statements. In 2023 66% (1,060,865 thousand BGN) of the misstated assets in the Balance-Sheet Statements were due to misstatements made by seven municipalities.

✓ Adjustment of misstated income and expenditure (such adjustments were also made in the course of the audits of the 2022, 2021, 2020, 2019, 2018, 2017 and 2016 annual financial statements). These corrections helped achieve true and fair representation, and comprehensiveness of the information disclosed in the financial statements. In 2023, 51% (180,818 thousand BGN) of the misstated expenditure in the Income and Expenditure Statements were attributable to misstatements by seven municipalities.

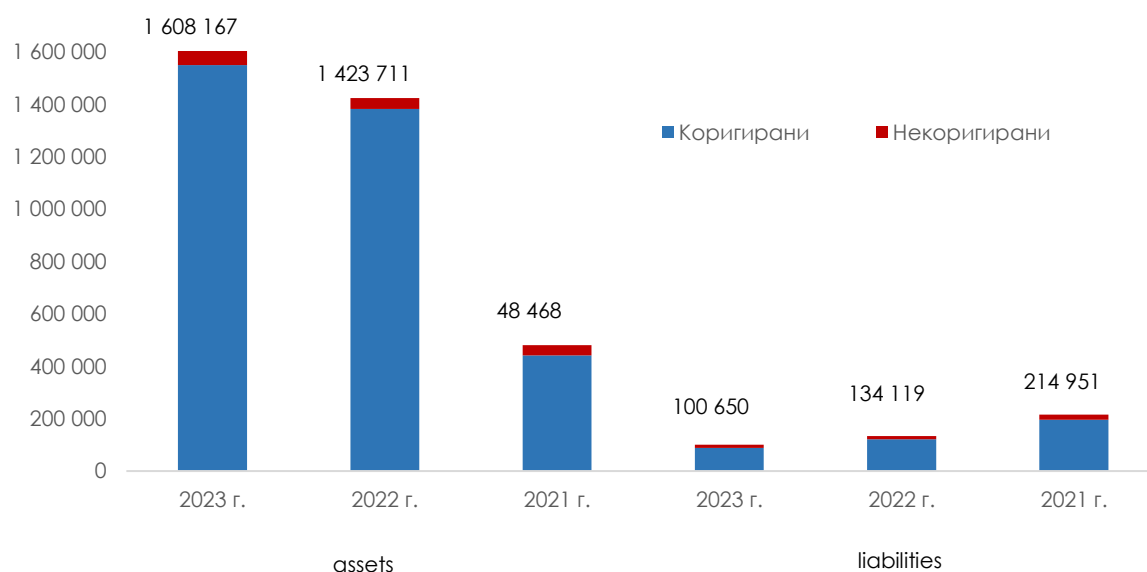
✓ Correction of errors (mainly technical) made during the consolidation of the financial statements in the system of first-line budget entities, the aim being to ensure fair representation (also adjusted in the course of the 2018-2022 audits). In 2023, roughly 44% (16,850 thousand BGN) of the misstated expenditure in the Cash-Flow Statements were attributable to four municipalities.

✓ Adjusting the classification of assets, liabilities, revenues, expenses and transfers into the Public Sector Chart of Accounts and the Uniform Budget Classification (also corrected in the course of the 2016-2022 audits) resulting in true representation in the Balance-Sheet, Income and Expenditure, and Cash-Flow Statements. In 2023, roughly 70% (869,908 thousand BGN) of all misstated revaluations and other events in the Income and Expenditure Statements were attributable to five municipalities.

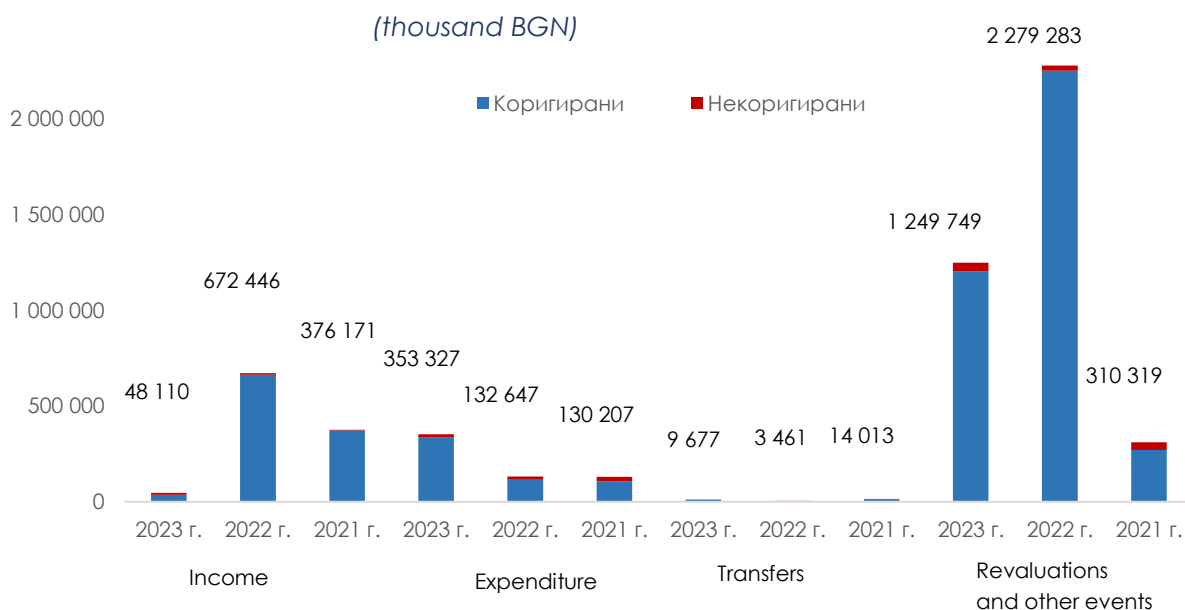
In the past three years (2021 – 2023), there has been an increase in the identified misstatements of assets, expenditure, subsidies and transfers and a downward trend in misstating liabilities.

Adjusted and non-adjusted misstatements in the Balance Sheet Statements of Municipalities

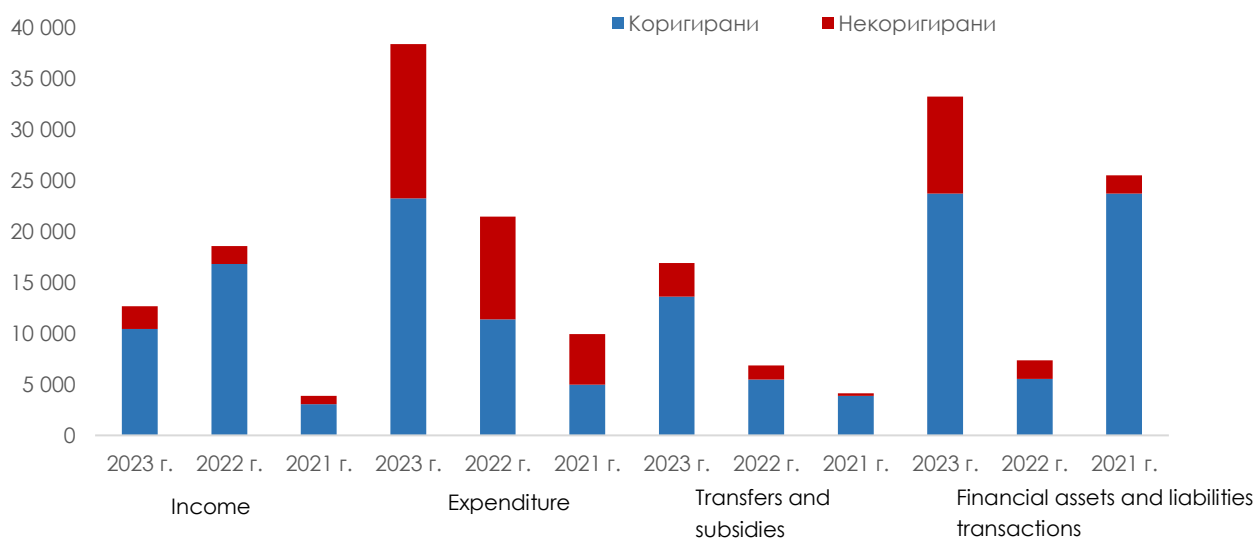
(thousand BGN)



Adjusted and non-adjusted misstatements in the Income and Expenditure Statements of municipalities



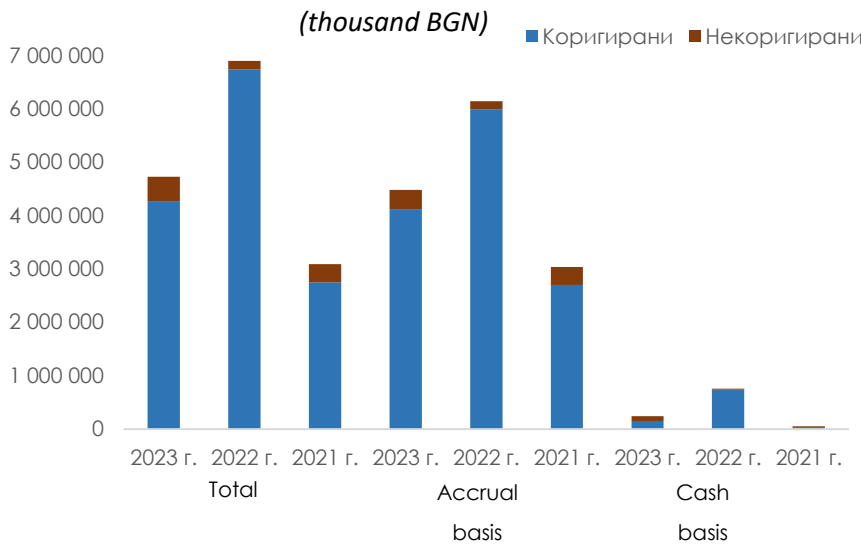
Adjusted and non-adjusted misstatements in the Cash Flow statements of municipalities



Conclusions from the audits of the 2023 annual financial statements of public sector entities

There misstatements identified in the 2023 annual financial statements of public entities were 33% less compared to the 2022 AFS, going down to a total of 4.55 billion BGN. The financial audits of the 2023 AFS contributed to adjustments of misstatements amounting to 4.1 billion BGN, i. e. 90% of all misstatements. The relative share of misstatements that remained unadjusted is higher compared to the previous year.

Misstatements in the AFS of public entities



4,1 billion BGN (90%)

Corrections of misstatements in the course of the financial audits

Similar weaknesses in drafting the financial statements were identified in all three groups of audited entities (ministries and agencies, public universities and municipalities).




The same weaknesses were found during the audits of the 2022, 2021, 2020, 2019, 2018 and 2017 annual financial statements.

There were also deficiencies in the organization of the accounting processes similar to the ones identified during the audits of the 2022, 2021, 2020, 2019 and 2018 annual financial statements, while the first two weaknesses were also found during the audits of the 2017, 2016 and 2015 annual financial statements.

Weaknesses concerning the drafting of financial statements

<p>Incorrect classification of assets, liabilities, income and expenditure in the Public Sector Chart of Accounts and the Uniform Budget Classification</p> <p><u>Root cause</u> Frequent amendments of the regulatory requirements, insufficiently detailed guidance on their application and additional guidance focusing on the exceptions to the general rules.</p>	<p>Absence of reviews for depreciation of non-current assets</p> <p><u>Root cause</u> Non-compliance with the MF guidance</p>	<p>Incorrect off-balance sheet disclosure of commitments</p> <p><u>Root cause</u> Non-compliance with the MF guidance</p>	<p>Incorrect application of accounting principles</p> <p><u>Root cause</u> Problems in identifying and applying the relevant principles laid down in the Accountancy Act</p>
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Weaknesses concerning the organization of the accounting process

 <p>Indications of insufficient administrative capacity in municipalities with population of less than 100 000</p> <p><u>Effect</u> Larger relative share of modified (qualified and adverse) opinions</p>	 <p>Absence of requirements for introducing an adequate uniform electronic database</p> <p><u>Effect</u> Errors in the drafting and summarising information in the consolidated annual financial statements and difficulties in using specialized computer auditing tools.</p>	 <p>Inefficient internal controls in the first-line budget spending entities</p> <p><u>Effect</u></p> <ul style="list-style-type: none"> • Book-keeping issues and problems with the budget discipline of subordinate public entities; • Incomplete and invalid information in the statements of subordinate public entities.
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In recent years, our findings show improved understanding of the accounting processes and financial discipline by the public sector entities.

Observed positive trends in the accounting practices and financial discipline



Conclusion

Good financial reporting in the public sector brings about **numerous benefits** – it satisfies the information needs of a broad group of shareholders, helps improve public sector governance, contributes to the compliant conduct of public business and increases the citizens' trust in public sector management. Therefore financial reporting practices should be improved continuously in line with the best international practices IPSAs and EPSAs (under development). BNAO will continue to support the efforts of the Ministry of Finance to that end while providing an objective evaluation of the current state of play of financial reporting.

3.4 Compliance audits of financial management in 2024

Compliance audit definition

The BNAO Act defines compliance audit as a review of the financial management and control systems, incl. internal audit function and the leadership's decisions related to the organization, planning, management, reporting and control of the budgetary and other public resources and activities within the audited entity in view of ensuring compliance with the statutory requirements, internal regulations and the contracts.

& 12 „Compliance auditing is the independent assessment of whether a given subject matter is in compliance with applicable authorities identified as criteria. Compliance audits are carried out by assessing whether activities, financial transactions and information comply, in all material respects, with the authorities which govern the audited entity.“ ISSAI 400

Stakeholders using the outcomes of the compliance audits are: Parliament; Council of Ministers and individual ministries; municipal councils; heads of agencies and municipal mayors; local communities, users of services, etc.

Key high-risk processes audited by BNAO

The main focus of compliance audits that BNAO planned and conducted in 2024 were the management and control systems for several high-risk processes. They were evaluated for compliance with the applicable laws, rules and contracts as follows:



Budgeting process

Administration of revenues and expenditure



Public procurement

Award and implementation of public procurement contracts in line with the legislation

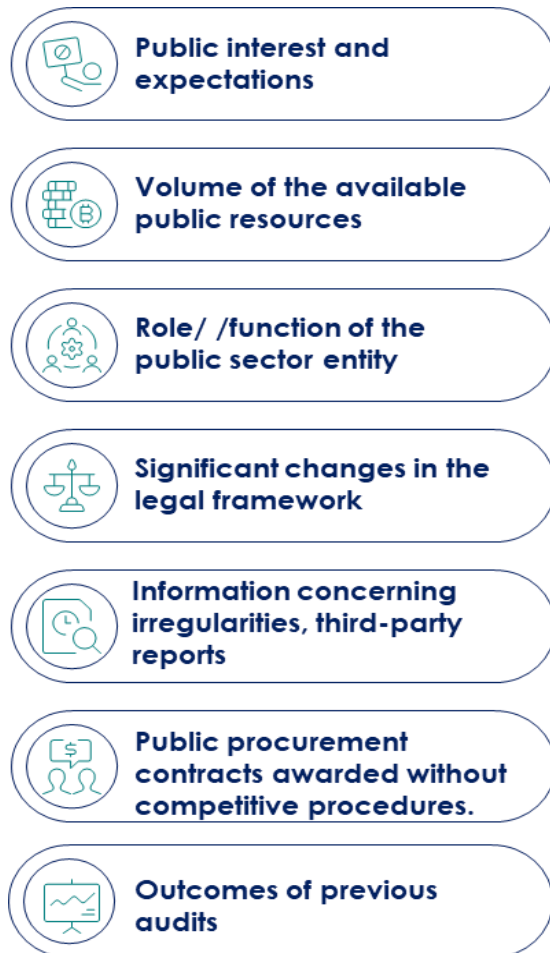


Estate management

Managing and disbursement with state- and municipal-owned estate

The nature of compliance auditing requires a large extent of auditor professional judgement and individual approach in each audit engagement. Professional knowledge and good auditing skills for information analysis form the foundations for compliance auditing. The adequate and professional auditor judgement regarding the state-of-play of management and control systems of the audited entities is conducive to achieving the goals of each audit engagement. Individual approach in selecting material audit areas, planning of the scope and type of audit procedures, selecting

adequate audit techniques for testing and reporting of the results ensure the relevance of the audit for the audited entity.



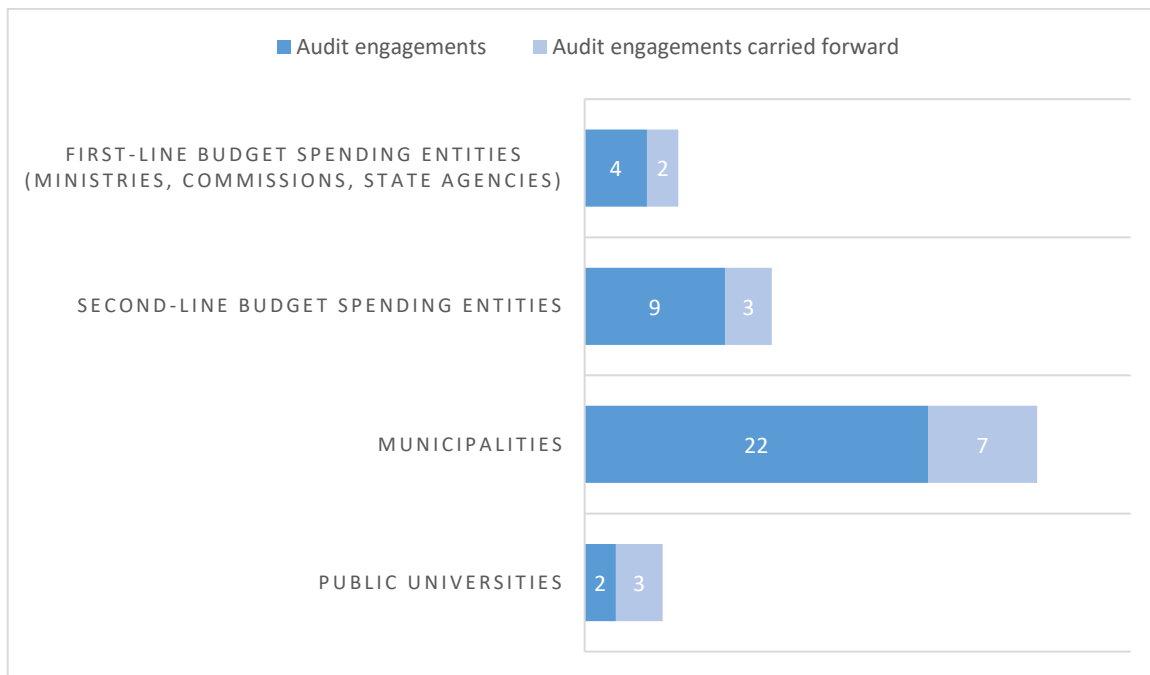
Principles for selecting audit engagements

The strategic areas for compliance audits are linked to the key priorities in the National Development Programme – *Bulgaria 2030*, namely: regional development; education and skills; institutional framework; national security; health and sports; finance; transport connectivity; culture, legacy and tourism; justice and homeland security; circular low carbon economy; social inclusion.

The audit engagements in the 2024 Annual Audit Programme were defined in correspondence to the strategic areas, the capacity of audit directorates and available human and financial resources. The selection criteria for the audit engagements are diverse and complex. They enable BNAO to focus on important topics and use its resources most efficiently.

Part of the planned audit engagements for 2024 are still ongoing and are carried forward into the 2025 annual plan.

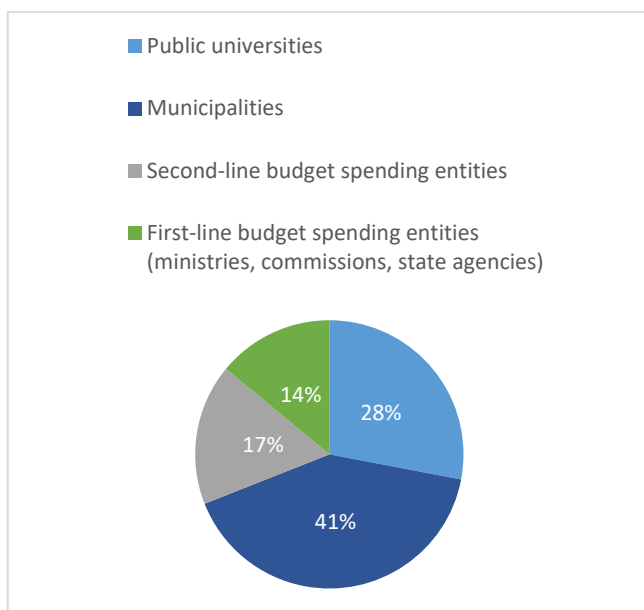
Planning the compliance audits in the 2024 BNAO Annual Audit Programme by type of budget-spending entities:



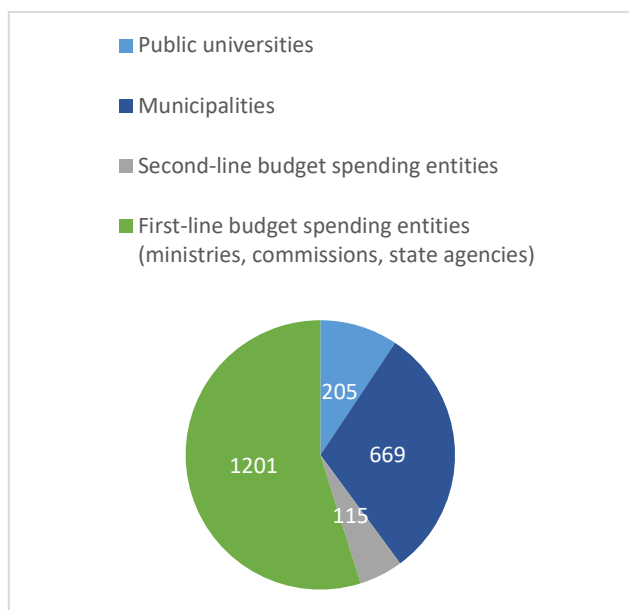
Compliance audit engagements completed in 2024

In 2024 BNAO's Board endorsed in total 29 compliance audit reports, part of which were reports on audits carried forward from previous years.

Audit reports – entities



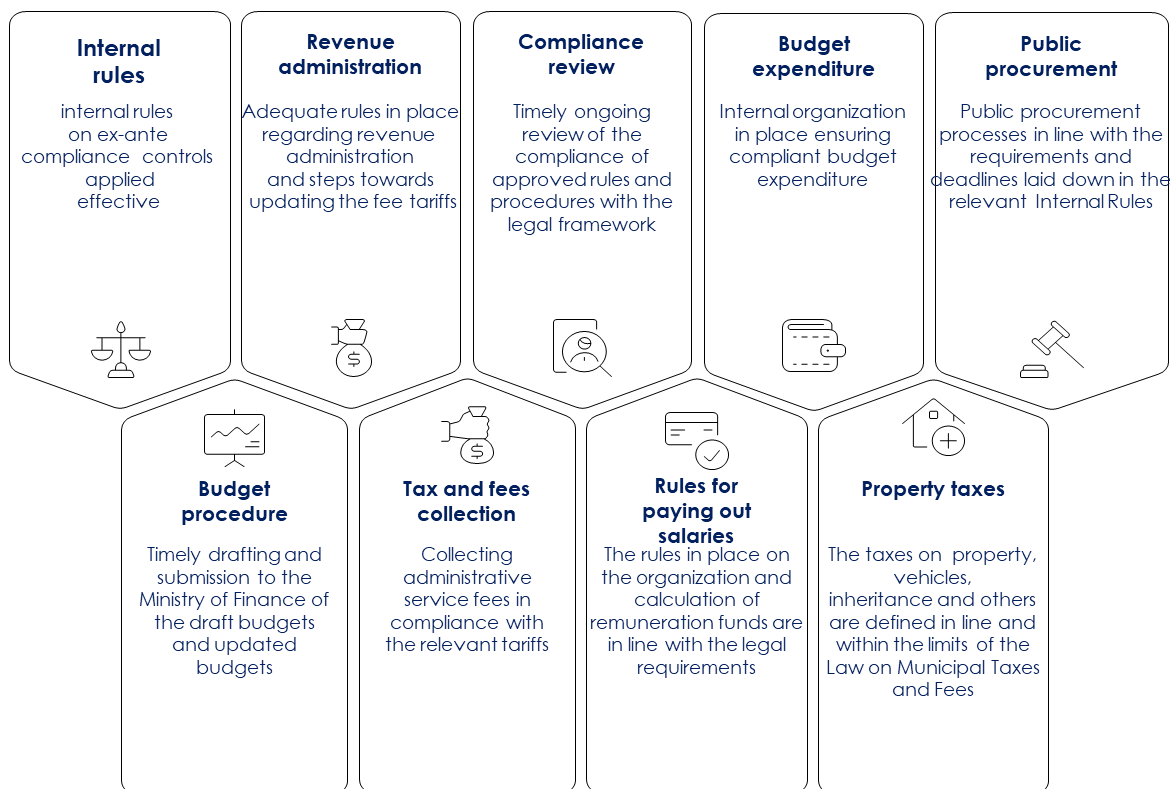
Audited budget – entities (thousand BGN)



Analysis of the compliance audit outcomes

Positive trends in the organization, planning, management, reporting and control of budget allowances and other public funds and activities in compliance with the applicable authorities.

Best practices in public sector entities financed by the state budget



The analysis of the compliance audits conducted in 2024 by BNAO shows an improved understanding of the budget spending entities about the role and importance of the financial management and control systems. Positive examples were showcased.

- ✓ Observed weaknesses and negative trends in the organization, planning, management, reporting and control of budget allocations and other public funds in conjunction with the applicable legislation.

Parallel with the positive examples identified in some compliance audits conducted by BNAO during 2024, the outcomes also point to recurrent weaknesses and omissions in the design of the financial management and control systems and control activities in the audited public sector entities that were also observed during previous audits.

The Law on Public Sector Financial Management and Control introduced the model of internal controls applied through the financial management and control system and integrated in public sector operations. In its essence, the law requires from the heads of public sector organizations to put in place and maintain adequate and efficient financial management and control systems in line with the principles for compliance, good financial management and transparency, and based on five interconnected elements, namely: control environment; risk management; control activities; information and communication; monitoring.

These elements form the basis for each audited process:

- [Control environment](#)

Being an important element of the financial management and control systems, the control environment is subject to checks by BNAO as part of the subject matter in the audit engagements. In 2024, BNAO once again identified that some public sector entities had not updated their internal rules or the rules in place did not provide clear and detailed regulation of the organization's operations, adequate segregation of functions, conditions for timely and compliant operations, did not reflect the latest legal amendments relevant to the respective operations and administrative structure.

- [Risk management](#)

BNAO identified repeated weaknesses in the risk management process of some audited entities, such as: absence of periodic reviews to identify and evaluate risks to goal attainment; some municipalities did not identify and assess all risks that might have a negative impact on their goal attainment and did not introduce adequate preventive, detection and correction controls concerning compliance with the legislation and contracts.

- [Control activities](#)

The majority of BNAO's compliance audit findings concern the design, introduction and implementation of controls in the audited entities. Adequate design of controls is key to their efficiency. The scope and type of controls in an organization are defined based on risk assessment and the legal requirements to its key processes.

BNAO made the following key findings in its compliance audits concerning **the design (adequacy)** of the internal rules **of ministries, agencies and public universities**:

- ❖ Part of the audited entities did not update their internal rules and procedures on financial management and control; the internal rules of some public universities contained omissions in the requirements to employees for the purpose of reappointment and promotion; lack of internal regulations on recruitment of staff and calculation of the basic remuneration; absence of regulations concerning the signing, implementation and control over civil contracts; absence of rules for ex-post progress evaluation, etc.

Similar findings were made concerning the controls in some **municipalities**.

- ❖ The Internal Rules on ex-ante compliant controls, Risk Management Strategies and other internal documents of certain municipalities were not aligned with the Methodological guidance issued by the Minister of Finance, the Guidelines on ex-ante compliance control

in public sector entities and the Risk Management Guidelines for public sector organization as endorsed through Order No 184/06.03.2020 of the Minister of Finance. Absence of rules and procedures on current control over the execution of the financial commitments and contracts, and rules on fraud and irregularities prevention. Absence of Internal Rules on the organization and management of the budget process in conjunction with the Law on Public Finances.

- ❖ Some municipal ordinances were not compliant with the legal framework: e.g. ordinances on the terms and conditions for drafting the three-year budget projections for local activities and on the drafting, endorsement, execution and reporting of municipal budgets; ordinances on the terms and conditions for acquiring, management and disbursing with municipal estate; ordinances on the local tax tariffs; ordinances on setting and administering local fees and prices; ordinances on the terms and conditions for identifying housing needs and lease of municipal housing; ordinances on the terms and conditions for municipal shareholding in the capital of commercial companies; ordinances on managing municipal-owned forest territories; ordinances on the terms, conditions and criteria for financial support of sports clubs.
- ❖ The rules on ex-ante control do not cover the following processes: awarding public procurement contracts; commitments for expenditure outside the scope of the Law on Public Procurement; payment of remunerations for contractual and labour relations; revenue and tax reporting and collection regardless of the grounds for collection; disbursement with movable and immovable property and establishing restricted real rights; absence of templates for ex-ante compliance controls documentation as required in the Guidance on public sector ex-ante controls approved through Order No 184/06.03.2020 of the Minister of Finance.

The absence of adequate internal rules and procedures regulating fundamental processes or their delayed updating to bring them in compliance with the legal requirements results in inadequate internal controls in public sector organizations increasing the risks of errors by the employees and of incurring non-compliant expenses.

The more significant findings relating to the effectiveness of controls and irregularities in administering revenues, budget expenditure, awarding and implementing public procurement contracts and estate management may be summarized as follows:

- Irregularities concerning the administration of revenues and budget expenditure **by ministries, agencies and public universities:**
 - ❖ Inefficient collection efforts following up on issued statements of findings regarding the due receivables, leading to the accrual of significant arrears for the reporting and previous periods.
 - ❖ Delayed provision of administrative services and absence of adequate documentation of checks and other related activities. Incomplete procedures and forms for documenting the checks; absence of continuous controls during the reporting period; delayed payments of the due state fees.

- ❖ The following irregularities were identified concerning human resource management: appointing personnel under employment contract who have not submitted all documents required by law; incorrect calculations of severance pay; incomplete documentation on the increase of basic monthly salaries; absence of controls/ inefficient or inconsistent controls on the calculation and payment of remunerations, incl. ex-ante compliance controls and double signature system.
 - ❖ Incurring expenses for supplies of food, electricity, heating, protective eye ware for computer screens, etc. without complying with the legal requirements to conduct a public procurement procedure relevant to the respective the financial limits. Making payments based on primary underlying documents for the supplies of materials and long-term tangible assets through direct contracting in violation of the Public Procurement Act, which requires tendering procedures for such supplies.
 - ❖ In case of certain overdue receivables resulting from terminated contracts and qualified as long-term and difficult to collect, collection measures were taken that were restricted to invitations for voluntary collection. The increased volume of outstanding receivables at the end of the reporting period is an indication that additional measures are needed to ensure their collection, incl. applying measures in line with the Civil Procedure Code.
- Findings concerning revenue administration and budget expenditure by **municipalities**:
 - ❖ Absence of timely measures to ensure the collection of overdue receivables from local taxes and waste collection fees, failure to apply the collection measures laid down in the Tax and Social Security Procedure Code, thus risking a possibility of debt being written off by statute of limitation; failure to conduct audits and issue inspection protocols on the identified overdue receivables of local taxes and fees.
 - ❖ With respect to labor costs for personnel that is not on the payroll, the audits identified the following: absence of documents justifying the need for subcontracting certain activities outside the responsibility of the municipal administration by signing civil contracts under the Law on Obligations and Contracts; signing civil contracts after the end of the period during which the subcontracted activities were performed; some civil contracts do not contain provisions on the deadlines and payment methods of the relevant remuneration; undated acceptance protocols for the works performed under such contracts; undated payment slips and payment slips where the social security status of the subcontractors is not confirmed by their signature;
 - ❖ Absence of ex-ante compliance controls before taking up obligations and disbursing payments: under contracts for external services; for works planned in the capital programme for the respective year; of subsidies to community centres and sports clubs; for tenders for leasing out and selling municipal estate.
 - ❖ Payments under some public procurement contracts were made after the expiry of the deadlines; no arrangements in place for documenting the acceptance of works; absence of acceptance protocols for services.
 - ❖ Some negative practices were identified in relation to expenses for materials, external services, maintenance and overhaul of non-current tangible assets and the acquisition of non-current tangible assets, such as: the acquired assets were included in the cost estimates for capital expenditure without decisions thereof by the Municipal Council;

failure to notify the National Revenue Agency and the Customs Agency of contracts amounting to over 30,000 BGN within the required 30-day deadline; disbursing payments without a notification to the RMS – Payments Information System of the Ministry of Finance in order to check for absence of public liabilities of the contractors; failure to claim default charges from contractors for delayed performance; no designated officials responsible for the control of contract implementation and signing off the contracted works;

Example of identified infringement of the budget discipline that is significant by value, nature and context

The audit of the amounts paid by the municipal treasury office in Kozloduy in 2021 identified that the municipality covered expenditure in the absence of underlying documents accounting for 76,008.54 BGN, out of which 65,358.06 BGN were paid out only based on a receipt and in the absence of invoices. A total of 50,901.33 BGN were paid for services unrelated to the municipal operations and functions, contrary to the regulations and the municipal goals and in violation of the Law on Public Finances, Accountancy Act, VAT Act and the Law on Public Sector Financial Management and Control. Actions were taken during the audit that ensured the payment of 76,008.54 BGN as revenue to the municipal budget for 2024. The absence of underlying documents for the paid expenditure is due to non-compliance with the accounting and tax legislation, the requirements of the financial management and control system, and the absence ex-ante compliance control. There are no sufficient adequate controls in this municipality to mitigate the risks for these processes to an acceptable level.

- Irregularities identified during the compliance checks of **public procurement procedures** were similar in all audited entities. Some of them are listed below:
 - ❖ Non-compliant methodologies on the evaluation of tender bids that preclude the possibility for objective evaluation of the performance rate of the bids, for comparison and objective evaluation of the technical proposal. There is insufficient information regarding the rules for evaluation under specific indicators;
 - ❖ Unlawful restrictive conditions contained in the calls for proposals and the documents preventing the broad participation of legal entities contradictory to the principles of free and loyal competition laid down in the Law on Public Procurement;
 - ❖ Some calls for proposals do not follow the minimum content requirements: e. g. no information on the requirement for non-eligibility under art. 54, paragraph 1 of the Law on Public Procurement; no information on the required performance guarantees under the contracts; the required documents to prove compliance with the criteria are not listed;
 - ❖ Failure to comply with the statutory deadlines for publishing calls for proposals in the Public Procurement Register.

- Findings concerning the management of **state-owned estate**: using state owned estate without legal grounds thereof and after the expiry of the contracts for use; failure to keep the title deeds for state-owned property up to date or to renew such deeds bringing them in line with the introduced cadastre; signing of contracts for temporary lease of plots on the territory of estates that are public state ownership without tendering procedures; absence or partial

insurance of developed sites that are publicly state owned but whose management is subcontracted in violation of the Law on State Property.

- The identified irregularities concerning the **management and disposal with municipal estate** may be grouped as follows:
 - ❖ Leasing of non-residential property and agricultural land following tendering procedures: estate not included in the Annual programme for managing and disposal with municipal-owned estate; mayors of the relevant municipalities or their representatives not included as members of the tendering committees; non-compliance with the requirements of the Administrative Procedure Code concerning the publication of mayoral orders identifying the winning bidder; signing lease contracts before the enactment of mayoral orders identifying the winning bidders; municipal administrations failing to register lease contracts in the Local Property Registry; absence of acceptance protocols certifying the handing over of estate to the tenants; failure to terminate contracts in case of systemically delayed lease payments.
 - ❖ Leasing agricultural land, field roads, pastures and meadows without tendering procedures: lack of publicity of the calls for lease and allocation of land for use; not including lend plots in the Annual programme on management and disposal with municipal-owned estate; absence of municipal ownership title deeds; requiring from applicants information to which the municipal administration has access ex-officio; members of evaluation committees did not submit declarations on the absence of conflict of interest in line with the Commercial Act and absence official checks to prove that applicants have no tax liabilities, liabilities to the State Agriculture Fund, the State Land Fund, Municipal Land Fund and liabilities for land under article 37c, paragraph 3, item 2 of the Law on Agricultural land Ownership and Use; incorrect calculation of livestock units and corresponding land for use under the contracts; signing lease contracts at tariffs that are lower than the average rent for the respective area; absence of acceptance protocols to certify the actual provision of land by the renters .
 - ❖ Tendering procedures for disposal with municipal-owned estate: estate not included in the Annual programme on management and disposal with municipal-owned estate; mayors or their authorized representatives not included in the evaluation committees; non-compliance with the requirements of the Administrative Procedure Code concerning the publication of mayoral orders identifying the winning bidder, mayoral orders containing non-compliant requirements for overhead costs as a percentage of the selling price of the estate; signing the sales contracts prior to the publication of the mayoral orders identifying the winning bidder.
 - ❖ Tenders for sales of living trees for timber: annual plans for use of timber from the forest territories not approved by the Municipal Council and not published on the municipal webpage; guarantees for participation in the tendering procedures set higher than the statutory tariff; failure to meet the statutory deadline for publishing the mayoral order instructing the launching of tendering procedures and related documentation on the municipal webpage; mayoral orders identifying the selected buyers published after the expiry of the statutory deadlines; buyers not signing declarations for compliance with [Regulation \(EU\) No 995/2010](#) of the European Parliament and the Council dated 20 October 2010.

- ❖ Tenders for privatization of shares in companies with municipal interest: absence of public register on the privatization process and post-privatization control, some municipal councils have not adopted five-annual privatization plans; absence of controls for the preparation of privatization transactions, tendering procedure and signing of privatization contracts.
 - ❖ Failure to issue statements of administrative offence or tickets in case of delayed filing of declarations: undeclared information on the carrying value of estate acquired by enterprises; failure to register acquired estate for tax purposes within the statutory deadlines; in setting the tariff for waste collection for companies the respective municipality did not apply the higher of the two values (tax or carrying value) for the estate etc.
 - ❖ Some municipalities in their capacity as owners/ taxable entities did not declare for tax purposes all their estate with private or public municipal ownership thus failing to pay estate tax and waste collection fees for them; some public municipal estates were exempt from paying waste collection fees in the absence of a decision thereof by the Municipal Council; exemption from waste collection fees of specific community centres rather than applying identical rules to identical categories of entities in violation of the Law on Local Taxes and Fees.
 - ❖ Mayoral orders for identifying eligible tenants were not disclosed to the non-winning bidders; signing of lease contracts prior to the effect of the relevant mayoral orders. Contracts for lease of municipal housing not containing an expiry date, absence of provisions obliging the tenants to pay waste collection fee and failure to collect waste fees from the tenants, while the fees covered by the municipality were not reimbursed by the tenants.
 - ❖ No insurance policies for developed municipal owned estate; non-compliant insurance of non-developed plots that are public municipal ownership; insurance instalments for buildings that were leased out or provided for use were covered by the municipality and not reimbursed by the tenants or users.
- Information and communication, and monitoring

These two elements of the monitoring and control systems were investigated only partially during our compliance audits. In each audited entity the auditors found inefficiencies in the documenting, information and communication – absence of requirements in writing for the documentation of key processes and activities, absence of requirements on the contents of the reports/ documentary files on the checks and other activities thus precluding an audit trail for traceability and monitoring.

Causes for the irregularities identified during the compliance audits

The most common causes for the identified infringements and non-compliance with the regulatory framework were:

- Inefficient procedures or absence of procedures for monitoring of the activities related to the management and control systems, precluding the evaluation of their adequacy and compliance with the statutory requirements. Absence of comprehensive, clear and concrete rules in writing for ex-ante compliance controls or deficiencies in designing the scope of

controls and their application. Failure to update timely the Financial Management and Control System to cover compliance procedures.

- Failure to identify and evaluate significant risks for the operations and lack of adequate preventive, detection and correction controls in writing concerning the irregularities/infringements of the statutory framework.
- No clear and concrete procedures in place for periodic review and reporting on the outcomes, for process documentation in line with their specificity, and for ex-post performance evaluation.
- Insufficient administrative capacity for timely and high-quality performance of activities and absence of clearly defined duties of the control personnel, of officially formulated terms and conditions for control over the performance of the personnel responsible for the individual activities within this process.
- No designated rules and personnel responsible for periodic reviews and update of the internal documents in the audited areas and the acts issued by the Municipal Council.
- Superficial ex-ante compliance controls conducted by the officials prior to making commitments for expenditure and disbursing budgetary funds;
- Inefficient controls applied by individual officials concerning the implementation of public procurement contracts and lease contracts;
- Poor coordination among the structural units of the municipal administration for introducing statutory measures against defaulting contractors or tenants.

Recommendations issued by BNAO for the correction of irregularities and discrepancies and measures undertaken by the audited entities

To rectify the systemic weaknesses and strengthen the internal controls in the central government units and local municipalities, BNAO issued numerous recommendations for:

- ❖ Adopting/ completing/ amending/ updating the operational rules, etc. bringing them in compliance with the statutory acts;
- ❖ Endorsing documentary templates, terms and deadlines for documentary flows, appointing designated officials and control mechanisms for the key processes and operations, and providing adequate audit trail;
- ❖ Terminating contracts for use of state-owned estate/ plots of land signed without tendering procedures and terminating the practices of use after the expiry of the contracts;
- ❖ Strengthening the ex-ante controls prior to commitments for expenditure and disbursement of payments, both in awarding public procurement contract and during contract execution.

BNAO's recommendations were addressed to the leadership of the audited entities (ministers, executive directors of agencies, rectors of public universities, mayors) and to the relevant Municipal Councils. The recommendations to the Municipal Councils concern amendments to municipal ordinances, policies on municipal holdings in public enterprises, and other acts.

In the course of the audits, the management of some audited entities took measures to correct the identified irregularities and to address the auditors' recommendations prior to the publication of the audit reports (positive examples are the State Agency for Road Safety and the Commission for Regulation of Communications). Because of the pre-emptive measures by the management of some audited entities, BNAO did not issue any recommendations in the relevant reports.

Examples of pre-emptive corrective measures applied **in the course of the audits by some ministries, agencies and public universities:**

- ❖ Appointing a committee to review and update all internal rules;
- ❖ Measures for restoring the government control over state-owned estate;
- ❖ Passing a decision to implement procedures in line with article 19, paragraph 1 of the Law on State Property relating to leasing of state property through public tenders;
- ❖ Adjusting the reporting of revenues from compensations in the Uniform Budget Classification;
- ❖ Launching administrative procedures for regaining control over state-owned property from the tenants under three contracts. The tenants of one estate moved out voluntarily.

Some municipalities also undertook pre-emptive corrective measures in the course of the audits. To improve the collection of revenues and remove the identified irregularities, the municipalities took the following steps:

- ❖ Paying up overdue debt (municipalities of Valchi dol, Gorna Mitropolia and Pavlikeni);
- ❖ Issuing statements to confirm the overdue receivables from local taxes and fees payable by legal entities and individuals (municipalities of Valchi dol and Omurtag) and sending out summons for voluntary collection (municipality of Popovo);
- ❖ Updating or introducing new: Internal rules on the management of the public procurement cycle (municipality of Dolna Mitropolia); Financial Management and Control System (municipality of Kozloduy); Internal Rules for ex-ante compliance controls (municipality of Dolna Mitropolia);
- ❖ Amending internal documents and software applications relating to human resource management and defining the personnel remunerations;
- ❖ Introducing control procedures in writing and defining their scope and documentation requirements;
- ❖ Discontinuing the incorrect practices for calculating severance pay, etc.

No findings from the compliance audits were referred to the Prosecutor's office for seeking criminal liability of public officials in 2024.

General conclusions from the compliance audits

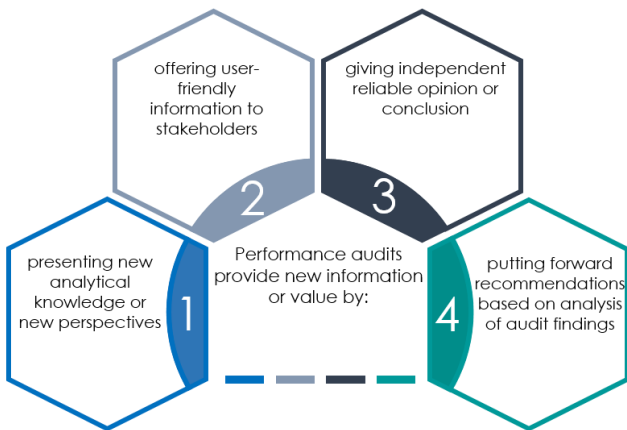
Based on the outcomes of the compliance audits of financial management and control systems finalized in 2024, BNAO once again found significant irregularities in the design, implementation and

application of the controls in the audited processes. The spending of public money in compliance with the applicable authorities and contracts requires:

- Better understanding of the accountability of the heads of public sector organizations, their responsibility to make sure that the organizations under their management have in place approved and adequate internal rules, procedures and controls in writing that are compliant with the legal framework and lay down adequate guidance for the execution of activities and processes in the public entities;
- Overcoming the formalistic approach to the financial control and management systems. Rules, controls and procedures should not only be adequately designed, but should be well-understood and applied effectively by all staff members of the public entities. Maintaining good administrative capacity and well-trained professional staff is a prerequisite for effective controls at each level and process, which in turn is a guarantee for the compliant spending of public money.

3.5 Performance audits in 2024

Performance auditing is an independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness **and whether there is room for improvement.** *(ISSAI 300)*



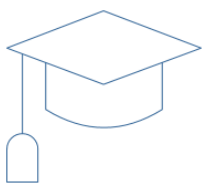
They are an extremely important tool in BNAO's arsenal. They enable the SAI to provide the stakeholders with in-depth analysis whether public resources are being used as intended and whether they achieve the planned results.



Audit reports

In 2024, by decision of the BNAO's Board endorsed **five performance audit reports**. Four of these audits were assigned at the end of 2022, and one in 2021. **Four audits forwarded from previous years** were conducted in 2024 (assigned at the end of 2023), and **four audits from BNAO's 2024 Programme were initiated**. In addition, our auditors conducted 8 follow-up checks on the implementation of BNAO's recommendations.

The completed audits were in **three sectoral areas**:



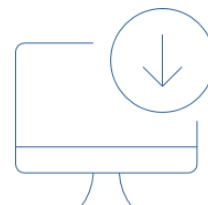
Education, science and culture

2



Healthcare

2



E-governance, digitalization and digital transformation

1

Sector: Education, science and culture

1

Audit: European Funding for research, innovations and digitalization in the period from 01 January 2020 through 31 December 2022

Audited entities: Council of Ministers, State Agency for Research and Innovation and the Ministry of Innovations and Growth.

Key audit question: *Effectiveness of the programming and planning of Programme “Research, Innovations and Digitalization for Smart Transformation” in the period 01 January 2020 through 31 December 2022 as one of the sources of EU funding for research, innovations and digitalization in the 2021-2027 Programming period.*

Audit conclusionsIn audit area: Design, submission and approval of the Programme

The process of Programme design, submission and endorsement by the European Commission was not exactly timely for the following reasons:

- Prior to the start of the programming period, the competent authorities did not undertake effective actions to ensure sustainable institutional and administrative capacity for designing and management of the programme;
- The programme was designed and finalized by three public sector entities – Council of Ministers, State Agency for Research and Innovations and the Ministry of Innovations and Growth. The programming unit of the latter does not have sufficient administrative capacity.

Despite the appointment of a Thematic Taskforce comprised of representatives of the relevant partner organizations, it failed to ensure timely design and approval of the Programme because of the frequent rotation of its members and non-compliance with the regulatory requirements for representation of all relevant public entities. As a result, the programme was approved by EC two years after the start of the programming period resulting in delayed launch and implementation of the procedures for grant provision, and subsequent shortening the time for project implementation.

The leading institutions made efforts to ensure adequate design of the Programme addressing the challenges and lessons learned and focusing on overcoming the weaknesses in the area of research, innovations and digitalization. The planned interventions set ambitious goals for ensuring sustainable development of the existing research and innovations infrastructure, and for building on the results achieved during previous periods. The goal implementation, however, was faced with numerous challenges regarding the good performance and successful completion of the programmed operations and projects.

Audit area: Arrangements for effective fund absorption

The arrangements established by the competent authorities for effective use of funding from the EU Regional Development Fund to support research, innovations and digitalization cannot be assessed as efficient, because of the following:

- The timeframe outlined for the goal ensuring Bulgaria's transition from the “emerging innovators” group the “moderate innovators” one is different in the national strategic documents and the Programme, which hinders the monitoring and reporting, and is a precondition for submission of inaccurate information at both national and EU level;
- To measure the progress on each specific goal, the approved Programme outlines indicators for results and outcomes with respective interim objectives and target values. The target-setting process is questionable, because of the incomplete justification for their calculation;
- The Programme allocations were concentrated into the area of technological and knowledge transfer, and sustainable development of national capacity for research and innovation. However, there was not clear justification and logical consistency for that;
- No timely actions were taken for meeting the unlocking condition of “Good governance of the national or regional strategy for smart specialization” within the deadlines set by the Council of Ministers. This was a precondition for delayed Strategy implementation.

The actions taken by the Ministry of Innovations and Growth and the Programme Managing Authority to introduce adequate management and control arrangements were not sufficient prior to the Programme's approval by the EC through 31 December 2022, because of the following:

- The Programme manual was not designed and approved by the head of the Management Authority in due time;
- There were no agreements in writing with the Interim Bodies of the programme that outline the scope of their functions;
- The structural units tasked with the implementation, monitoring, control and reporting of the Programme performed their duties with 17% shortage of the planned personnel.

Ensuring effective spending of the programmed funds and implementation of all activities was a challenge for the Managing Authority and Interim Bodies due to:

- Planning of part of the interventions/ activities under Priority 1 and Priority 2 of the Programme based on uncompleted projects under operational programmes from the previous programming period;
- Interdependent activities (where one intervention is conditioned upon the completion of another/ or builds upon the outcomes of the other) in the area of data and cyber-security under Priority 2 where there was risk for their timely and successful completion.

In view of the restricted timeframe for the implementation of the Research, Innovations and Digitalization for Smart Transformation Programme 2021-2027, it is necessary to ensure long-term provision other sources of funding and to coordinate all programmes in this area in order to overcome

the shortcomings in the development of the research and innovations ecosystem; to ensure its sustainable development; strengthen the relations between academia and businesses; and improve Bulgaria's performance in the area of innovations compared to the EU average.

One recommendation was addressed to the Minister of Innovations and Growth concerning their joint actions with the other authorities responsible for synchronizing the National Strategy for Developing Scientific Research 2021-2030, the Innovation Strategy for Smart Specialisation 2021-2027 and the *Research, Innovations and Digitalization for Smart Transformation Programme 2021-2027*. It concerned the deadlines for meeting the indicators values related to the moderate-innovator-category scientific research.

2

Audit: Efforts to ensure good quality of school education in the period 01 January 2019 through 30 June 2023

Audited entity: Ministry of Science and Education

Key audit question: *Effectiveness of the measures to ensure good quality school education for the period 01 January 2019 through 30 June 2023.*

Audit conclusions

Audited area: Effective arrangements for good quality of education

There were no sufficient arrangements in place for effective management of the processes ensuring good quality in school education.

The Pre-school and School Education Act lays down a number of requirements concerning the quality of school education; however, the process is not fully regulated, due to the following:

- Absence of a state educational standard for quality assurance in the school education system, hence there are no uniform requirements for analysis, planning, execution and improvement of the performance in schools, no unified system for self-assessment and mechanism for managing and improving the quality of school education.
- Failure to ensure timely implementation of the regulatory requirements for ex-post impact evaluation, which hampers the adequate assessment of the achieved outcomes and impact, as well as the undertaking of targeted and well-justified corrective actions.

Failure to establish the statutory mechanism for providing funds to improve the quality of education and academic performance due to the absence of an approved methodology. This precludes the provision of performance-based financial incentives to schools.

To be efficient, the independent external evaluation of the quality of school education requires additional support. Due to its insufficient administrative capacity, the National Education Inspectorate does not meet the requirement to inspect each school at least once every 5 years.

The process of external evaluation of the students' academic performance does not ensure efficient monitoring of the education process with a view of improving the academic performance due to the following:

- The Centre for Evaluation of Pre-school and School Education experiences difficulties in performing its statutory analytical functions related to the quality of school education, because of its insufficient financial resources and administrative capacity. It has not drawn up any reports and/ or thematic studies. The analysis of the results of the national external evaluation campaigns does not take into consideration the root-causes affecting the academic performance. There are no in-depth secondary analyses of international studies that put forward proposals for specific measures to improve the academic results;
- The audit identified omissions in the practices of the Ministry of Education and Science in the area of analysing the results of the national external evaluation and matriculation exams. Therefore, there is no reasonable assurance that the results of student evaluation are used effectively to inform the necessary changes of policies and the implementation of measures aimed at insuring sustainable quality in education.

Key challenges and issues related to the quality of school education are not addressed sufficiently due to the following:

- Despite the improved social status of teachers, there are still weaknesses in the management process. The Ministry of Education and Science still struggles to recruit the necessary teaching staff required to ensure the desired quality of school education. Despite the increasing interest in pedagogical university courses in recent years, a large share of the university graduates do not pursue a teaching career, hence the resources spent on their training are lost to the education system. Regardless of the high employment rate in the education system, there is still regional shortage of teachers in certain disciplines. The age structure of teachers continues to deteriorate, bringing serious mid-term risks for the education system, while the attrition rate among newly appointed teachers remains a serious challenge for the system;
- The mechanism for evaluation and approval of textbooks and other teaching materials and aids needs to undergo significant changes to improve its effectiveness. At present, due to substantial deficiencies in the regulatory framework and the internal organization of processes, it does not ensure user-friendly and well-developed content corresponding to the age characteristics of students and their needs;
- The Ministry of Education and Science does not monitor the design of the curricula approved by the school principals. That, in combination with the lack of nation-wide analysis of the applicability of the curricula for elective profiling modules and for the extended and additional training, poses a risk of significant differences in the quality of education provided by educational institutions.

Audit area: Goals for high-quality school education

Serious efforts need to be invested to achieve the goals for high-quality school education.

- There are differences in the degree of attainment of the national and sectoral goals for high-quality school education. The 2020 goals for reducing the share of illiterate people at national level and the number of school drop outs were achieved, though with some delay. Meanwhile, the regional differences in the illiteracy levels, low functional literacy of 15-year-old students, low digital skills and lower employment rate in the age groups 15-29 and 18-34, and Bulgaria's

considerably lower ranking in the attainment of Sustainable Development Goal 4 – *Quality Education* compared to the EU average, all point to weaknesses and inefficient management of the system.

- The academic performance of Bulgarian students in Bulgarian language, literature and mathematics measured through the national external evaluation system is not encouraging, with the degree of deterioration increasing at each successive stage in education. While at the level of primary school, the academic achievements are still relatively high, in the secondary school system one in five students of Bulgarian language and literature and one in two students of mathematics are incapable of covering even the minimum knowledge requirements. Towards the end of the first stage of high school education, roughly 1/3 of all students of Bulgarian language and literature and almost 2/3 of the students in mathematics are incapable of covering the minimum requirements.
- The strong influence of the educational background of parents and the moderate influence of the family social status over the academic performance of students, the significant regional differences in the average academic performance, and the differences in the performance of students in villages and in cities, as well as in different types of educational institutions, are an indication that the education system remains incapable of overcoming the social and economic differences in the students' background and of providing equal quality of education to all students.
- The outcomes of the national representative study (conducted within the framework of the audit) of the parents', students' and universities' satisfaction are rather critical and demonstrate that school-level education still fails to attain its key goals in full. The study results lead to the conclusion that there is a need for changes in the school education system in Bulgaria in order to improve the quality of curricula, textbooks, teaching practices and the processes of overall modernization and digitalization.

The steps taken by the Ministry of Education and Science for improving the quality of school education are insufficient. Significant efforts are needed to overcome the problems and challenges in order to produce highly educated, innovative and pro-active young people capable of becoming good professionals and citizens against the backdrop of the dynamic economic and labour market developments. Attaining the goals of high-quality education does not depend on the public authorities alone, but also on the attitude and awareness of all stakeholders.



BNAO issued 21 recommendations to the Minister of Science and Education

A) Recommendations concerning compliance with the specific regulatory framework:

- Adoption of the state educational standard on quality assurance for the system of school education;
- Conducting ex-post impact assessment on the regulatory acts issued and/or adopted pursuant to the Pre-school and School Education Act for which the 5-year statutory period has expired;
- Adopting a methodology for evaluation of academic performance;
- Complementing the state educational standards on the kindergarten and school inspections and establishing a regulatory framework for the procedures and processes for monitoring the implementation of the recommendations issued by the National Education Inspectorate;
- Increasing the number of staff of the National Education Inspectorate based on a needs analysis carried out by its director;
- Introducing more stringent requirements for awarding the “Applicable in practice” overall rating in evaluating the adequacy of textbooks and teaching aids, and including parents and students in the evaluation of applicability of the draft textbooks and teaching aids;
- Adopting internal rules and procedures for defining priority areas for ongoing professional development of teachers and for studying the professional development needs of teachers at national level.

B) Recommendations concerning the introduction of organizational arrangements for increasing the effectiveness of measures aimed at improving the quality of school education:

- Introducing controls to ensure the timely reporting on the application of principles and attainment of the goals of school education based on data and analysis of the outcomes and impacts;
- Analysing the results of inspections;
- Overcoming the causes preventing the conduct of regional external evaluation as an additional instrument ensuring the quality of school education at regional level;
- Ensuring sufficient administrative capacity and financial resources for the Centre for Evaluation in Pre-school and School Education system to conduct studies and analyses supporting the monitoring of the educational process;
- Strengthening the administrative capacity of the Directorate for Strategic Development Policies, Qualification and Career Development of the Ministry of Education and Science;
- Upgrading, introduction and technical maintenance of the Database for analysis and projections of the human resource needs in the system of pre-school and school education;
- Conducting thematic scientific research on the effect of the innovative teaching methods on the personal development and academic performance of students, and on transfer of these methods from innovative to non-innovative schools;
- Developing and adopting a mechanism for revision of the curricula and educational content;
- Conducting targeted thematic analyses of the effectiveness of the curricula approved by the school principals; conducting studies among the stakeholders regarding the extent to which the changes in the curricula for the general education subjects ensure optimisation of the teaching material;
- Creating a regulatory framework enabling the revision of approved textbooks and teaching aids where there is unclear content, as well as introducing an internal system for analysis in case of reported mistakes and/ or inappropriately presented content;
- Conducting in-depth analyses of the outcomes of international assessment (PISA, PIRLS, TIMSS, etc.).

Sector: Healthcare

3

Audit: „Implementation of the National Programme for Improving Maternal and Child Health 2021-2030“ in the period between 01 January 2021 and 31 December 2022

Audited entity: Ministry of Health; for the purpose of the audit, the auditors also collected and analysed information from the National Centre of Public Health and Analyses (NCPHA).

Key audit question: Does the National Programme for Improving Maternal and Child Health - 2021-2030 ensure the improvement of the key indicators regarding the health of pregnant women, mothers, children and adolescents?

Audit conclusions

Audit area: Policy for improving maternal and child health

The audit identified significant omissions in the strategic, mid-term and operational planning and monitoring of the Programme, as follows:



- Despite the reported serious issues in the maternal and child health, there were no national measurable targets for the system's improvement, which creates a risk for the correct allocation of resources and building on the results of the policy pursued in this area;
- The key target indicators at national level are restricted to measuring the progress on specific general indicators, but not the progress in overcoming specific issues;
- The proposed indicators for monitoring the activities under the Action Plan do not focus on their impact, but rather on the specific products/ services resulting from the implementation, thus precluding the effective policy monitoring and impact assessment.

The audit identified deficiencies in the arrangements and internal rules on the Programme implementation, such as:

- The implementation of some activities in the Acton Plan was not assigned by means of an order issued by the Minister of Health, hence the accountability, performance parameters and expected deliverables remain unclear, while the same activities were reported as completed under different programmes.
- There is a need for improvement of the mechanism for coordination, control, monitoring and reporting of the Programme measures and activities. The functions of the National Coordination Board (the authority coordinating the Programme implementation) should be regulated defining clearly its responsibilities and adopting operational rules. Setting

specific deadlines for reporting to the Board and to the Minister of Health will ensure better working conditions timely decision-making and allocation of resources for the activities under the key priority areas.

Audit area: Programme implementation

The Ministry of Health did not ensure publicity of the programme implementation due to the following:

- The analyses and annual reports of the National Centre for Public Health and the National Coordinator were not published. There was no dedicated web-page for the Programme hampering the access to systematic information on the campaigns and the possibilities for access to healthcare under the Programme. This affected negatively the attainment of the main goal.
- Partial absorption of the significant financial resources allocated for high-tech screening and consultations of pregnant women who are not covered by health insurance. At the same time, no resources were provided for effective awareness campaigns, especially in villages and among vulnerable groups for health promotion, incl. reproductive health promotion and for protecting the lives of mothers and children. Such campaigns could have a positive impact on mortality rates and maternal and child health.

The unresolved issues in ensuring adequate health care for all pregnant women regardless of their health insurance status, the issues with prenatal diagnostics and the restricted neonatal screening affect negatively the attempts to improve the indicators of maternal and child health.

Despite the positive trends towards achieving improvement of the indicators of maternal and child health in the period of programme implementation (2014 – 2023), the national goals and indicators have not yet reached the EU average levels. This was the main reason for adopting a revised National Programme for Improving Maternal and Child health for the period 2021-2030. The identified omissions in the planning, key indicators and implementation of activities under the Programme show a need for more efficient interventions in the area of public health and care for pregnant women and children.

Nine recommendations were addressed to the Minister of Health.

A) Recommendations for ensuring sufficient regulatory and organizational arrangements for:

- Setting general internal rules within the Ministry of Health to facilitate the development of national strategic documents and programmes with clearly defined responsibilities, requirements for the structure and contents, indicators for measuring the impact and conducting public consultations;
- Defining the key functions of the National Coordination Board and adopting rules of procedure for it, including deadlines for reporting.
- Providing guidance to the heads of the regional health inspectorates for assigning functions, responsibilities, deadlines and tasks to the regional coordinators;

- Including neonatal hearing screening in the package covered by the National Health Insurance Fund;
 - Explicit assignment of the activities in the annual plans under the Programme to the National Centre for Public Health and Analyses and the regional health inspectorates.

B) Recommendations for improving publicity, transparency and accountability through:

- Developing and adopting a communications strategy;
- Ensuring publicity and transparency of the activities under the Programme;
- Specifying and annual planning of the implementation of activities under the three-year action plan by setting specific target values, deadlines and expected impacts, together with clear guidance on reporting regardless of whether the implementation is funded by the budget of the respective entity, secondary budget spending entities or by a subcontractor; developing uniform templates for reporting.

4

Audit: [“Implementation of healthcare measures relating to COVID-19“ for the period 01 February 2020 through 31 December 2021](#)

Audited entity: Ministry of Health (MH).

Key audit question: Did the implementation of healthcare measures in relation to COVID-19 ensure protection of the health and lives of citizens?

Audit conclusions

Audit area: Management of the Pandemic

There were adequate arrangements for effective management of the COVID-19 Pandemic thanks to the compliant and timely introduction of anti-epidemic measures and control over their implementation, establishing a whole-of-government approach and a requirement for the adoption of a national plan for preparedness and action in the event of an epidemic or pandemic.

- There was no consistent and coordinated policy on strategic and operational planning for the declared state of emergency and the introduced Lockdown.
- The Ministry adopted a National Plan for Preparedness in case of a Pandemic, National Operational Plans for Overcoming the Pandemic Situation and National COVID-19 Vaccination Plan, however no actions were taken to ensure the adoption of regional operational plans and a strategy for effective outreach to the media to raise public awareness regarding the benefits of vaccination. There were no standardized procedures within the MH for the design, coordinated implementation, monitoring, control and reporting on the adopted plans. Therefore, the implementation of the national strategic and operational plans was not reported.

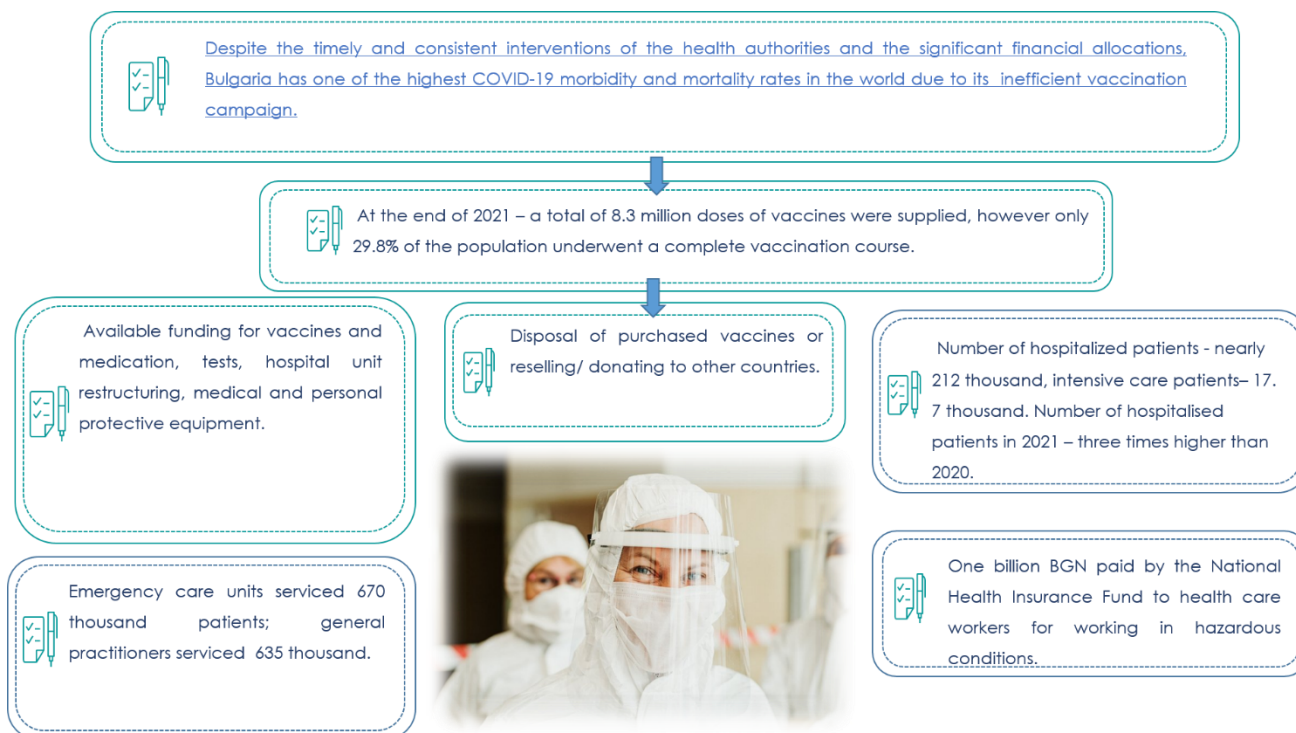
- Optimal arrangements were put in place and sufficient funding was provided for carrying out clinical and lab tests for COVID-19 throughout the country, for restructuring hospital units to ensure inpatient care, medical and personal protective equipment, and medicines. Sufficient number of vaccines were imported and all citizens willing to get a vaccine were offered the possibility to choose among brands.
- The Minister of Health took the necessary steps to coordinate the interaction with other control authorities. The regional health inspectorates exerted control over the healthcare establishments and citizens. There was no procedure in place for initiating and processing of penal administrative case files by the Regional Health Inspectorates. For management purposes, the regional health inspectorates collected and provided to the Minister of Health information on the administrative penal sanctions under the Health Act and the Criminal Code, however the collection rate of fines and pecuniary sanctions was low.

Audit area: Reliable pandemic information updates

The Minister of Health issued timely orders to outline the responsible entities, terms and deadlines for collecting and reporting of data on the individuals within the scope of the constantly changing definition of COVID-19 cases. The National Information System for fighting the COVID-19 Pandemic was introduced expediently. The Ministry awarded a contract for the development of a National Healthcare Information System; however, its functionalities were not implemented in full precluding the possibility of easy automated access to reliable operative information generated by different integrated information systems.

Audit area: Outcomes of the Pandemic management

At the beginning of the Pandemic, anti-pandemic measures and activities were introduced and applied strictly, which resulted in restricting the spread of COVID-19 and related mortality. Due to the inefficient vaccination campaign, later Bulgaria registered significantly higher morbidity and mortality rates. The high morbidity rates and the provided possibility to obtain paid sick leave for the period of mandatory isolation and treatment in patient healthcare establishments or at home, as well as for the mandatory quarantine of persons who had been in contact with infected individuals, posed a significant burden on the Public Social Security Budget in 2020 and 2021. All this obstructed the social and economic life in the country.



The timely actions by the Minister of Health and the Chief State Health Inspector to ensure optimal conditions for diagnostics and treatment, and for access to healthcare services in healthcare and medical establishments for all Bulgarian and foreign nationals residing in Bulgaria contributed to better protection of the life and health of citizens during the COVID-19 Pandemic. Due to the inefficient vaccination campaign, and despite the fact that citizens could choose among the full array of available vaccines, the country registered a slow vaccination progress, low vaccination coverage and one of the highest morbidity and mortality rates from COVID-19 in the world.

Eleven recommendations were addressed to the Minister of Health

A) Recommendations for improving the statutory and internal regulatory frameworks to provide for specific processes and/ or ensure compliance with existing legal requirements in the following areas:

- Conducting an impact assessment of the statutory and subordinate regulations in effect during the COVID-19 Pandemic;
- Ensuring standardized quality of medical care and protection of the rights of patients hospitalized in the clinics and departments of anaesthesiology and intensive care in inpatient healthcare establishments;
- Regulating in a statutory act the setting up of a National Pandemic Committee and clearly defining its composition, authorities and reporting duties;
- Adopting a standard operational procedure for the development of national operational plans with clear requirements regarding their structure and contents;
 - Regulating the responsibilities for developing regional preparedness plans and adopting a standard operational procedure on their content and coordinated implementation;
 - Adopting a standard operational procedure for the development by inpatient healthcare establishments of action plans for pandemic situations;

- Introducing general rules regarding the functions of the regional health inspectorate in relation to imposing administrative sanctions, incl. deployment of specialised software for managing the administrative penal proceedings.

B) Recommendations for improving the efficiency of measures in healthcare in case of a pandemic, such as:

- Analysis of the responsibilities and workload of the regional health inspectorates' staff, incl. ensuring adequate remuneration;
- Analysis of the efficient management of the healthcare system and the effectiveness of health services in response to the COVID-19 Pandemic;
- Analysis of the expenditure of subsidies provided during the COVID-19 pandemic to inpatient healthcare establishments based on annual contracts signed with the Ministry of Health.

Sector: E-governance, digitalization and digital transformation

5

Audit: "Optimising the organisation of public registers" in the period 01 January 2019 through 31 December 2022

Audited entity: Ministry of Electronic Government (MEG).

Key audit question: Was the reform of registers in the public administration performed efficiently and effectively?

Audit conclusions

Audit area: Arrangements for management of the optimization processes

There is a statutory provision designating a responsible body for electronic governance policy implementation, incl. the register reform implementation, as well as its powers. A Ministry of Electronic Government was set up in order to ensure greater operational independence and effectiveness of the relevant activities. The Minister of Electronic Government took up the functions, responsibilities and powers of the head of the former State Agency for E-Government. Timely actions were undertaken to put in place arrangements for managing the optimization of registers in the public administration based on approved rules and procedures outlining the obligations and responsibilities, and the reporting of strategic documents.

The E-government Strategy and the Concept for register reform were updated to cover the period till 2025, while the Roadmap thereto was not updated and its period of validity expired in 2023. Out of the six registers planned in the legislation, only three are maintained and operated— a register of the projects, register of the information resources and register of the software systems.

The responsible authority did not undertake sufficient actions which resulted in delays in the following processes:

- Introducing rules and strategies by policy areas; out of the 23 planned policy areas only 4 sector strategies for e-governance were developed;
- Launching the planned coordination mechanism within the framework of the Electronic Government Council that includes representatives of all entities responsible for the introduction and development of e-government;
- Compliance with the regulatory requirement of the Electronic Government Act for building, operating and maintaining the planned interoperability registers;
- Ensuring publicity and transparency for the public regarding the progress of register optimization in the public administration;
- Submitting annual reports on the implemented controls to the Council of Ministers by the responsible authority.

Audit area: Implementing the concept for register reform

The launching and implementation of the first and second stages of the Register Reform Concept Paper to the Updated Strategy for E-governance Development in Bulgaria - 2019-2025 was delayed due to the political instability and the parallel structural reforms. The implementation of measures related to the regulatory changes was delayed due to the need for coordinated action of the different administrations and the absence of an operational E-government Council to support the process.

The responsible institutions took steps to implement the 103 indicative measures contained in the Register Reform Concept Paper resulting in progress on 41 of them by the end of the audited period. The Ministry of E-Government needs to invest more active additional efforts to ensure the implementation of measures on behalf of the responsible institutions.

The reporting on the implementation of the Register Reform Concept Paper does not contain information on the planned and expended public financial resources. The capacity of the information system for ex-ante, current and ex-post control and for ensuring publicity of the outcomes was not used.

The Ministry of E-Government has taken action towards the amendment of the Electronic Government Act concerning the implementation of register reform. In compliance with the principles for register reform and given the current pace of implementation, the goals of the Register Reform Concept Paper are expected to be met towards the end of 2025 contributing to optimizing the organization of registers within the public administration. Action should be taken to ensure effective coordination among institutions at national and local level and to build and develop e-governance at sectoral level. This will ensure sustainable outcomes of the register reform for optimizing the organization of registers in the public administration.

The auditors addressed 9 recommendations to the Minister of E-government

A) Recommendations concerning the introduction of necessary arrangements to ensure compliance with the specific statutory requirements:

- Developing and adopting rules by policy areas as outlined in the Electronic Government Act developing and submitting for approval strategies by policy areas;

- Specifying the responsibilities related to building, operating and maintaining each of the registers under the Electronic Government Act;
- Designating an official responsible for monthly publication of updates regarding the activities of the Ministry of E-Governance in line with the requirements contained in the Law on E-government;
- Putting arrangements in place and designating officials responsible for monitoring compliance with the Ordinance on the general requirements for the information systems, registers and electronic administrative services, as well as reporting on the controls.

B) Recommendations for improving the arrangements for enhancing the effectiveness and efficiency of the register reform implementation:

- Updating the Roadmap for the implementation of the E-Governance Strategy of the Republic of Bulgaria;
- Ensuring publicity and transparency of the reports and information on the progress of register reform;
- Restoring the E-government Council as a coordination mechanism laid down in the E-government Strategy of the Republic of Bulgaria 2019-2025, and introducing the necessary arrangements for its effective functioning.

Summary of the performance audit conclusions:

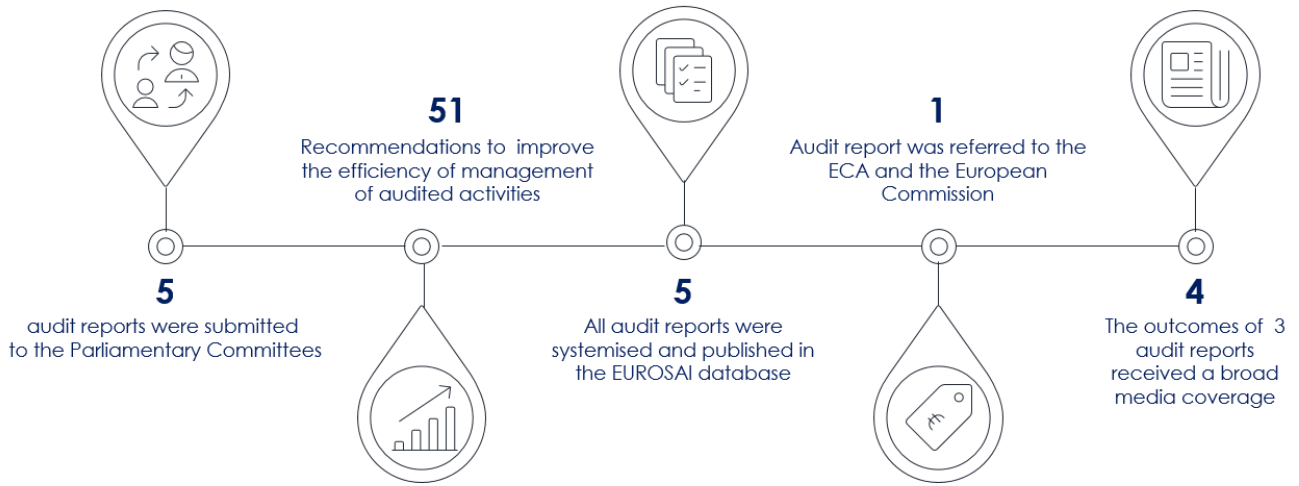
The five audits conducted by BNAO in 2024 and concluded with audit reports adopted by BNAO identified inconsistencies with the requirements of the legal framework relevant to the audited measures and activities, and deficiencies in the organization for managing the audited processes and activities that resulted in inefficient and/ or ineffective performance.

The recommendations from the five audits aim at:

- Ensuring adequate arrangements for enhancing the effectiveness of policy and programme implementation and improving the key outcomes;
- Enhancing the effectiveness of planned processes for implementation of the programmes and measures;
- Enhancing the effectiveness of monitoring on the achievement of the objectives for the respective policies and programmes, improving the mechanisms for inspection and the analysis of programme outcomes;
- Ensuring compliance with the requirements of the specific legislation and improving the regulatory framework where necessary;
- Ensuring support for the reform of e-governance in the public sector.

BNAO plans and conducts follow-up reviews on the implementation of its recommendations.

Public disclosure of the 2024 performance audit results



3.6 Specific Audits conducted in 2024

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

This category includes the audits that are mandatory under the BNAO Act (audit conclusions on the budgets and the budget expenditures of the Bulgarian National Bank), Law on Political Parties, the Elections Code and audits of commercial entities.



Audit Reports

In 2024, the BNAO's Board adopted 10 specific audit reports. Constructive recommendations were issued to the audited entities' leadership aimed at overcoming the root causes for the identified non-compliances and improving the audited processes.

This section contains summaries of the outcomes of the specific audits completed in 2024.

Audits on the execution of budgets and budget expenditure



Audit of the Report on the execution of the 2023 State Budget of the Republic of Bulgaria

Audited entity: Ministry of Finance

Audit area: drafting, structure, contents and submission of the Report on the execution of the 2023 state budget of the Republic of Bulgaria and the monitoring of the budget execution processes.

Audit conclusion:

The Report submitted to BNAO was in compliance with the requirements of the Public Finance Act, the internal acts and the guidance issued by the Minister of Finance.

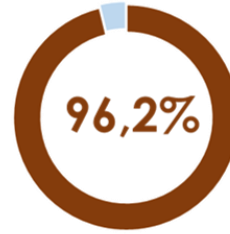
The audit identified that six primary budget spending units exceeded the reported amounts under the indicator "Maximum amount of expenditure commitments that may be undertaken" compared to the updated plan as of 31 December 2023), and one primary budget spending unit exceeded the indicator "*Maximum amount of the new expenditure liabilities that may be incurred*", thus breaching Article 88 of the Public Finance Act and of the budgetary discipline.

The audit did not find any excess expenditure for personnel compared to the planned indicators for the respective year, with the exception of one primary budget spending unit, which infringed the provisions of Article 77 of the 2023 State Budget of the Republic of Bulgaria Act (SBRBA).

Execution rate of revenues, aid and donations planned in the 2023 SBRBA, mainly due to the underperformance of tax revenues



Execution rate of the reported expenditure, budgetary relations (net) and contribution to the General EU budget



The net transactions reported in the financing section amount to 5,268.6 million BGN, incl. funding from external sources (net) of 4,630.9 million BGN, internal sources (net) -637.5 million BGN and privatization of 0.2 million BGN.

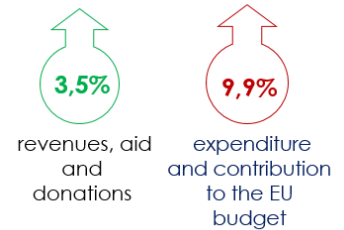
Budget balance on the 2023 State Budget of the Republic of Bulgaria.



Consolidated fiscal programme deficit



increase compared to the previous year



General conclusion: The state-of-play of the financial management and control systems in the audited area is satisfactory; there are effective controls in place and arrangements for ongoing monitoring of the drafting, execution and reporting of the state budget.



2

Audit of the Report on the execution of the 2023 budget of the Public Social Security System**Audited entity:** National Social Security Institute**Audited area:** drafting, endorsing and reporting on the 2023 Budget of the Public Social Security System.**Audit conclusion:**

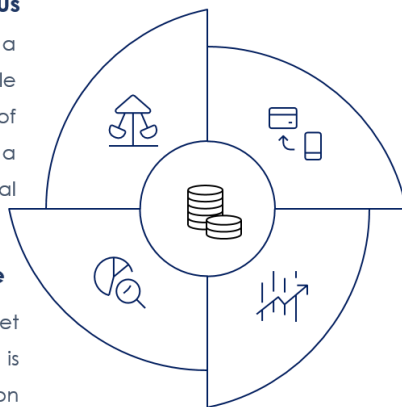
The Report on the execution of the 2023 Budget of the Public Social Security System was drafted, endorsed and submitted to BNAO and Parliament in compliance with the statutory procedures and deadlines. The structure and contents of the Report are in line with the Law on the 2023 Budget of the Public Social Security System.

Budget Surplus

The Budget Execution Report indicated a surplus of 15,972.7 thousand BGN, while the 2023 State Budget of the Republic of Bulgaria did not plan either a deficit or a surplus in the Budget of the Public Social Security Fund.

Total expenditure

The total expenditures of the 2023 Budget were 1.2% lower than planned. This is mainly due to lower expenditures on pensions, social benefits and allowances, and on programmes, activities and services related to social security, social assistance and employment.

**Received Transfers, Expenditures and Transfers Provided**

The received transfers, expenditures and transfers provided, disclosed in the Report that were not projected in the 2023 Public Social Insurance Budget Act, were in compliance with the legislation.

Social security revenues

The social security revenues in the 2023 budget of the Public Social Insurance were 1.1% higher compared to the projections. This is due to overperformance of revenues from social security contributions paid by employers and insured persons.

General conclusion: The controls introduced with the Internal Rules were effective and consistent throughout the audited period. The financial management and control system ensured compliance with the audited processes and the statutory framework.



3

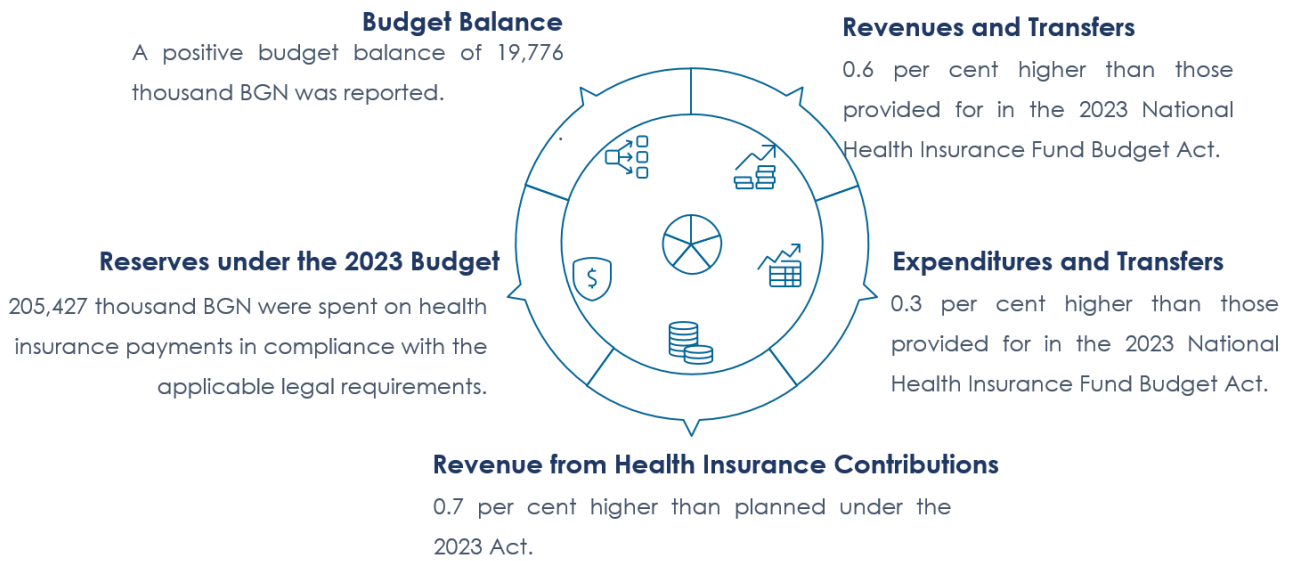
Audit of the Report on the execution of the 2023 Budget of the National Health Insurance Fund

Audited entity: National Health Insurance Fund (NHIF)

Area of review: drafting, endorsement, structure and contents of the Report and reporting on the execution of the 2023 Budget of the National Health Insurance Fund.

Audit conclusion:

The Report on the execution of the 2023 Budget of the National Health Insurance Fund is in compliance with the structure, indicators and requirements set out in the 2023 National Health Insurance Fund Budget Act. The reported revenues, expenditure and transfers are in line with the statutory provisions.



General conclusion: The state-of-play of the systems for financial management and control in the area of review was satisfactory.



4

Audit of the budget expenditures of the Bulgarian National Bank and their management for the period 01 January 2023 through 31 December 2023

Audited entity: Bulgarian National Bank

Areas of Review: 1) management of the processes for planning, incurring and reporting the BNB budget expenditure and 2) managing the public procurement process.

Audit conclusion:

The audit identified compliance in all material aspects in the areas of review.

The planning of the budget expenditure and the adoption of the 2023 budget of BNB was done in compliance with the requirements of Article 48, Paragraph 1 and Article 50 of the Bulgarian National Bank Act and the Internal Rules on planning, incurring and reporting the BNB budget.

The adjustment of the expenditure indicators of the 2023 BNB budget and the reallocations of funds within the established limits for specific items, were carried out in compliance with the effective arrangements.

The total expenditure of the BNB 2023 budget amounts to 147,009 thousand BGN (incl. 132,817 thousand BGN in running costs, and 14,192 thousand BGN in investment costs), accounting for an execution rate of 40.48 per cent of the Budget endorsed by the Bank's Managing Board for the year. The unspent funds in the 2023 budget amount to 216,187 thousand BGN. The main reasons for this relate to the changed date for the adoption of the euro as a national currency, which was moved from 1 January 2024 to 1 January 2025, resulting in the postponement of various expenses for a later period.

The budget expenditures of the BNB were incurred in line with the limits per indicator as approved by the BNB Managing Board and planned in the 2023 budget of the Bank. The audited expenses were justified with underlying documents and were incurred in line with the applicable regulations, internal rules and contracts.

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

General conclusion: The internal controls met their underlying goals, the control procedures were effective, consistent and compliant during the audited period.



5

Audit of the Bulgarian Development Bank

Audited entity: Bulgarian Development Bank

Audited area: the arrangements in place for ensuring effective operations of the Bulgarian Development Bank (BDB) and its lending function in support of the Bulgarian economy with a focus on SME promotion, financing of large enterprises and large exposures.

Audit conclusion: BDB did not work effectively enough during the audited period towards meeting its main goal – supporting the Bulgarian economy. The audit identified good practices, however, there are areas that could be further improved.

Absence of internal rules for the development of the Bank's Operational Strategy

The strategic planning process needs to be developed further in specific areas. The Bank has not adopted internal rules (or a similar document) regulating the development of its Operational Strategy. BDB is not fully integrated in the design of the government economic policies; the Bank's processes for providing incentives are not in full compliance with the Law on Financial Management and Control. There are no specific indicators in place to measure the strategic goals, nor are there clearly defined priority projects and/ or economic sectors. All this hampers the monitoring of results and evaluation of the effective use of resources.

Lack of transparent and competitive procedures for the selection and nomination of Supervisory and Managing Board members

There are no provisions in the Bulgarian Development Bank Act or in the secondary legislation concerning competitive public procedures for the selection and nomination of members of the Bank's Supervisory and Management Boards. This area needs improvement in view of achieving better compliance with good corporate governance practices and the recommendations of the European Banking Authority (EBA) and the Organization for Economic Cooperation and Development (OECD).

There were changes in the membership of the Managing and Supervisory Boards during the audited period. The audit did not identify sufficient documented justification related to achieved results and attained objectives, or to the improvement of the Bank's operations and financial position. Such practices are a precondition for reduced transparency and effectiveness of the management.

Insufficiently effective internal arrangements regarding the identification, management and prevention of conflicts of interest

There was room for improvement in the Bank's internal arrangements regarding the identification, management and prevention of conflicts of interest during the audited period with the aim of achieving risk mitigation.

The audit identified cases where members of the Managing Board holding public positions falling within the realm of Counter-Corruption and Unlawfully Acquired Assets Forfeiture Act (repealed) participated in the voting on matters regarding their own remuneration for membership in the management bodies of the bank's subsidiaries. Declarations on the existence of conflict of interests were not filed in these cases, which was a breach of the then effective legal provisions and the Bank's internal rules.

Failure to meet the 2020 and 2021 financial goals

During the audited period, the remuneration of the Bank's management was not conditioned upon meeting the Bank's goals and/ or upon any defined qualitative and measurable quantitative criteria.

The consolidated financial targets of the Bank for 2020 and 2021 laid down in its Strategy for the respective period were not fully met. The negative trends of some key operational indicators were a result of the cumulative impact of certain factors and causes, both external (the Covid-19 Pandemic – outside the direct impact of the Bank), and internal – incl. decisions and measures undertaken by the management and the sole owner of the capital.

During a large part of the audited period the Bank did not have procedures in place for client segmentation to ensure the correct categorization of micro, small and medium-size enterprises and respectively define criteria for large enterprises (large corporate clients).

During the audited period, the Strategy for non-performing exposures did not contain specific indicators for measuring the attainment of specific targets, which was contrary to the EBA Guidance and prevented the managing body from taking adequate actions and timely decisions to ensure the reduction of the levels of non-performing exposures. In 2021, there was a growing share of non-performing exposures in the BDB resulting in a failure to reduce them and achieve maximum level of recovery— a key goal set out in the Bank's Strategy on non-performing exposures.

Recommendations to the Minister of Innovations and Growth and to the Managing and Supervisory Boards of BDB

- Adopting a procedure for the selection and nomination of members to the Management and Supervisory Boards of the Bank;
- Evaluation of the performance of the Supervisory Board members, incl. in connection with their dismissal;
- Regulating the terms and conditions for the strategic planning, developing and reporting on the Operational Strategy of the BDB;
- Building a single database for monitoring the non-performing exposures;
- Adopting a marketing and communications policy/ strategy to improve the awareness among the SMEs regarding the financing opportunities.

- Analysing the effect on the Bank's operations and the achievement of its objectives of the restrictions introduced in the Bank's Statute in 2021 regarding the maximum cap on new exposures to one client or a group of related clients. If necessary, proposing alternative protective mechanisms to prevent the Bank's deviation from one of its key priorities, namely supporting the sustainable development of SMEs.

6

Audit of the NEK EAD (National Electricity Company) for the period 01 January 2021 through 31 December 2022

Audited entity: NEK EAD (National Electricity Company)

Audit area: Management of the NEK EAD (National Electricity Company), Business planning and financial status of NEK EAD; Management of NEK EAD's real estate and planning and award of procurement contracts, and contract implementation.

Audit conclusion

In audited area **Management of NEK EAD**, the audit identified partial non-compliance with the regulatory framework, internal regulations and contracts, namely:

- Delayed updating of the company's Statute to ensure compliance with the Public Enterprises Act and the Rules on its implementation;
- Several days of delay in submitting 7 minutes of the Board of Directors' meetings to the sole owner of capital;
- Introduction of a provision in the management contracts during the audited period enabling a non-pecuniary good governance guarantee in contradiction to the Rules on the Implementation of the Public Enterprises Act ; depositing a guarantee for good governance which is not compliant with the regulatory requirements; absence of arrangements for determining the remuneration of the Board members;
- Delayed publication of the financial statements on the company's webpage.

Audit area "Business planning and financial positions of NEK EAD". The audit found that the arrangement for NEK EAD strategic planning and business programming processes were not regulated in the internal rules (or similar document); there were no sufficient conditions in place to ensure uniform, consistent and traceable completion of the separate stages in these processes. The non-financial goals laid down in the effective business programmes concerning (for example) the development of the company's market positions, human resource management, updating the information systems and technologies, etc, were not linked to specific performance indicators.

Partial execution of the planned expenditure for investments and repairs.

The planned expenditure for investment and repair activities was not fully incurred.

There were significant problems (risks), incl.:

- Impaired liquidity and negative working capital;

- Significant outstanding debt to the Bulgarian Energy Holding (over 2 billion BGN), which is being rescheduled periodically due to the company's liquidity issues;
- Significant uncertainty regarding the future treatment of the capitalized expenses for building the Belene Nuclear Power Plant whose value exceeds 2.5 billion BGN;
- Uncompensated expenses incurred by NEK EAD in previous regulatory periods incurred for public supplies of electricity;
- Continued validity (till mid 2026) of the contract for mandatory buy-out of the electricity produced by Maritsa Iztok I Thermal Power Plant; following 01 July 2025, the purchased quantities should be sold on the free market;
- Ongoing repair works in the biggest generation facility of NEK EAD (Chaira Pumped Storage Hydro Power Plant), which will require significant funding according to the preliminary estimates.

Audit area Management of NEK EAD's Real Estate. The audit identified irregularities in some significant aspects:

- The entity has not developed a document outlining its priority goals and long-term measures concerning the management and disposal of the real estate owned by the company, incl. the unused properties that generate significant expenditure.
- The company has not built a register of the real estate managed and administered by the Headquarters and the enterprises of NEK EAD.

Concerning real estate leasing and signing leasing contracts, the audit identified non-compliance with the legal framework in the following areas:

- Conditions established for the conduct of tendering procedures;
- Payment of deposits for participation in tender procedures; implementation of ex-ante legality controls;
- Failure to ensure coordination of all 18 lease contracts with all responsible persons;
- Non-compliance with the double signature requirement in the case of 14 lease contracts; five contracts were concluded for a term exceeding the one approved by the Board of Directors, etc.

Audit area "Planning, award and implementation of public procurement contracts". The auditors found non-compliance with the regulatory framework and the contracts in more than one material aspect of the audited activities as follows:

In planning public procurement contracts, the company did not require information from all its structural units, so that their needs could be taken into consideration in planning the public procurement schedule for the respective year; respectively, such information was either not submitted or was submitted after the established deadline.

Regarding the direct contracting procedures, the audit identified the following: the documentation accompanying the invitation had not been approved with the decision for launching the procedure; the invitations for two procedures did not specify the required size of the guarantee; the evaluation committees for three of the procedures did not prepare minutes; failure to send to all bidders a protocol with identified omissions in the filed documentary packages in the case of one procedure; in the case of three procedures the reports of the evaluation committee were endorsed after the expiry of the deadlines; three contracts were signed after the statutory deadline.

Regarding one open procedure the audit found the following: failure to include required information in the contract notice announcing the opening of the procedure; failure to include additional personal data protection requirements in the technical specification; approval of the evaluation committee's report after the statutory deadline. The declarations of the evaluation committee members were not uploaded in the Centralized Automated Information system "Electronic Public Procurement" (CAIS EPP) in breach of the adopted internal rules.

In case of two public tenders the audit identified the following: selection criteria non-compliant with Article 2, Paragraph 2 of the Public Procurement Act; failure to issue decisions for designating a contractor or terminating the procedure within the deadlines under Article 181, Paragraph 6 of the Public Procurement Act; setting deadlines for the filing of bids that are not in compliance with Article 32, Paragraph 3 of the Public Procurement Act; one technical proposal part of a participant's bid was checked for compliance with the pre-announced conditions in violation of Article 56, Paragraph 2 of the Rules on the Implementation of the Public Procurement Act; failure to upload declarations in the Centralised Automated Information System "Electronic Public Procurement" (CAIS EPP) in violation of the internal rules.

Concerning the award of procurement contracts under Article 20, Paragraph 3 of the Public Procurement Act, the audit identified the following irregularities: in case of three procedures – restrictive conditions in violation of Article 2, Paragraph 2 of the Public Procurement Act; in case of one procedure - failure to send a contract award notice in line with Article 194, Paragraph 4 of the Public Procurement Act; in case of two procedures - contracts were signed after the expiry of the 30-day deadline in violation of Article 194, Paragraph 1 of the Public Procurement Act; in case of one procedure - non-compliant combination of the rules applicable to contract awards under Article 191 of the Public Procurement Act and those for direct contracting procedures; violations of the publicity and transparency principles – through failure to publish the required information in the buyer's profile in case of one procedure constituting a violation of Article 19a, Paragraph 4 of the Rules on the Implementation of the Public Procurement Act.

The financial management and control systems in the areas of review were not in line with the statutory framework; controls were not applied continuously and/ or were insufficient in content and ineffective, which resulted in non-compliance with the statutory framework identified by the audit.

Recommendations to the Minister of Energy, the Board of Directors of the Bulgarian Energy Holding and the Board of Directors of NEK EAD

-
- The Minister of Energy should initiate action for the adoption of Council of Ministers' acts in line with § 31, Paragraphs 2 and 3 of the Transitional and Final Provisions of the Law amending the Water Act.
 - The Board of Directors of the Bulgarian Energy Holding should endorse Rules or a similar document regulating the remuneration and guarantees under the management contracts of the members of the Board of Directors of NEK EAD and adopt a long-term strategy for managing the company's indebtedness.
 - The Board of Directors of NEK EAD should regulate the terms and conditions for the business planning, drafting and reporting on the company's business programme; forecasting public procurement needs, the manner of documenting ex-ante legality controls, and issuing opinions on whether payments under contracts awarded under the Public Procurement Act should or should not be made.
 - Define long-term priorities, goals and measures in relation to the management and disposal of the company's real estate, establish a register of the company's real estate; and align the provisions of the effective rules relating to the coordination procedure for the conclusion of lease contracts by the enterprises of NEK EAD.

Audit of the financial activities and management of property provided to political parties in the period 01 January 2022 through 31 December 2022

Audited entities: political parties

Areas of review: organization of financial operations of the political parties; generation of revenues and incurrence of expenses; management of the property provided by the state and/ or municipalities; establishment and maintenance of a public register; financing of election campaigns – declared revenues and expenditure incurred by political parties participating in partial local elections in 2022.

Audit conclusion

The 2022 annual financial statements of the political parties and the notes thereto were submitted to BNAO within the statutory deadlines, and contain the elements required by the Accountancy Act and the applicable accounting standards. The form, structure and presentation in the annual financial statements were in line with Article 34 of the Political Parties Act. The accounting systems of the audited parties were in compliance with the Accountancy Act.

The generation of revenues and incurrence of expenditure by the political parties were in line with the legal requirements, with the exception of the identified discrepancies in more than one material aspect, as follows:

- One of the audited parties did not disclose part of its income from state subsidies in its 2022 annual financial statements.
- One of the parties used a loan extended by a natural person to finance its operations, which was not in compliance with the provisions in the Political Parties Act defining the eligible sources of financing.
- One of the audited parties did not disclose all natural persons who made donations to it in its declaration under Article 34, Paragraph 4 of the Political Parties Act.
- One party incurred expenditure for interest on a loan extended by a natural person, which cannot be regarded as an expense inherent to the party's activities.
- As of October 2023, one party had not reimbursed the excessive state subsidy² in the amount of 10,450 BGN.

The management of the property provided for use by the state and/ or the municipalities was in line with the legal framework and the contracts except for non-compliance in a material aspect of the activity, as follows:

² In compliance with § 5, Paragraphs 1 and 2 of the Transitional and Final Provisions of the Act amending the Political Parties Act (SG issue 50 from 25 June 2019, coming into effect 25 June 2019), the Ministry of Finance recalculated the annual state subsidy granted to political parties and coalitions for the period from 26 May 2016 until the entry into force of the Act. Pursuant to § 5, Paragraphs 5, 6 and 7 of the Transitional and Final Provisions of the above Act (SG 50 from 2019, amendment SG 28 from 2020 in effect since 13 March 2020; SG. 104 from 2020 in effect 1 January 2021), the funds were to be reimbursed by 31 January 2021. After this date, are subject to collection by the National Revenue Agency.

- As of the end of the audited period, four parties continued to use premises provided by the state and/or municipalities for their activities without meeting the statutory requirements.

With respect to maintaining and updating the information in the public register of political parties, the audit found compliance with the legal framework with the exception on one party, which failed to publish two declarations on origin of donated funds exceeding one minimum monthly wage.

8

Compliance audit of the declared revenues and incurred expenditure related to the election campaigns of the participants in the elections for Members of Parliament held on 02 April 2023

Audited entities: political parties, coalitions of parties and initiative committees

Area of review: financing of the election campaign of the election participants

Audit conclusion:

All audited election participants complied with the deadline set out in the Election Code for submitting to BNAO a report on the revenues, expenditure and committed expenditure and payment obligations incurred in relation to the election campaign. The reports were accompanied by the underlying bank statements for the transactions made for the purpose of the election campaign of each participating entity and declarations of the origin of the funds donated and provided by natural persons.

Individual parties participating in the elections did not comply with the requirements to provide BNAO with information during the election campaign regarding new circumstances subject to publication in the Unified Public Register:

- One party and one coalition of parties did not submit the required information concerning three donations - including the names of the donors, the type, size and purpose of the donations, while one party and one coalition of parties delayed the submission of information concerning 23 donations.
- One coalition of parties did not file one declaration of the origin of funds for a donation by a donor amounting to more than one minimum monthly wage, while one party and one coalition of parties filed a total of 21 declarations past the deadline.
- One party and two coalitions of parties did not file the required information concerning 17 contributions of funds by candidates, incl. the names of the candidates and the amount of funds provided by them, while three parties and two coalitions of parties filed information concerning a total of 20 such instances of funding past the deadline.
- One party and two coalitions of parties did not file in total 16 declarations by candidates regarding the origin of the funds provided by them amounting to over one minimum monthly wage, while three parties and one coalition of parties filed in total 9 declarations past the due date.

- One political party did not provide the required information concerning the name of an advertising agency with which it had worked in relation to the election campaign, while two political parties and one coalition of parties disclosed the names of a total of 3 advertising agencies with delay.

All audited election participants complied with the campaign fundraising requirements.

Two political parties and three coalitions of parties continued raising funds to finance their election campaigns after the end of the campaign period.

The audits found unreported expenditure, incl. payment obligations incurred for goods/ services received in relation to the election campaign by one party and three coalitions of parties amounting in total to 13,718 BGN and unreported revenues by three parties and four coalitions at the cumulative amount of 42,866 BGN.

As of the date of the audit, one party and four coalitions of parties had outstanding payables to suppliers of goods and services amounting in total to 11,656 BGN.

All audited entities with the exception of one party and one coalition complied with the legal requirement that revenues and expenditure related to the election campaign exceeding BGN 1,000 be processed through bank transfers.

The audited election participants complied with the legal requirement concerning the total amount of the funding for their election campaigns.

9 Compliance audit of the declared revenues and incurred expenditure in relation to the 2023 local elections – political parties and coalitions of parties

Audited entities: political parties and coalitions of parties

Area of review: financing of the election campaign of election participants.

Audit conclusion:

All audited political parties and coalitions of parties met the deadline for filing with BNAO their reports on revenues, expenditure and payment incurred in relation to the election campaign. The reports were accompanied by extracts from the bank accounts used for servicing the election campaign of each participating party, and declarations of the origin of the funds donated and provided by natural persons.

Individual election participants breached the legal requirements for filing with BNAO information on new facts and circumstances that arose during the election campaign and are subject to publication in the Unified Public Register:

- Two parties and two coalitions of parties did not provide the required information concerning 14 donations including the names of donors, the type, purpose and amount of the donations, while four parties and two coalitions of parties sent the information concerning a total of 22 donations past the deadline.

- One party and two coalitions of parties did not submit a total of 5 donor declarations on the origin of the donated funds exceeding one minimum monthly wage, while two parties and one coalition of parties sent a total of 15 declarations past the deadline.
- Four parties and two coalitions of parties did not disclose information regarding a total of 28 contributions of funds by candidates by candidates, incl. the names of the candidates and the size of their donations, while five parties and three coalitions of parties sent information regarding a total of 45 such contributions past the deadline.
- Two parties and three coalitions of parties did not file in total 9 declarations regarding the origin of the donated funds exceeding one minimum monthly wage, while five parties and two coalitions of parties filed in total 16 declarations past the deadline.
- One party and one coalition of parties did not disclose the names of a total of 3 advertising agencies whose services they used in relation to the election campaign, while one party disclosed the name of one advertising agency past the deadline.

All audited entities complied with the statutory requirements for fundraising for the purpose of their election campaigns.

One party and one coalition of parties continued raising funds to finance their election campaign after the end of the election campaign period.

The audit found unreported expenditure, incl. payment obligations incurred for goods and services obtained for the purpose of the election campaign on behalf of eight parties and one coalition of parties amounting in total to 9,078 BGN and unreported revenues by eighteen parties and five coalitions of parties amounting in total to 65,125 BGN.

All audited election participants complied with the legal requirement concerning the total amount of funding for the election campaigns.

10

Compliance audit of the declared revenues and incurred expenditure in relation to the election campaign for the elections of municipal councillors and mayors held in 2023 – local coalitions of parties and initiative committees

Audited entities: local coalitions of parties and initiative committees

Area of review: financing of the election campaign of election participants.

Audit conclusion:

All audited entities with the exception of one initiative committee met the deadlines for submitting to BNAO their reports on revenues, expenditure and payment obligations incurred in relation to the election campaign.

The provisions of the Election Code requiring the filing with BNAO of the statutory information for publication in the Unified Public Register during the election campaign were not met by 51 audited entities, incl. 22 initiative committees and 29 local coalitions.

The total amount of financing for the election campaigns of all audited entities amounted to 4,252,649 BGN, incl. 737,282 BGN (17 percent) for financing the campaigns of the audited initiative committees and 3,515,376 BGN (83 percent) for the campaigns of local coalitions.

The sources of financing for the election campaigns of the audited participants – local coalitions and initiative committees were in line with the provisions of the Election Code.

All audited election participants complied with the requirements prohibiting certain forms of financing and support for election campaigns.

The requirement that the financing of revenues and expenditure related to the election campaign exceeding BGN 1,000 be carried out through bank transfers was met by all participants except for one initiative committee and three local coalitions that made a total of 12 cash payments.

The audit found inconsistencies in the income disclosed by local coalitions and initiative committees, and the actual amounts identified during the audit, as well as between the disclosed total financing of the election campaign and the amounts identified during the audit. The differences were respectively 37,729 BGN and 29,675 BGN.

The amounts for the financing of election campaigns of the audited local coalitions and initiative committees did not exceed the statutory limit set out in the Election Code, with the exception of one initiative committee.

In conclusion, according to our audits, the drafting, structure and presentation of the reports on the execution of the budgets of the entities falling within the scope of specific audits were in compliance with the relevant legal requirements. Partial inconsistencies or inefficiencies were observed in the audited commercial entities.

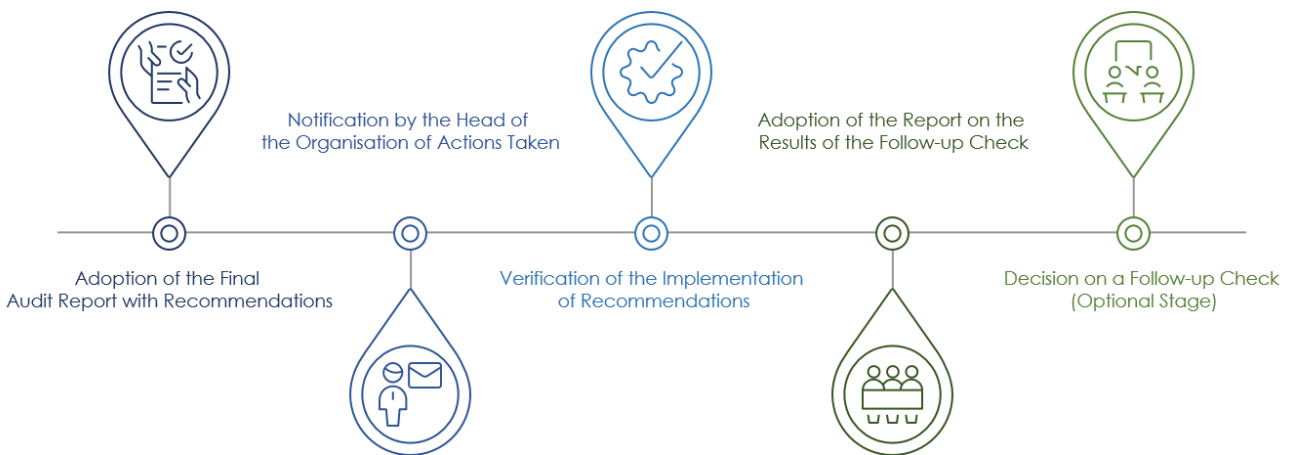
3.7 Follow-up on BNAO's recommendations

One of BNAO's key instruments through which it contributes to improving the management and accountability of public funds is issuing recommendations. The detailed audit analyses and well-founded recommendations create incentives for change in the public sector, enhancing the effectiveness of audited entities and enabling the adoption of adequate corrective measures.

In line with the BNAO Act, the SAI's President is obliged to "ensure timely follow-up on the implementation of BNAO's recommendations".

Follow-up on the implementation of recommendations

Follow-up on recommendations follows a well-designed process.



Recommendations issued in 2024

BNAO issues recommendations as part of its compliance, performance and specific audits. In 2024 BNAO's Board adopted 44 final audit reports on such audits.

34
 audit reports contain constructive and results-oriented recommendations.

8
 audit reports do not contain recommendations, as no material deviations from the applicable legal framework were identified.

1
 audit report does not contain recommendations, as actions had been taken prior to the issuance of the final audit report.

1
 audit report does not contain recommendations, as the audited organisation had been dissolved.

Follow-up checks on the implementation of recommendations



In 2024, BNAO performed 52 follow-up checks on the implementation of its recommendations to examine the compliance between the issued recommendations, the information received from the management of the audited entities and the actual measures taken and actions performed to implement them. The majority of checks (44) were first-time checks.

The number of follow-up checks and respectively the number of checked recommendations depends on the nature of the audits, the prescribed deadlines for addressing the recommendations, and the administrative capacity of the audit directorates. If during the follow-up check our auditors find that the measures and actions taken to address the identified weaknesses are insufficient, they perform additional follow-up checks at a later stage.

During the reporting period, 15% of the checks on recommendations were subsequent checks. It is noteworthy that **BNAO conducted a fifth check in the Municipality of Dimitrovgrad, and a third check in the Municipality of Opan and the State Enterprise Bulgarian Sports Totalizator**, due to the failure of the management of the audited entities to introduce adequate measures for improvement.

Eight of the stand-alone checks tracked the results of the implementation of recommendations issued following horizontal audits, within the scope of which the activities of more than one public sector entity were analysed and assessed.

Notifications of the measures taken

The entities receiving the recommendations are obliged to notify the President of BNAO in writing of the measures they have taken to implement the recommendations issued in the final audit reports. The deadline for this notification is set out in the audit report.

The first-time follow-up checks conducted in 2024 identified that out of the total of 76 addressees, **20% failed to submit notifications.**



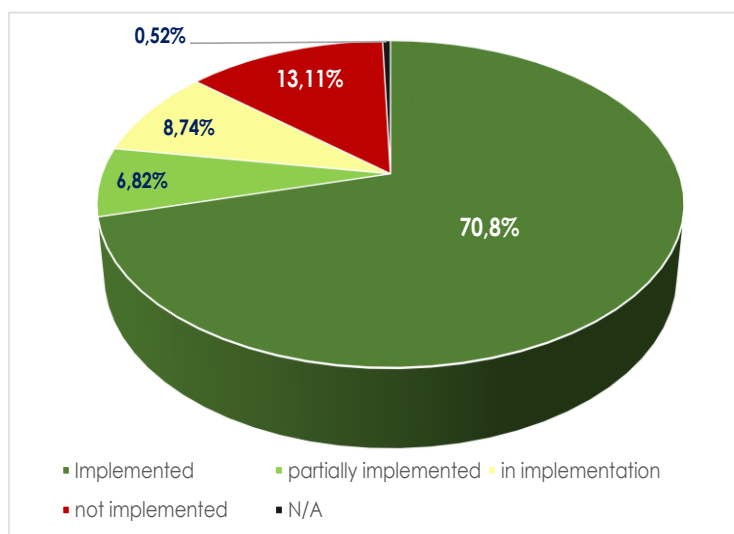
Implementing the recommendations

We group the implementation rate of recommendations based on three indicators: 1) whether there is pro-active behaviour on behalf of the entity's management; 2) whether the specifically prescribed actions have been taken by the entity's officials; and 3) whether the auditors have evidence of actual improvement or elimination of the issues identified during the audit.

	Implemented	Partially Implemented	In the Process of Implementation	Not Implemented	Not Feasible
Active Management Commitment	●	●	●	✗	
Specific Prescribed Measures Taken	●	●	◐	✗	
Auditors Identify Evidence for Improvement	●	✗			

NB: Recommendations are classified as not applicable where it has been established that, following their issuance, significant changes have occurred in the regulatory framework governing the functions and activities subject to audit and/or in the arrangements for their management, rendering their implementation unnecessary

In 2024, BNAO followed up on 497 recommendations and 75 sub-recommendations, with a separate assessment of the degree of implementation of each sub-recommendation. The checks identified that **70.8% (405) of all recommendations were implemented.**



The implementation of the recommendations from the compliance audits of financial management (CAFM) ensures the improvement of the processes of budget execution, award and implementation of public procurement contracts and management of property in the audited public sector entities. The implementation of the Performance Audit (PA) recommendations aims to ensure the effective, efficient and economic management of public funds and activities.

BNAO informs the Parliament, Council of Ministers or relevant Municipal Councils of the recommendations that were not implemented or partially implemented or are in the process of implementation. In 2024, the reports on 19 follow-up checks were sent respectively to: the Parliament, the Council of Ministers (ten reports) and the Municipal Councils of: Dryanovo, Alfatar, Krushari, Opan, Panagyurishte, Roman, Primorsko, Stambolovo, and Cherven Bryag.

The follow-up on the recommendations issued following the audits of the municipalities of Cherven Bryag and Primorsko found that a big portion of the recommendations were not implemented: out of a total of 15 recommendations issued in the audit of the Municipality of Cherven bryag, eleven (73%) were not implemented, while of the total of 16 recommendations issued in the audit of the Municipality of Primorsko, ten (63%) remained unmet. The unmet recommendations relate to updating secondary legislation and internal regulations, thereby ensuring legality in the management of public funds and municipal activities.

In 2024, BNAO followed up on the recommendations from the audits of the Bulgarian National Radio and the Bulgarian Posts EAD assigned by Parliament through resolutions adopted on 27 September 2019, 16 January 2020 and 20 May 2022.

The Director General of the Bulgarian National Radio did not send to BNAO's President a notification of the measures taken to address the SAI's recommendation within the prescribed deadline. The follow-up identified that out of all 12 issued recommendations, seven were implemented, three were implemented only partially, one recommendation was in the process of implementation, while one remained unmet. The latter concerns initiating dialogue and joint actions with the competent authorities to initiate legal amendments to the Radio and Television Act.

The report on the audit of the Bulgarian Posts EAD contained one recommendation to the Minister of Transport and Communications and eight recommendations to the Chief Executive Officer of the Bulgarian Posts EAD. The Minister of Transport and Communications did not send a notification concerning the implementation of the relevant recommendation. The follow-up found that the recommendation on initiating legal changes to place the Bulgarian Posts EAD within the scope of public-interest entities under the Accountancy Act was not met. The Chief Executive Officer of Bulgarian Posts EAD filed the required notification past the prescribed deadline. Seven of the recommendations to the Chief Executive Officer were met, while one concerning the adoption of criteria for prioritization of projects in the company's investment programme remained unmet.

In 2024, BNAO followed up on the implementation of the recommendations from the audits on overcoming the consequences of the COVID-19 Pandemic - support measures for farmers; the Community-Led Local Development (CLLD) approach; mental healthcare system; reducing the administrative burden on businesses in tourism; the Maritime Affairs and Fisheries Program 2014 – 2020; the implementation of programme budgeting.

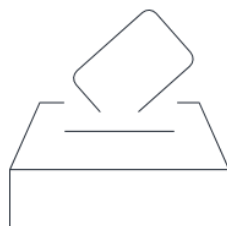
The actions taken in implementing BNAO's recommendations are an expression of the audited entities' confidence in the SAI, and of their understanding that such measures would contribute to the improvement of their operations. BNAO will continue to follow up on its recommendations that still remain unaddressed.

3.8 Administrative Sanctioning Activities

The President of the BNAO exercises administrative sanctioning powers



Public Procurement Act



Election Code



Political Parties Act

In line with Article 67, Paragraph 1 of the BNAO-Act, the statements of identified infringements are drafted by auditors while the penal decisions are issued by the BNAO President or an authorized official. The administrative penal procedure takes place in line with the Administrative Violations and Sanctions Act (AVSA).

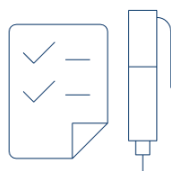
Administrative penal procedures under the Public Procurement Act

In 2004, the checks for compliance with the PPA once again constituted a significant portion of BNAO's activities. As a result of the audit reports adopted in 2024:



Number of audits checking public procurement procedures

24



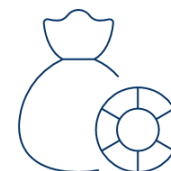
Number of audited procedures under the Public Procurement Act

142



Value of public procurement contracts (excluding VAT)

132 428 603 BGN



Total Amount of Administrative Sanctions Imposed

177 722 BGN

The audits found a total of **137** administrative violations of the PPA, the most common among them being (based on the conducted checks):

- Criteria introducing unfounded restrictions or providing unjustified advantages to bidders in public procurement tenders;
- Non-compliance with the evaluation methodologies when applying the award criterion "optimal quality-price ratio";
- Absence of public procurement procedures or other award procedures under the PPA in cases where the relevant grounds existed;
- Failure to file documents and information subject to publication in the Public Procurement Register within the statutory deadlines;

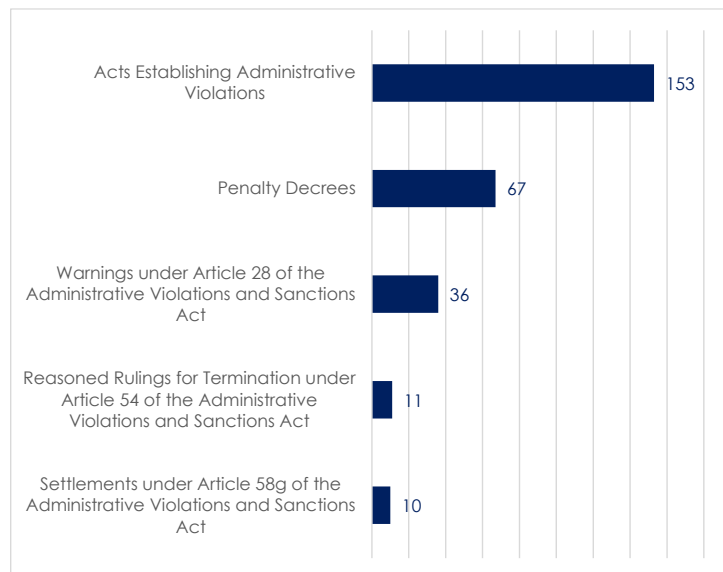
- Selection of non-competitive award procedures (contracting without prior publication and direct contracting without meeting the conditions laid down in the PPA);
- Incomplete information in the contract award notices ;
- Contracting violations –failure to submit the required documents or failure to obtain them the ex-officio.

A key issue with the contracting authorities is their inability to plan their needs adequately and thoroughly and to subsequently launch and conduct public procurement procedures/ contract awards in a timely manner.

When there are similar planned activities within the scope of public procurement, they are not grouped together according to their identity or similarity. As a result, some procedures are not conducted/ contracts are not awarded, or public procurement contracts are split into separate contracts.

There is an issue with the capacity of experts engaged in the preparation and award of public procurement contracts. The contracting authorities do not possess specialized expertise in the specific areas subject to public procurement. This affects the quality of technical specifications and the subsequent implementation. The experts responsible for drafting the documentation and the notices need more methodological support on issues related to the Public Procurement Act and the Rules on its implementation.

During the reporting period, BNAO issued 153 statements of identified administrative infringements. Through the date of the present report, the BNAO's President has passed decisions on all these statements. Part of these decisions were adopted in 2025 in compliance with the statutory deadlines.



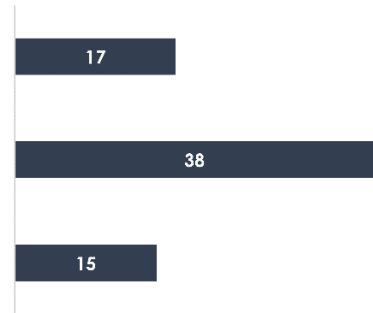
Administrative penal procedures under the Election Code

In implementing BNAO's functions related to administrative sanctions under the Election Code, the SAI issued 59 statements of identified infringements during the reporting period. As of the date of

issuance of this report, BNAO President had ruled on all of them, with some of the rulings issued in 2025 in compliance with the statutory deadlines.

The administrative penal proceedings in 2024 can be summarized as follows:

- Penalty Decrees
- Warnings under Article 28 of the Administrative Offences and Penalties Act
- Resolutions Terminating Proceedings



Administrative penal proceedings under the Political Parties Act

In 2024, BNAO issued 2 statements on identified administrative violations of the Political Parties Act. The statutory deadline for rulling on them falls in 2025.

Administrative penal proceedings under the BNAO Act

In 2024, BNAO issued one statement on identified administrative violations of the BNAO Act. The statutory deadline for rulling on it falls in 2025.





4

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Audit methodology	100
Human resources	100
Information and communication	

SECTION 4: Institutional capacity

4.1 Audit quality assurance

„For Supreme Audit Institutions (SAIs) to meet their strategic objectives and fulfil their mandates, it is essential that all aspects of their operations are of high quality and lead to high quality output ... The public interest is best served by the SAIs that carry out all their engagements at a consistently high level of quality. The design, implementation and operation of a system of quality management help the SAI achieve this objective and provide reasonable assurance that its processes are in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) and applicable legal and regulatory requirements.”

ISSAI 140 – „Quality management for SAIs“

Audit quality is a key priority for our SAI. Therefore the BNAO Act vests the Vice-Presidents of the Audit Office with responsibilities for the organisation of the audit and their quality (Article 22. (1)).

During this reporting period, BNAO applied its long-standing practices of quality control for audit engagements. The quality control system covers all types of audits regulated in the BNAO Act.



The officials in charge of quality control possess the necessary experience, knowledge, influence, authority and time for discharging their responsibilities and a good understanding of them. This ensures the sustainability and reliability of the auditing processes. Before the audit report is published, the relevant audit director checks the draft report for compliance with the law, the internationally recognized auditing standards and BNAO's internal acts, and evaluates the reliability, sufficiency and linkage of the evidence to the findings, conclusions, assessments and recommendations.

In its audits BNAO applies the auditing standards issued by the INTOSAI. In audit engagements with additional elements specific to the public sector budget organizations, the SAI applies the International Standards on Auditing published by the Board of the International Federation of Accountants – IFAC relevant to financial auditing.

BNAO's methodology is also based on these internationally recognized standards of auditing, and the national legislation. It is tailored to reflect the environment and traditions of public sector auditing in Bulgaria and is enriched with the introduction and application of good professional practices.

Another important element of the quality management system is the level of integrity in the audit function. BNAO has adopted and applies a Code of Ethics and an Integrity Policy guiding the auditors to make the right decisions in difficult situations, to exercise impartial judgment and professional scepticism. In addition, strong ethical principles create a favourable environment in the audit teams and facilitate the engagement with the audited entities. All these elements form the foundation for high-quality audits.

One of the key challenges that BNAO is continuously faced with is the need for highly qualified auditors. Its constant efforts to recruit, develop and retain auditors enable it to maintain the current level of this capacity, which may prove insufficient for the implementation of BNAO's strategic ambitions to increase its impact on the lives of Bulgarian citizens.

BNAO has approved for application the revised ISSAI 140 – Quality Management for SAIs, in effect as of 1 January 2025. The institution is in the process of updating its policies and procedures relevant to the Quality Management System. All elements of the Quality Management System are expected to be fully developed and implemented by the end of 2026. The transition from quality assurance to quality management system is expected to have a positive impact on achieving the institution's goals.

4.2 Code of Ethics

Ethical considerations are of key importance in public sector auditing. The public sector auditors' compliance with the ethical principles provides assurance of the integrity, objectivity and reliability of audit processes and results, while the auditors' independence ensures impartiality and credibility of the audit conclusions and recommendations. The ultimate effect of applying these principles is the preservation of public confidence in the transparency and accountability of state institutions.

The BNAO Act (Article 25 (3)) requires the SAI's employees to "comply with BNAO's Code of Ethics". All employees of our Audit Institution sign ethics declarations upon appointment, while conflict of interest declarations are annually.

BNAO's Code of Ethics, and the Standard on Professional Ethics of Public Sector Auditors – ISSAI 130 are published on BNAO's webpage to ensure transparency of the set of principles and values that are fundamental to the BNAO's employees.

BNAO does not tolerate any violations of professional ethics and has put mechanisms in place to address such cases. BNAO's Committee on Professional Ethics consists of a chairperson and six members appointed by a decision of BNAO. The Committee is chaired by the SAI's Vice-President. It monitors compliance with the Code of Ethics by all BNAO employees and examines all violations thereof. No such violations were identified during the reporting period.

4.3 Audit methodology

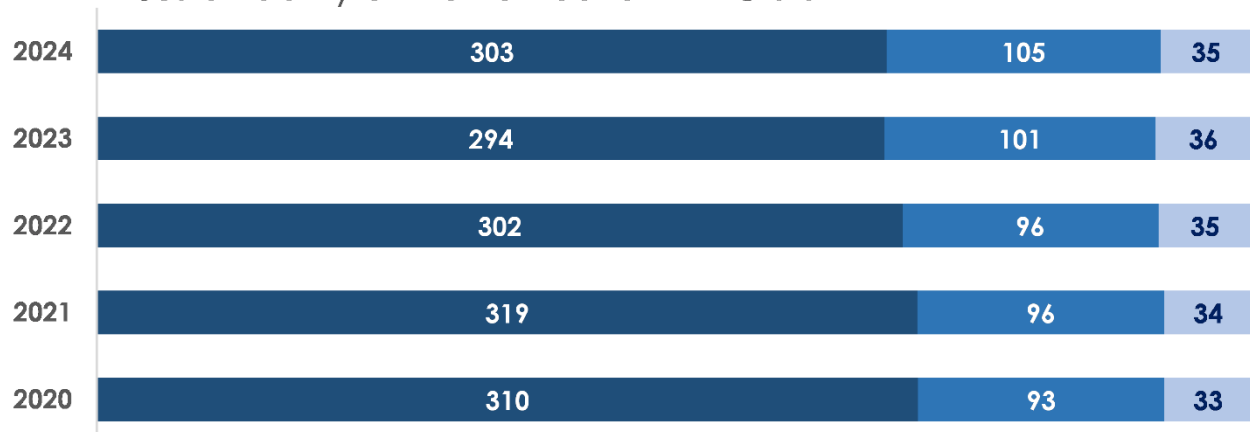
In 2024, the Manual on the implementation of the internationally recognized auditing standards and BNAO's audit function was amended to revise the approach to strategic planning. The SAI updated templates of working documents relevant to proposals for strategic goals and audit indicators, introducing sectoral and horizontal audit areas, criteria for overall risk assessment, and the identification and prioritization of important audit areas for the strategic period.

4.4 Human resources

Our employees play a key role in the implementation of BNAO's vision and mission. The overall concept for managing the human capital in our institution is laid down in the Strategy for Human Resource Management dated 2021. The goals of this Strategy are manifold and take into consideration BNAO's growing needs for staff members with adequate professional qualities, leaders with modern leadership and management skills, adequate arrangements for enhancing the SAI's professional capacity, career development opportunities, fair remuneration, and ensuring continuity and sustainability of the human resources. This approach follows the spirit of the Fundamental Lima Declaration (ISSAI 1), which points out that a SAI's effectiveness is conditioned upon its capacity to recruit, retain and effectively develop highly qualified, diligent and motivated employees.

In line with its Human Resource Management Strategy BNAO invests systemic efforts to ensure constant development of its capacity and attainment of its strategic goals.

Sustainability of the number of BNAO staff



Key to graph:

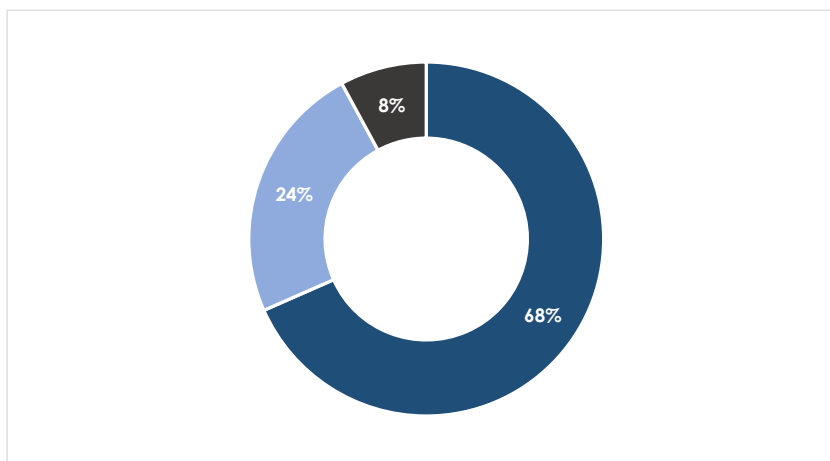
Auditors (incl. trainee auditor)

Specialised administration

General administration

The number of BNAO staff has remained relatively unchanged in the past 5 years, enabling the institution to perform its functions in a sustainable manner.

The ratio between audit professionals and the members of the professional administration also remains relatively unchanged, namely 2.9:1 at present.



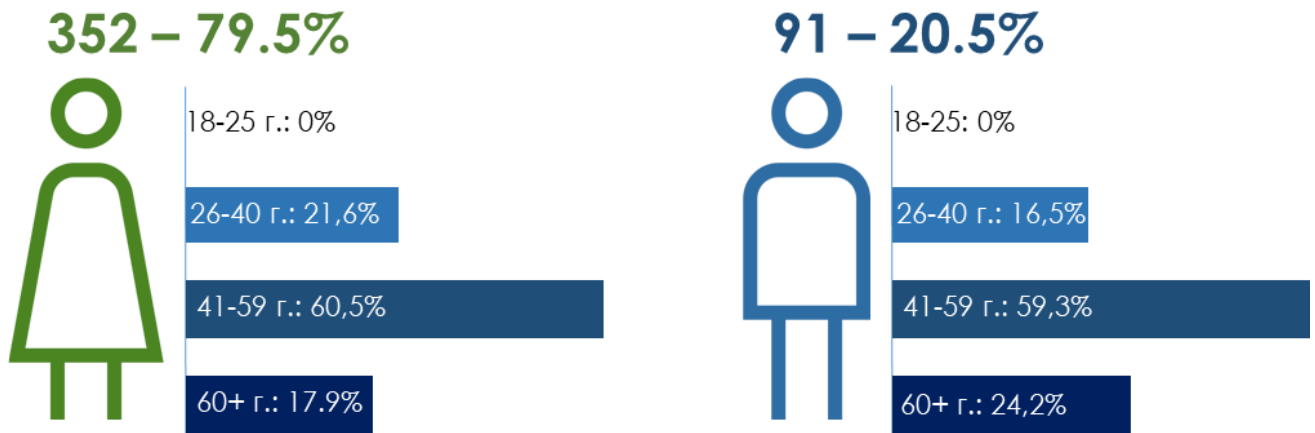
Auditors and trainee auditors

Specialised administration

General administration

The BNAO Act sets out strict requirements for professional qualifications and experience of the institution's employees. These requirements make it quite difficult to recruit new employees aged below 25. Roughly 60% of BNAO's workforce belongs to the age group of 41 – 59, which ensures good continuity. BNAO tries to make sure that the experience of its employees with long-standing

experience at the SAI is transferred organically within the relevant working teams and structural units, however, this remains a challenge.



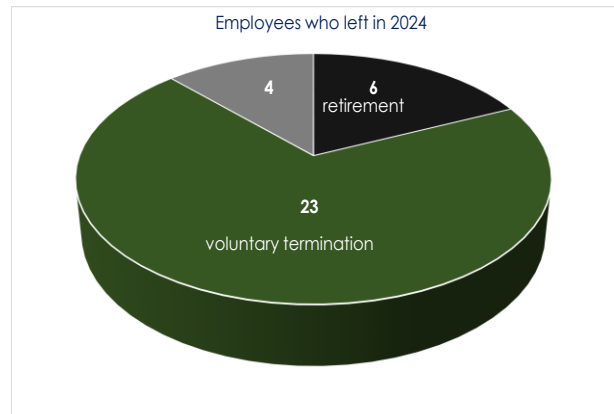
Recruitment

The hierarchy of auditor positions, the criteria for appointment to those positions and the auditors' rights and duties are defined in the BNAO Act. The recruitment takes place in line with the Rules on recruitment, appointment, training, assessment and professional development of BNAO's employees. The actual human resource needs are defined by BNAO's directors of directorates and heads of structural units.

Workforce dynamics in 2024

The net result of the natural processes of employment termination and recruitment of new staff in 2024 is positive. Ten more new recruits joined the SAI.

A total of 32 auditors and trainee auditors and 11 new members of the administration were appointed during the reporting period as a result of the systemic efforts to attract well-qualified personnel.



BNAO professional capacity

Our SAI's staff has a significant intellectual potential as required by the BNAO Act. The Act sets out the minimum educational and qualification requirement (master's degree) and professional experience requirements of the SAI's managerial staff, and for audit positions.

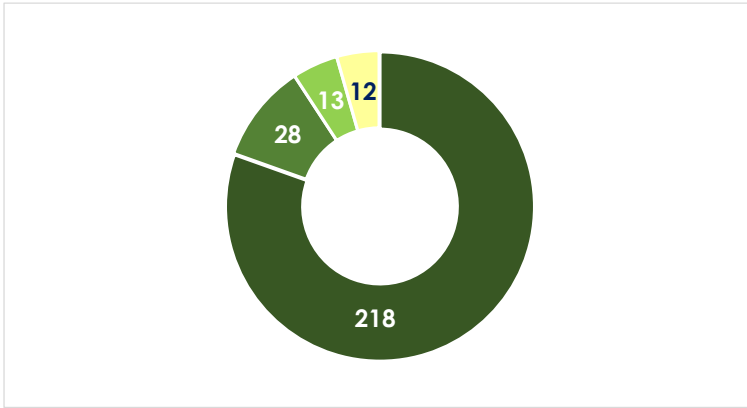


Employees with Master's Degrees



Certified public sector internal auditors

Educational degree:	Auditors	Administration	Total
High-school	0	12	12
Vocational high-school	0	9	9
Professional bachelor	0	1	1
Bachelor	0	8	8
Master	296	75	371
Ph. D.	5	2	7



Economics
Law
Administration and management
Other

The auditor's fields of higher education are grouped around the skills required for conducting audit activities, namely economics, law, administration and management.

BNAO's management invests continuous efforts to ensure further development of the institution's professional capacity. The professional trainings at BNAO are conducted in an organized manner in compliance with the Rules on recruitment, appointment, training, assessment and professional development of BNAO's personnel and at the request of all heads of structural units. They are outlined in a Training plan for each calendar year.



The trainings are held in different formats: onsite seminars following the curricula of professional organizations, webinars, international programmes and others. The effectiveness of the trainings is analysed based on the participants' feedback and the opinion of their managers.

Recruiting auditors remains a key priority at BNAO. This is an ever more complex task in view of the social and cultural changes in our society triggered by the innovative technologies and the emergence of new and more attractive career opportunities for young people. On the other hand, these transformations are expected to create opportunities for enriching and transforming the role of auditors.

4.5 Information and communication environment

BNAO has highly qualified teams with expertise in the area of information technologies and network security.

To better manage the identified risk of cyber-attacks, in 2024 BNAO deployed and configured new devices to ensure the protection of its information and network infrastructure. These support the planning, prioritization, detection of cyber security weaknesses and recovery after incidents.

The new Microsoft 365 E5 licence for use and maintenance ensures the highest level of protection of users' identity and of the information, as well as additional data protection and management functionalities, which contribute to significant risk mitigation.

All virtual servers and databases have two backup copies. To ensure protection against cyber-threats, BNAO uses virtual private network for access to its software applications and its databases; two-factor authentication is required for access to official email accounts.

BNAO uses a cloud storage for the exchange of large volumes of data and information. It is located on BNAO's proprietary infrastructure developed by its IT experts.

In 2024, BNAO successfully passed the first supervisory audit under the latest international Information Security Standard ISO 27001:2022.

By Council of Ministers Decree No 287 of 14.08.2024 **BNAO was included in the list of strategic sites and activities of significance for the national security.** In 2024, BNAO launched procedures and activities aimed at ensuring reliable information security in line with the European Union Directive on Network and Information Security (NIS2).



5

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SECTION 5: Cooperation and impact

5.1 Publicity and transparency

In seeking effective communication with-stakeholders, BNAO provides information with the following features:



The institution ensures publicity of the outcomes of its work in line with the BNAO Act and in compliance with the strategic principle of publicity and transparency. In 2024, BNAO continued to invest efforts in ensuring good information for the public and stakeholders on the outcomes of its audits.

BNAO's webpage is a key platform for informing the public. It contains all endorsed audit reports, reports on follow-up checks, notifications of handing of served draft audit reports and excerpts of minutes of BNAO's Board meetings showing the voting results. It also contains information regarding the SAI's international activities and stakeholder cooperation, career development opportunities, press releases, etc.

BNAO published on its webpage information, document templates and guidelines for the participants in the national parliamentary elections held on 9 June 2024 and 27 October 2024, and for the participants in the elections for Members of the European Parliament held on 9 June 2024. Our SAI drafted and published an electronic brochure in support of the participants in all kinds of elections containing the requirements they should follow to ensure publicity and transparency of the election campaign.

BNAO also published its audit report on the compliance audit of the declared revenues and incurred expenditure in relation to the campaigns of the participants in the elections held on 2 April 2023.

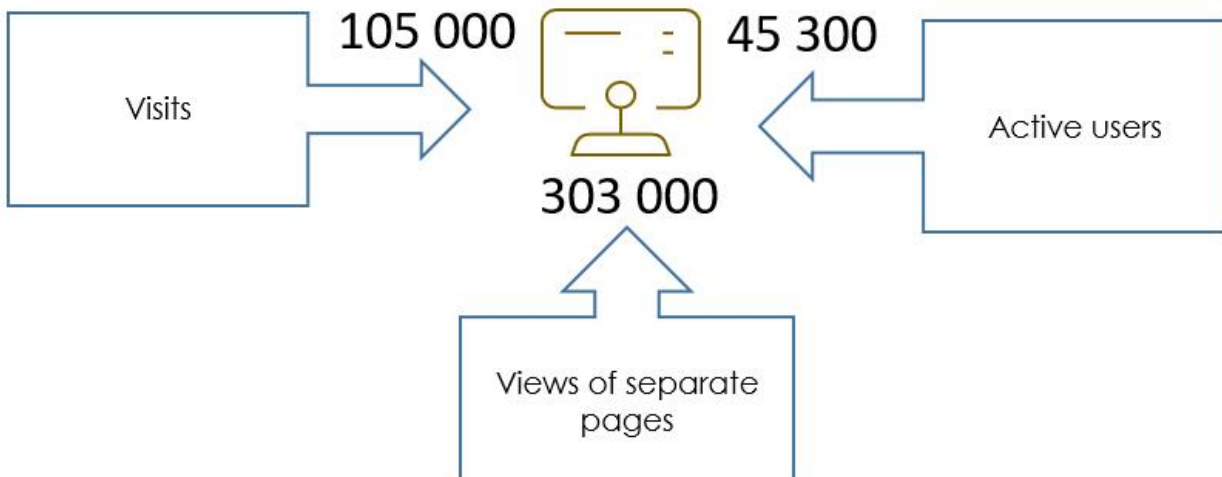
BNAO's webpage provides access to the Unified Register under the Election Code, which ensures transparency of the financing of election campaigns and contains data on:

- names of donors, type, purpose and amount of all donations;
- declarations of the origin of donated funds;

- statements on the revenues, expenditure and committed expenditure in relation to the election campaigns, etc.

Through its webpage BNAO ensured transparency regarding the 2023 annual financial statements of the political parties and their donors in line with the Political Parties Act. The webpage also contains the report on an audit of the financial operations and management of the property provided for use to political parties during the previous year.

Our SAI publishes on a designated section of its webpage updated information regarding its other activities and information in line with the Access to Public Information Act (section “Access to Public Information).

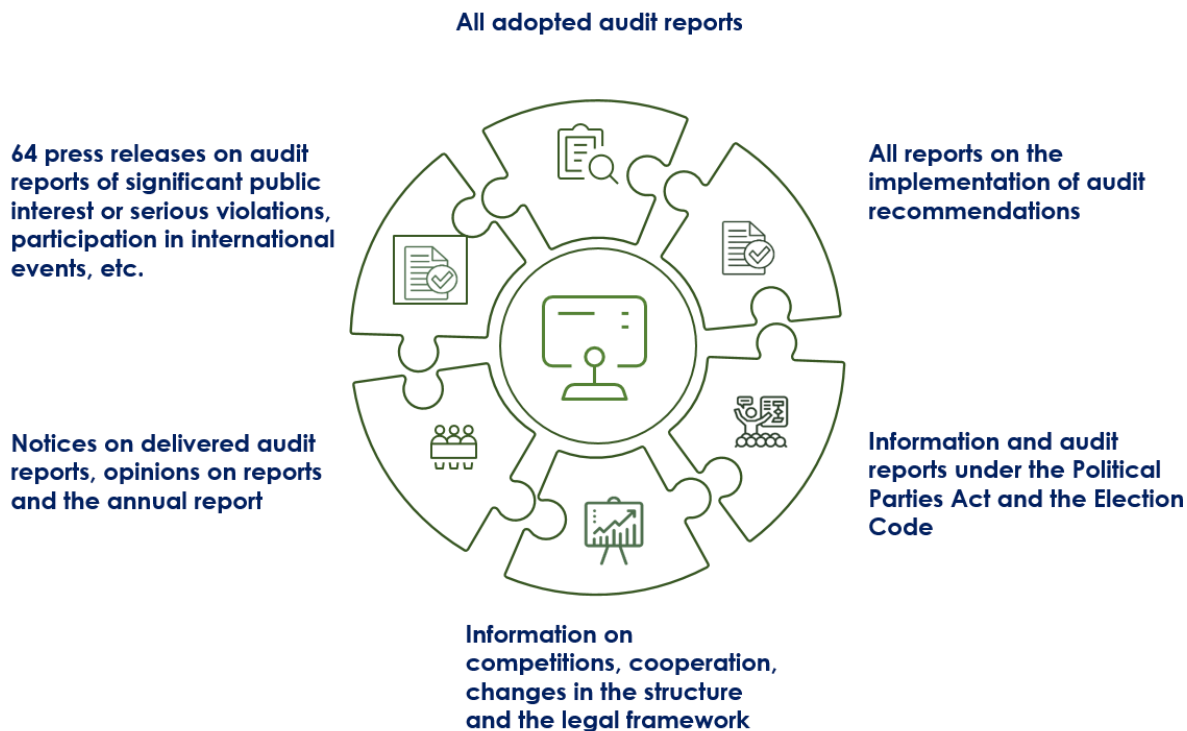


In 2024, BNAO's webpage had roughly 105 000 visits (sessions). It had over 303,000 page views, incl. screen views on mobile devices. The most commonly visited sections were *Audit Function – Reports, Reports on Municipalities, as well as Competitions, Organizational Structure, BNAO Act, and Contacts.*

The active users of the SAI's webpage are over 45,300 (users that stay on the site to find information about topics of interest to them). Out of them, some 25 thousand accessed the site through web browsers, over 20 thousand through mobile devices, and roughly 400 used tablets. There is a steady influx of new users. The Bulgarian users were roughly 41 thousand, followed by visitors from the US, Germany, the UK, China, France, Austria, the Netherlands, Belgium, and others.

BNAO drafted 64 press releases during the reporting year, which were circulated to the media and uploaded on its webpage. They contain information regarding **audits of public significance**, such as: "Implementation of the National Programme for Improving the Maternal and Child Health 2021-2030", "Quality of School Education", "Optimising the Organization of Public Registers", the audit of the Information System of the EU Structural and Investment Funds 2020 (the first IT audit conducted by BNAO), etc. There were also publications concerning other significant BNAO-related events such as the SAI's third election as a EUROSAI auditor, the organization and conduct of the external exams for BNAO auditors, hosting the Forum of INTOSAI's Professional Pronouncements Framework, and many more.

Information published on the BNAO website in 2024



Other important publications on the webpage concerned the pronouncement by the Constitutional Court's decision rejecting the petition seeking to declare unconstitutional Article 55, Paragraph 2 of the BNAO Act providing that BNAO's final reports cannot be challenged before the courts; information regarding the political parties' certificates sent ex-officio to the Central Electoral Commission for their registration to participate in elections, etc.

The reports of the audits of public significance and the audits that identified serious irregularities and weaknesses in the management of public funds and activities received broad media coverage. In addition to these publications, BNAO's representatives gave 5 interviews in printed and electronic media: the Bulgarian National Television; Bulgarian National Radio and Telegraph Daily, as well as the electronic media Money.bg, and BGonAir TV.

Our SAI uses Facebook to better promote its operations and reach a wider and more diverse audience. The posts contain information regarding our audit reports, cooperation with other public institutions, other SAIs and international organisations.

Provision of Access to public information



BNAO provided access to public information in accordance with the Access to Public Information Act to journalists, citizens and NGOs. BNAO's 2024 report on its activities under the Access to Public Information Act is published on the institution's webpage.

In 2024, BNAO received a total of 12 requests for access to public information, eight of them coming from Bulgarian nationals, one from a non-profit legal entity, and 3 from the media. In 8 cases the requested information concerned BNAO's audit activities, and in 4 cases – other topics. BNAO provided the requested information in 8 cases, in 2 cases it sent a response that the requested information was not available, and in 2 cases it sent a response that the requested information would be available upon publication of the relevant audit report on BNAO's webpage. BNAO has not denied access to public information in any case.

BNAO encourages and supports the professionalism of its employees in achieving high performance in their work. In 2024, on the occasion of the Day of the Auditor (20 December), BNAO once again presented its **annual awards to its best auditors in recognition of their contribution to the development of the institution:**

- **The Auditor of the Year award for 2024** was received by Sylvia Ninova – first-degree senior auditor from the Vratsa regional office. This was a recognition of her distinguished professionalism, in particular her work as a member of the audit team that conducted the compliance audit on the management of public funds and municipal activities of the Kozloduy municipality. This audit engagement helped protect the municipality's financial interests and restore significant funds paid out as unlawful expenditures.
- **The BNAO 2024 Audit Team award** went to the team that conducted the audit of the Ministry of Culture 2023 Annual Financial Report with team leader Ani Budeva – chief auditor in the Central Authorities Department of The Financial Audit Directorate II. The audit team identified substantial misstatements, part of them of significant public interest. It also found evidence of damages and indications of a criminal offence. Therefore, parts of the audit report were referred to the Prosecutor's Office, the Public Financial Inspection Agency and the National Revenue Agency.
- **The 2024 BNAO Leader award** was given to Genko Milev – head of Department 3 "Local Authorities in Financial Audit Directorate I. This was a recognition for his high professionalism, incl. in controlling the quality control of audit reports, and of his constant efforts to ensure the professional development of auditors, establish an ethical environment and improve the workplace microclimate.
- **The 2024 BNAO Partner of the Year Award** was received by the Ministry of Finance and the caretaker Deputy Prime Minister and Minister of Finance, Ms. Lyudmila Petkova. The award was an acknowledgement of the fruitful cooperation between the two institutions with the aim of achieving more effective controls and audits and improving financial reporting in Bulgaria.



Winners of the awards: *Leader of the Year* – Genko Milev and *Audit Team of the Year* – the team that conducted the audit of the 2023 Annual Financial Report of the Ministry of Culture.

5.2 Collaboration with public entities, professional and non-governmental organizations

BNAO continues to develop its cooperation with all relevant stakeholders among which public entities, non-governmental organizations, academia, the media, thus contributing to a better understanding and greater effectiveness of its activities.

Consultative Expert Council to the President of BNAO



To benefit efficiently from the vast experience of former BNAO Presidents and leaders of other institutions in the field of control, BNAO set up a Consultative Expert Council to its President. Its members are Prof. Valery Dimitrov and Lydia Rumenova – former BNAO Presidents, Nadezhda Sandolova – the first Bulgarian member of the European Court of Auditors and Associate Professor Miglena Pavlova – a long-serving Executive Director of the Public Procurement Agency and member of the BNAO's Consultative Council in 2011. Associate professor Georgi Nikolov – the first BNAO President following its restoration – was elected Honorary Chair of the Board.

The Consultative Expert Council may express opinions on the Annual Audit Programme prior to its adoption, provide advice on the conduct of the BNAO's mandatory audits, express its views on audits mandated by Parliament, as well as on audits with significant results for the management of public funds and activities, the reports of which are to be submitted to Parliament, and on other audits within the Annual programme. The Council also assisted in the organization and conduct of the exam for BNAO auditors in 2024.

Collaboration with institutions in the fight against corruption and irregular practices

BNAO signed a cooperation agreement with the Anti-Corruption Commission aiming to ensure faster more effective communication between the two institutions in cases involving of whistleblowing reports, and exchange of good practices between the Commission and the anti-corruption, and the unit combating corruption, bribery and money laundering of the BNAO. An especially important aspect of this cooperation is information and cybersecurity, risks that BNAO manages successfully.

Partnership with NGOs

BNAO expanded its partnership with NGOs in the area of fighting corruption and ensuring transparency in the financing of election campaigns and political parties, the ultimate goal being to achieve better governance in the public sector.

BNAO's President Dimitar Glavchev discussed with Mr. Ognian Shentov, Chair of the Board of the Centre for the Study of Democracy, the possibilities for exchanging useful experience and tools for the assessment of anti-corruption measures, as well as in the field of cybersecurity.



BNAO and the Institute for Public Environment Development (IPED) outlined possibilities for long-term cooperation in the area of oversight of political parties financing. IPED's representatives stressed BNAO's significant contribution to improving the transparency of the funding of political parties, coalitions and initiative committees, not only during elections, but also through its oversight of their overall financial activities.

Partnership with intergovernmental organizations

BNAO's leadership had a number of meetings with the Office for Democratic Institutions and Human Rights (ODIHR) of the Organization for Security and Co-operation in Europe (OSCE) in connection with upcoming elections. The OSCE observers were informed about the measures taken by BNAO to ensure publicity and transparency, as well as its oversight of election campaign financing. The representatives of the first ODIHR/ OSCE mission expressed interest in the different modes of public financing of election participants in line with the legislation – through subsidies and media packages. They received information regarding the financing prohibitions and the most common infringements committed by election participants. The second mission was acquainted with the specific deadlines for filing information in the Unified Register under the Election Code and for conducting audits, as well as with the procedure for the adoption of final audit reports. BNAO also presented the document templates approved by BNAO and its administrative penal functions in line with the Election Code.

Growing cooperation with national media

In 2024, BNAO sought new opportunities for broader cooperation with the national media to the benefit of the Bulgarian citizens raising their awareness of BNAO's work. The SAI held meetings with the Directors of the Bulgarian National Radio and the Bulgarian National Television to discuss different forms of cooperation – media partnership for coverage of the audit reports of public significance, media support for better transparency regarding the financing of election campaigns and the oversight exercised by BNAO, informing the public regarding the SAI's new initiatives, incl. fighting corruption, etc.



Attracting young talent

In 2024, BNAO continued its attempts to encourage the career orientation of students and young specialists in the area of audit and oversight by offering respectively internship and career development opportunities.

For the first time our SAI held an external exam for auditors in line with Article 26, Paragraph 1, item 2 of the BNAO Act. Pursuant to this Act, BNAO may appoint as auditors individuals who successfully passed the BNAO auditor exam or who hold an auditing certificate. Part of the candidates who successfully passed this exam also passed the SAI's competitions for auditor positions.

The value BNAO brings to the state, the public and citizens and its contribution to finding solutions to modern challenges, such as climate change, digitalization, improving the quality of education, pandemics, etc. were among the main topics discussed with students from the Faculty of Economics and Business Administration of Sofia University St Kliment Ohridski. The students learned about the different audit modalities and key outcomes achieved by our SAI last year, together with the concept of strategic planning of auditing.



During the First Career Forum organized by the Faculty of Law of Sofia University St Kliment Ohridski, BNAO informed students of the requirements for career development at the SAI, and opportunities for internships.

The BNAO auditors' responsibilities and the challenges before the profession were discussed during a meeting between directors at BNAO directorates and students from the Faculty of Law of Sofia University St Kliment Ohridski. The speakers noted that the audit profession requires constant development and knowledge of the latest legal changes and best auditing practices.

The Bulgarian National Audit Office presented its special award at the 13th edition of the "Young Auditor" student competition, which aims to promote the auditing profession among young people in Bulgaria. The National Audit Office is a traditional partner of the initiative. The award, named after Academician Ivan Gyuzelev — the first president of BNAO following its establishment in 1880 — was given to Veronika Petrunova from the *Dimitar A. Tsenov Academy of Economics* in Svishtov, who was awarded a one-month internship at the institution.

5.3 International Cooperation



The Bulgarian National Audit Office is a respected member of the international auditing community. In 2024, our institution, together with the SAI of the Netherlands, was appointed for a third consecutive three-year mandate as auditor of EUROSAI — the international professional organization of the Supreme Audit Institutions of Europe. This was a recognition of our auditors' professionalism and expertise.

During its previous mandate as EUROSAI auditor, a representative of the Bulgarian National Audit Office, together with the **State Audit Office of the Republic of Croatia**, audited the 2023 EUROSAI financial statements and related documents.

Between November 25th - 29th, 2024, the Bulgarian National Audit Office hosted a high-level summit in **Sofia**, marking the launch of the **Strategic Development Plan** for the INTOSAI Framework of Professional Pronouncements (IFPP). The forum included representatives from over ten countries and all INTOSAI bodies involved in the development of the international auditing standards.



**Forum for
INTOSAI
Professional
Pronouncements**

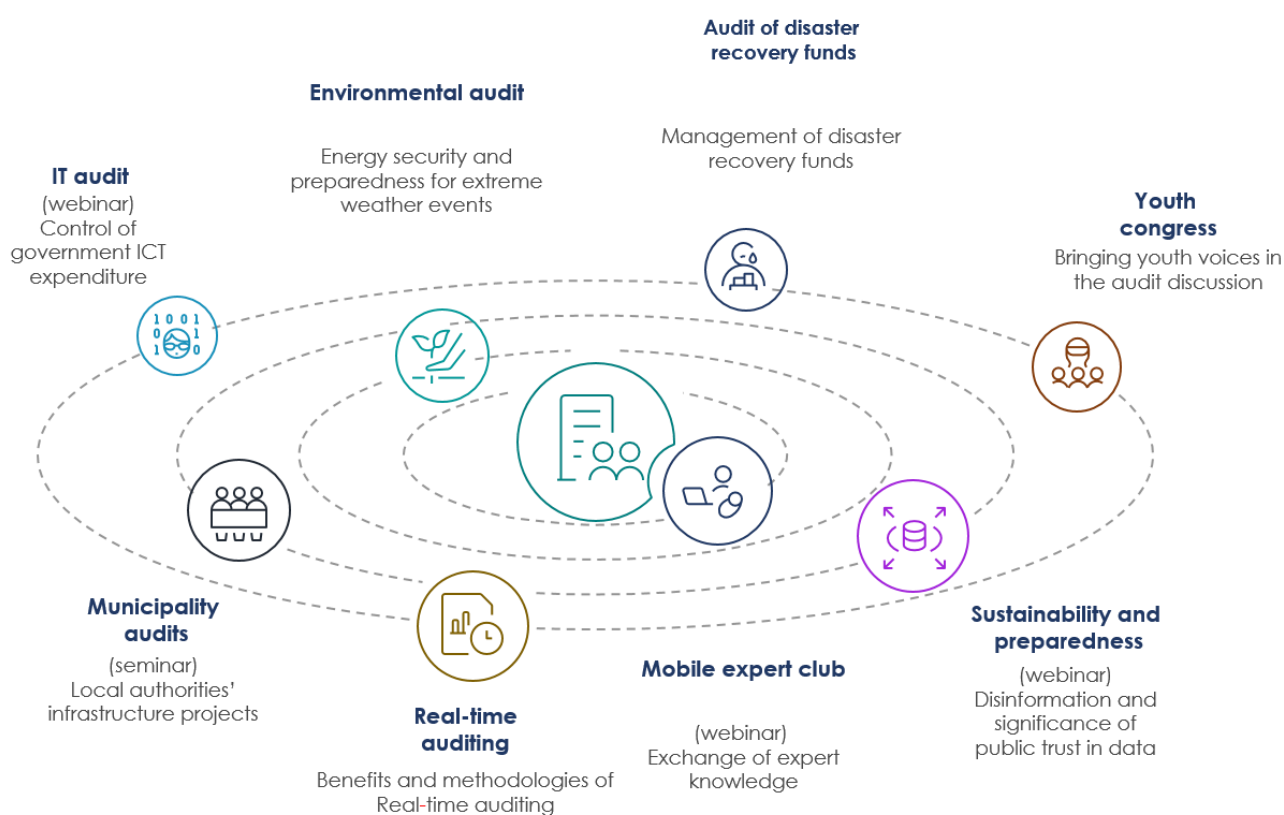


Cooperation within EUROSAI



The Bulgarian National Audit Office continued its cooperation with the [European Court of Auditors](#) (ECA) during its audits in our country. Our auditors participate as observers in the preparation and conduct of the ECA's audit missions in Bulgaria. In implementation of the program of the Contact Committee of the Supreme Audit Institutions of the EU and the European Court of Auditors, our representatives participated in the annual meeting of the Fiscal Policy Audit Network.

Participation in initiatives within EUROSAI



Participation in initiatives of the international auditing community contributes to enhancing the institutional and administrative capacity of the National Audit Office. Our international cooperation is also based on Bulgaria's membership in the EU and the various forms of multilateral and bilateral cooperation with different Supreme Audit Institutions.

International events were held both in person and via online meetings and electronic communication. A particular focus in BNAO's international cooperation is its participation in the activities of the working groups (WGs) within international professional organizations of Supreme Audit Institutions.

The seminar on 'Local Government Infrastructure Projects' featured a master class on methodological issues in the audit of municipalities, led by a BNAO team in collaboration with the SAIs of Latvia and

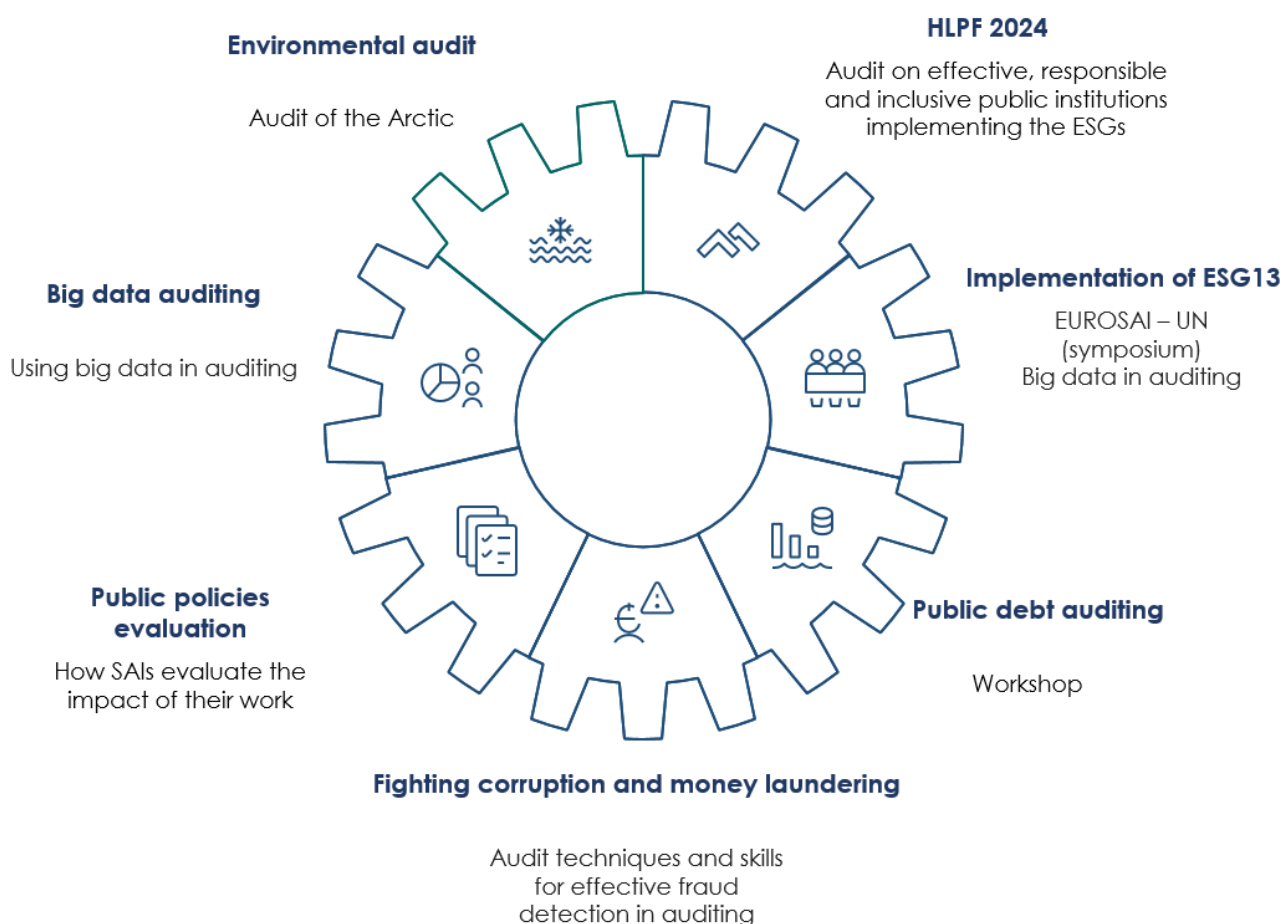
North Macedonia. Our employees participated in an online seminar on the critical topic of water, aimed at monitoring progress towards the achievement of UN Sustainable Development Goal 6: 'Clean Water and Sanitation'.

Cooperation within INTOSAI



BNAO's representatives also participated in events within the working groups of the International Organization of Supreme Audit Institutions (INTOSAI). During the symposium jointly organized by INTOSAI and the United Nations (UN) on the topic "Implementation of SDG 13 on Climate Action: Role, Contribution, and Experience of SAIs", a team from the Bulgarian National Audit Office presented the subject "Climate Change Adaptation – Policy Development and the Contribution of the Bulgarian National Audit Office".

Participation in initiatives within INTOSAI



There was an active information and experience sharing on audit innovations and the use of AI during events such as: the INTOSAI – IDI webinar on innovations in SAIs; the meeting on the topic of "Using AI in auditing: current state of play" as part of the TiNA platform (Technology and Innovation for Audit); the seminar on "Data Envelopment Analysis – DEA", etc.

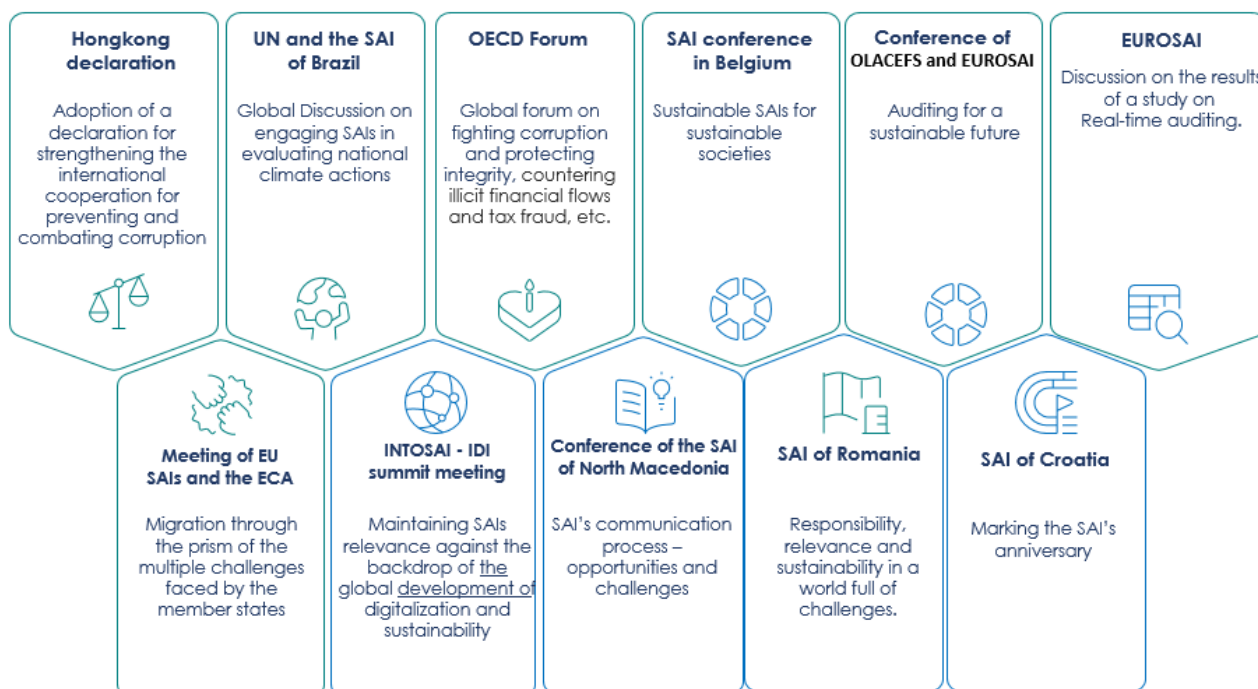
As part of its operational partnership BNAO provided information in response to surveys and queries from other SAIs on different aspects of its audit practices at national level. Our SAI contributed publications in the journal of INTOSAI's Working Group on Environmental Auditing and Working Group on Municipality Audit.

Participation in high-level forums

BNAO's leadership took active part in high-level meetings of the leaders of the international auditing community and the international community in general. These forums take fundamental decisions on global issues concerning the effectiveness of Supreme Audit Institutions.

Whenever possible, the Bulgarian National Audit Office shares its experience in various domains of its operations contributing to the development of collective knowledge and expertise.

Participation in high-level fora and support for other SAIs





We watch over citizens' money

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