

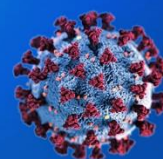
2020



Bulgarian National Audit Office ANNUAL REPORT



*We watch over
citizens' money*





**2020 ANNUAL REPORT OF THE
BULGARIAN NATIONAL AUDIT OFFICE**



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Esteemed Members of the Parliament,

In keeping with article 64, paragraph 1 of the Bulgarian National Audit Office Act, I hereby submit to the National Assembly the 2020 Annual Report of the Bulgarian National Audit Office.

In 2020, the Bulgarian National Audit Office focused on current topics and issues in fulfilling its strategic goals for responsible management of the public sector. Although this was a year filled with lots of challenges given the COVID-19 pandemic and the measures taken to combat it, with the introduction of a new organization, remote work and digitalisation using audit software, the institution successfully continued to implement its audit program. We provided objective information regarding the accountability of the budget organizations, the efficiency, effectiveness, economy and legality of their activities with the adopted 315 audit reports.

At the same time, the institution acquired the international certificate ISO / IEC 27001:2013 – attestation that our information security management system is reliable and meets the standards for its protection.

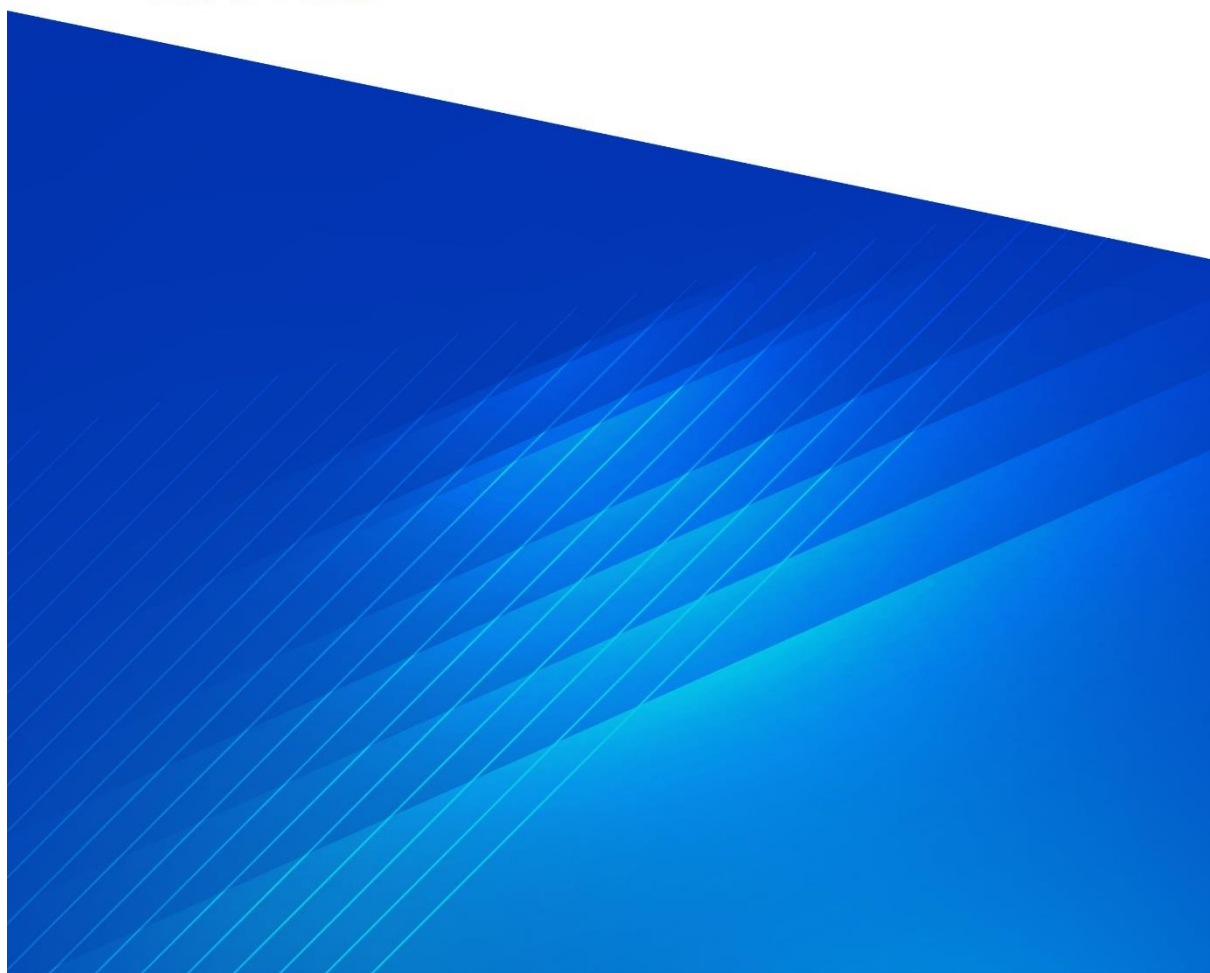
The year was also fruitful internationally. The Bulgarian National Audit Office was selected to implement a second twinning project with a beneficiary, the Supreme Audit Institution of the Republic of North Macedonia.

We are pleased that in 2020 we received recognition from the international study "Open Budget" index, according to which the mechanisms of the Bulgarian National Audit Office for control over public finances are adequate.

It came in the jubilee year in which the Supreme Audit Institution of the Republic of Bulgaria celebrated its 140th anniversary, as a reaffirmation of its long tradition of external control of the budget in the interest of the state and citizens.

***Tzvetan Tzvetkov
President of the
Bulgarian National Audit Office***

ACTIVITIES OF THE NATIONAL AUDIT OFFICE

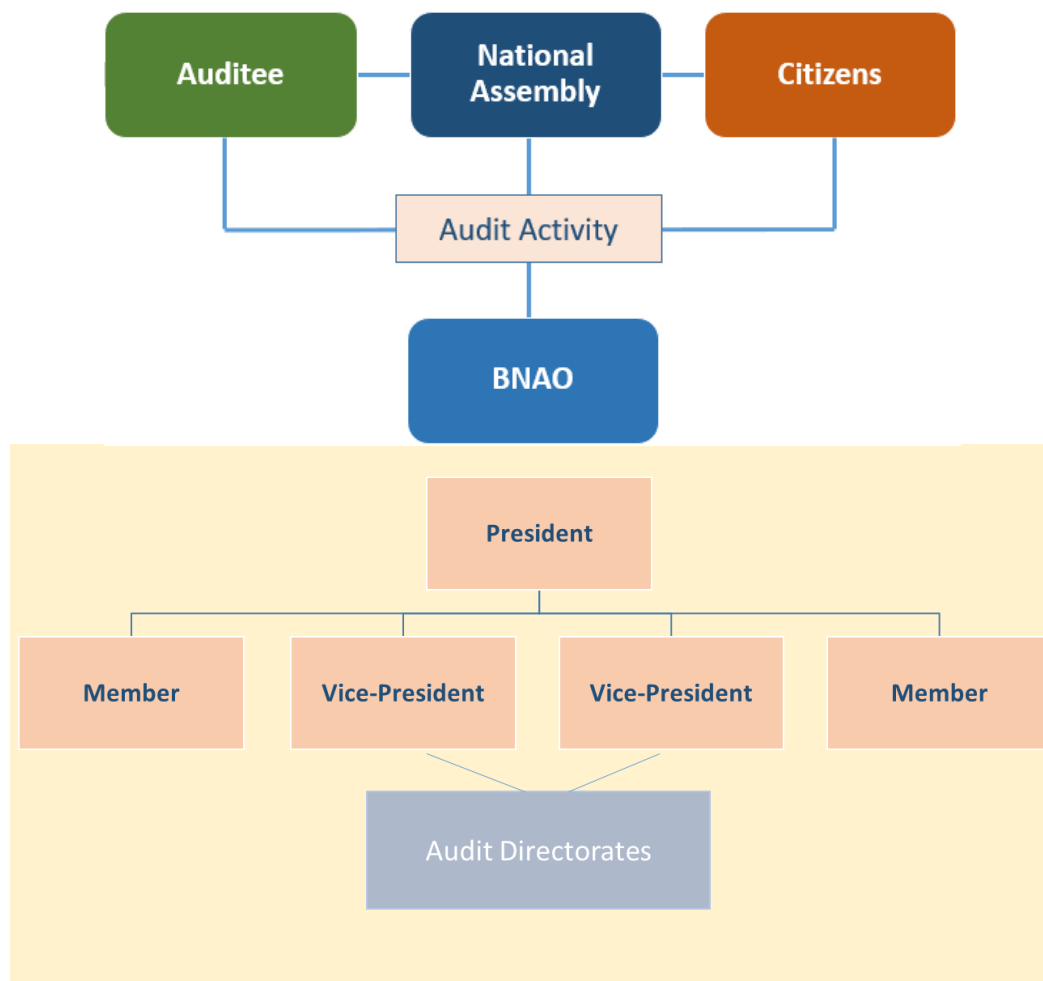


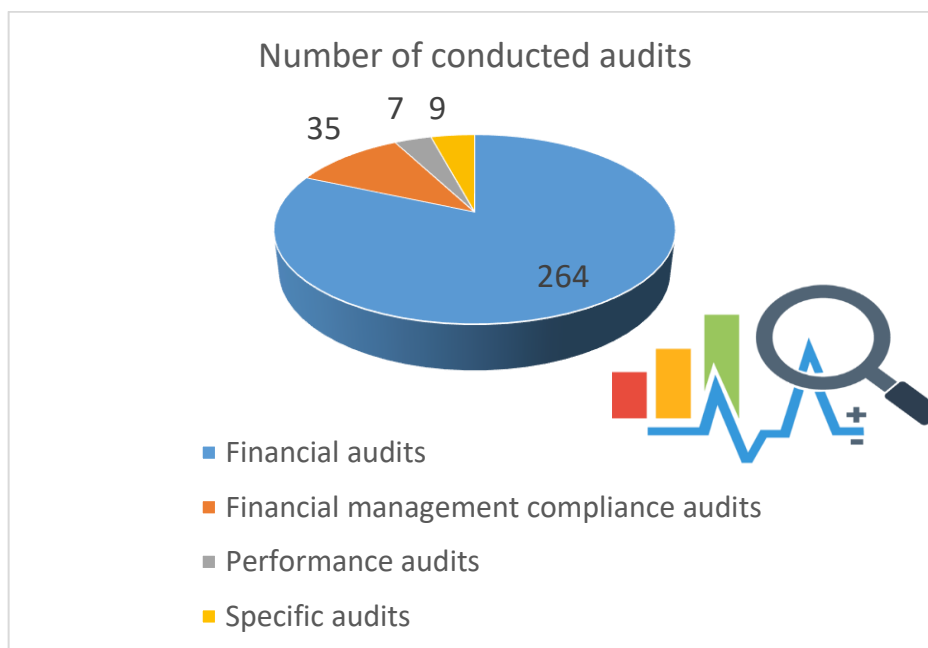
I. ACTIVITIES OF THE NATIONAL AUDIT OFFICE

1. BACKGROUND

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

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

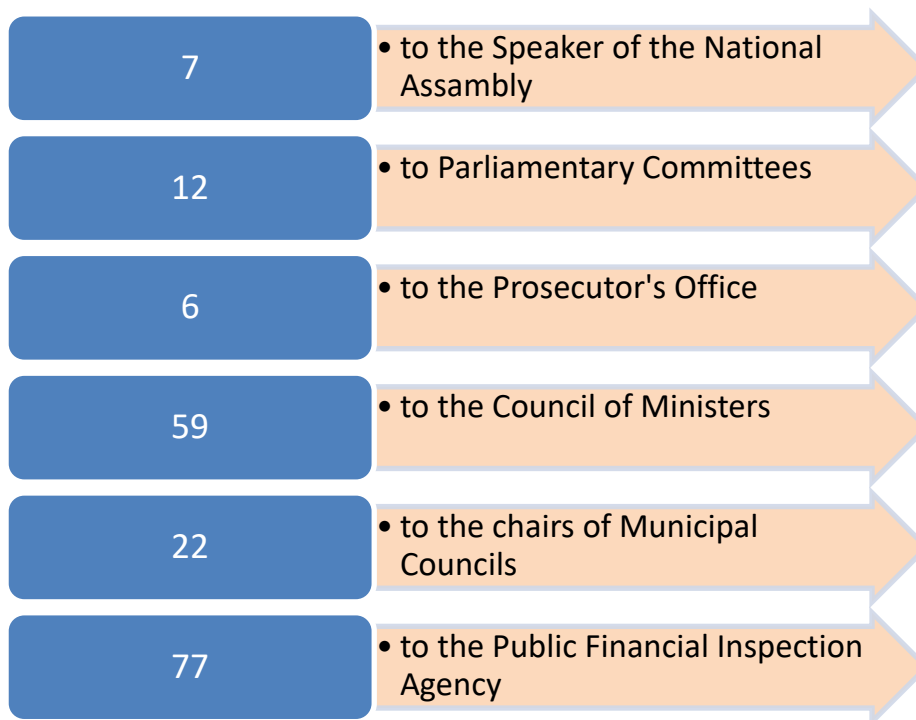




Between 01 January 2020 and 31 December 2020, the Board held 49 meetings and passed in total 497 decisions. It endorsed 35 compliance audit reports, 7 performance audit reports and 9 specific audit reports. Following the audit of annual financial statements, the National Audit Office endorsed 264 financial audit reports.

Seven audit reports were submitted to the Speaker of the Parliament, while another 12 were sent to the relevant Parliamentary Committees as follows:

- Committee on Budget and Finance - 3
- Committee on Regional Policy, Urban Development and Local Self-Government - 1
- Committee on Environment and Waters - 1
- Committee on European Affairs and Control of EU Funds - 4
- Committee on Labor, Social and Demographic Policy - 2
- Monitoring Committee on the Revenue Agencies and Combating the Parallel Economy and Smuggling - 1



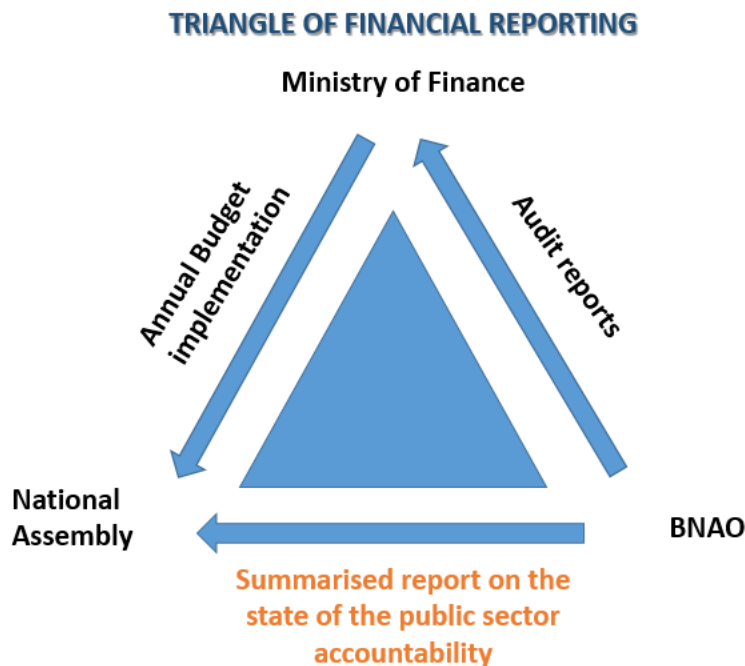
Thus, the National Audit Office provided the National Parliament with reliable information for the purposes of parliamentary control.

Six audit reports were submitted to the Prosecutor's Office of the Republic of Bulgaria based on conclusions for suspected violations. Fifty-nine audit reports were presented to the Council of Ministries, 22 to chairs of Municipal Councils, 77 audit reports were addressed to the Public Financial Inspection Agency based on information for irregularities, and two audit reports were submitted to the National Revenue Agency.

The National Audit Office successfully adapted its audit activity to the new realities caused by the COVID-19 pandemic in 2020. The employees moved to a predominantly remote form of work and there was increased use of electronic communication technologies, including when receiving audit evidence.

2. OUTCOMES OF THE FINANCIAL AUDITS

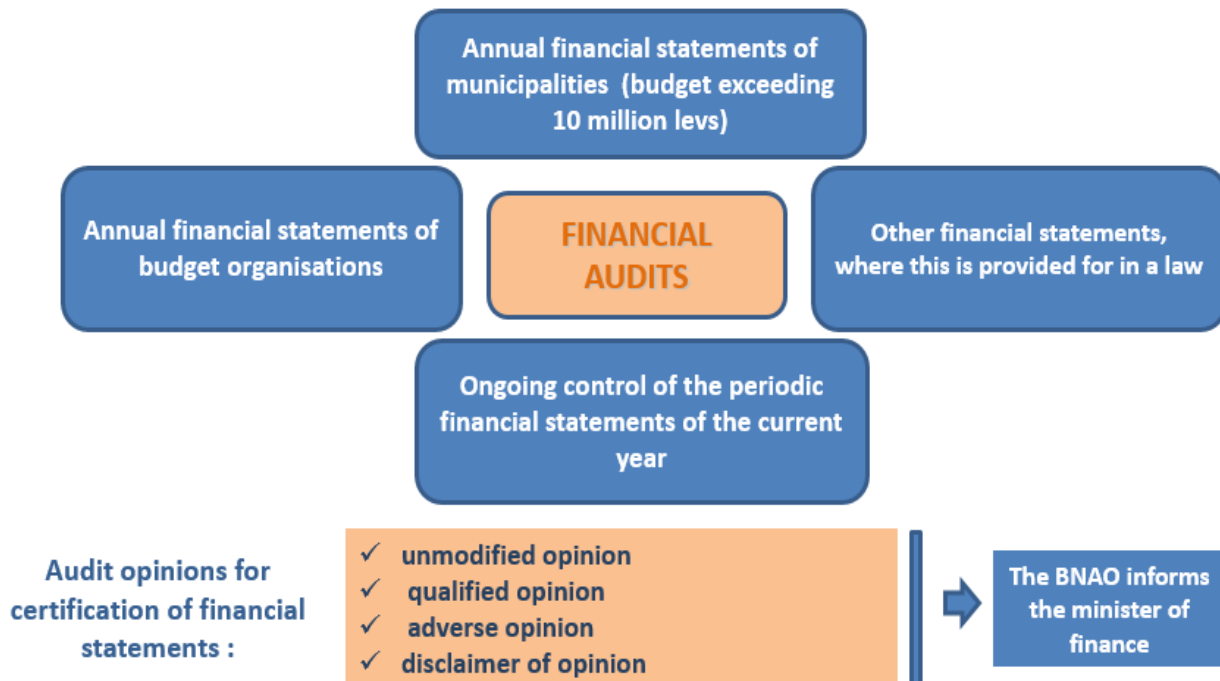
In 2020, the Bulgarian National Audit Office (BNAO) conducted audits of the 2019 annual financial statements of public sector organisations. Financial auditing is **an expression of an independent audit opinion with a reasonable degree of assurance** of whether the annual financial statement of a public sector entity is in line, in all material aspects, with the generally applicable financial reporting framework. This audit opinion helps to **increase the users' confidence** in the information disclosed in the financial statements.



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

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

financial performance, financial results of operations and cash flows of the respective public sector entity.

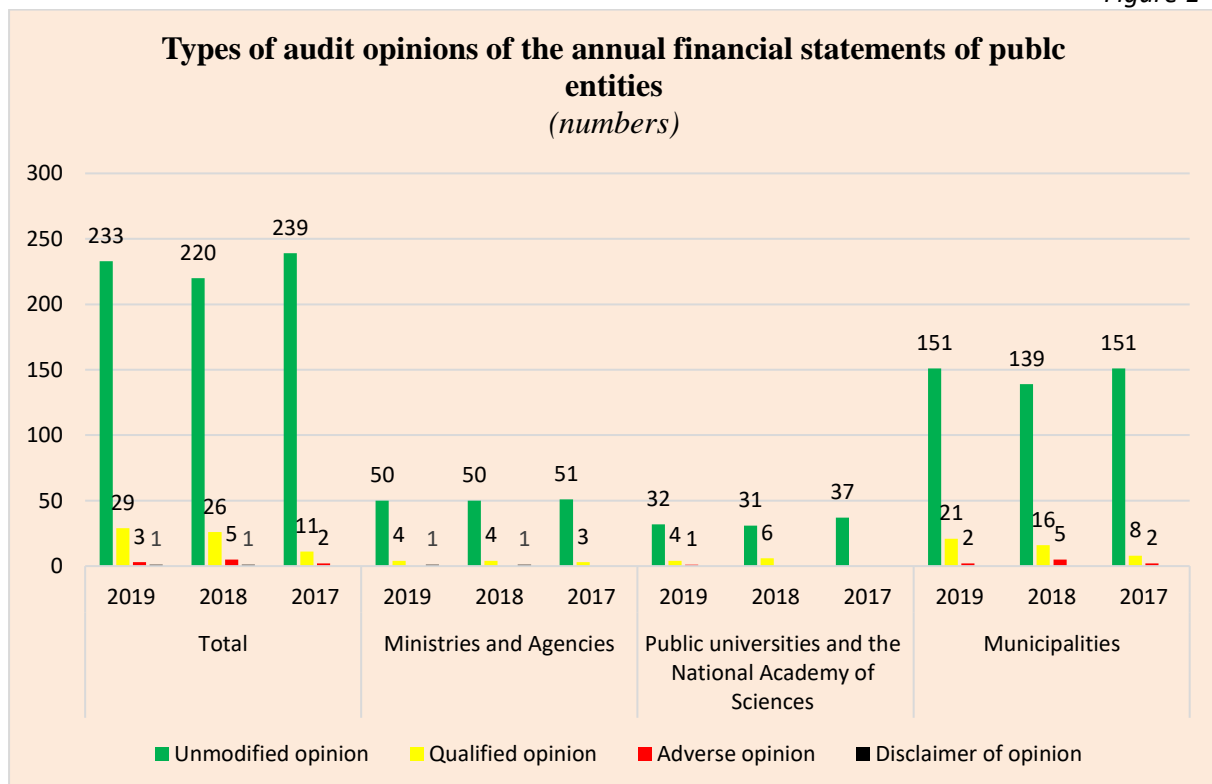


The National Audit Office endorsed 266 audit reports on the 2019 annual financial statements of public sector entities. The majority of these reports contain unmodified audit opinion – 88% of all issued audit opinions² on the financial statements (compared to 87% for 2018 and 95% for 2017) (see Fig. 1). This is mainly due to the possibility provided to **the audited entities to make corrections of the irregularities identified by the auditors** in the course of the audit itself.

The purpose of these corrections is to ensure **that the annual financial statements provide a true and fair presentation of the financial performance, financial results of operations and cash flows** of the public sector entities and hence serve as a **reliable basis to make governance decisions at institutional, regional and national level**. The number of unmodified opinions is an indication **of the rate of compliance** with the applicable financial reporting framework. However, they are **not an indicator for the quality of public sector accountability, which depends to a large extent on the nature of the financial reporting framework**.

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

Figure 1



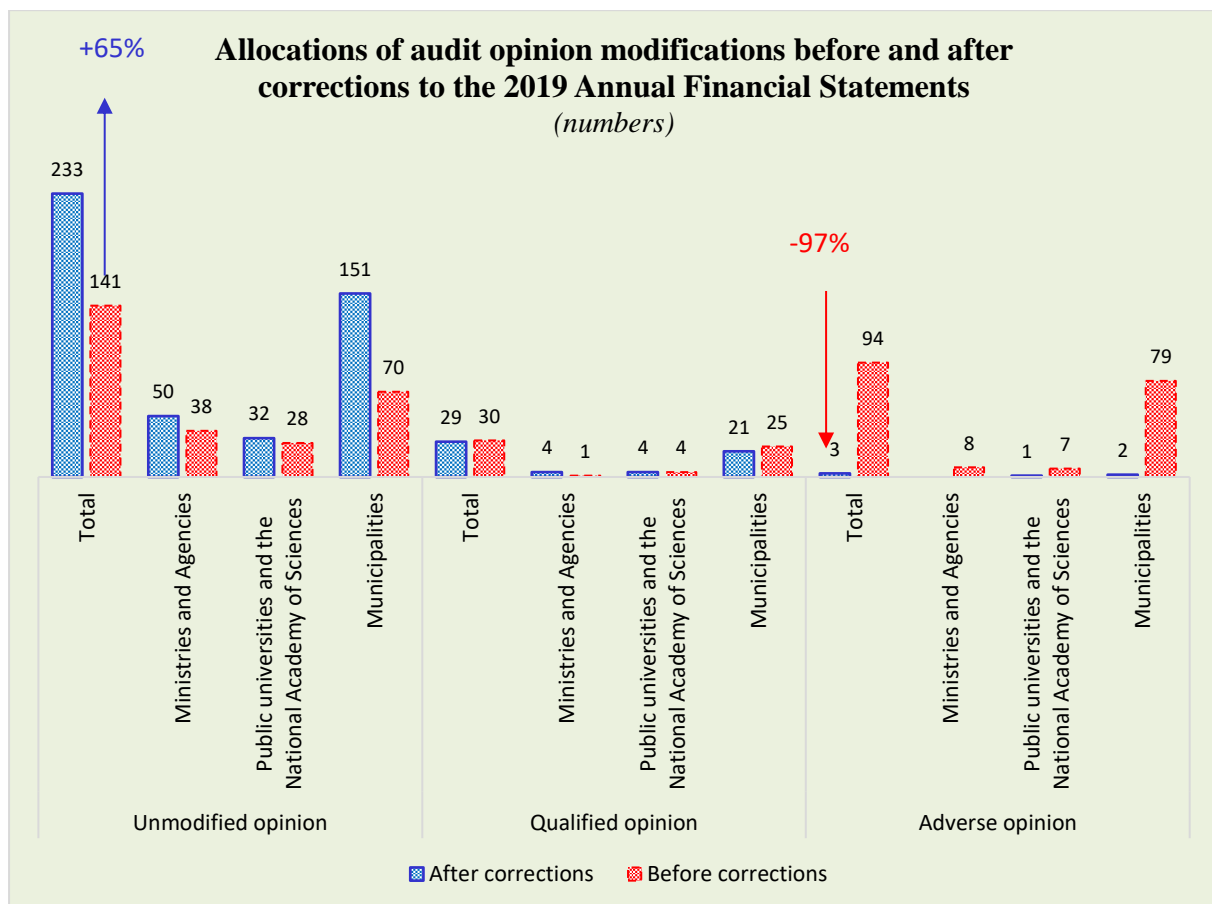
After the increase in 2018 compared to 2017, there is a relative stability for 2019 in the number of modified opinions on the municipalities. The main reasons for this trend are:

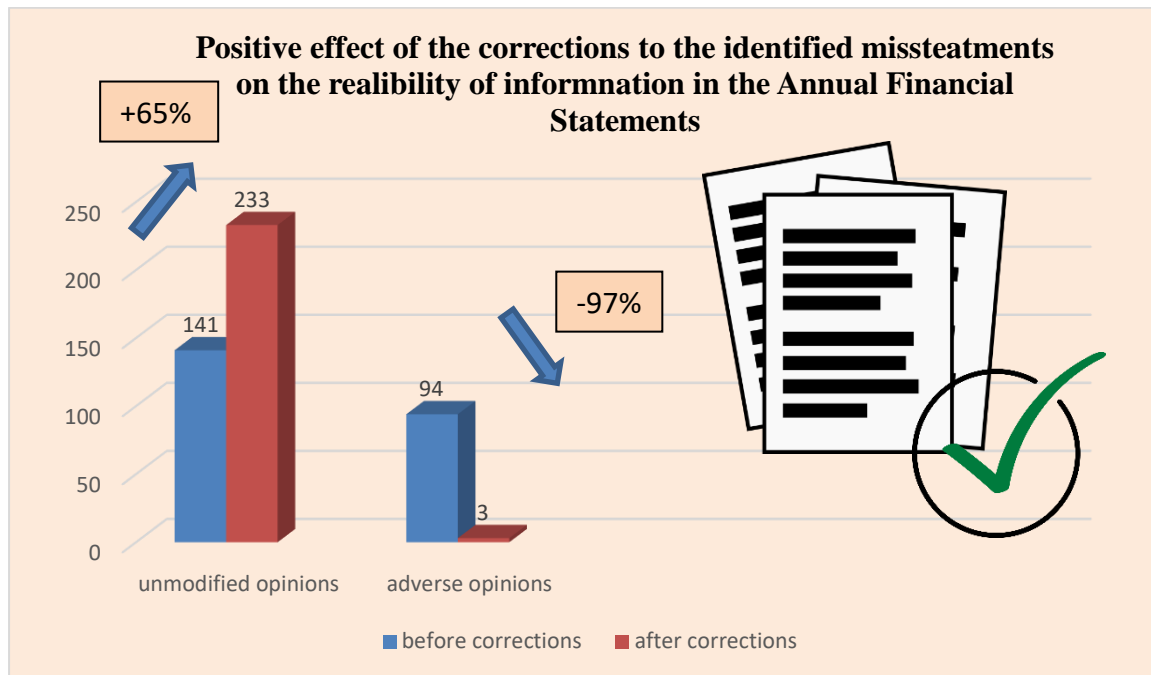
- The financial statements of municipalities managing smaller budgets, where the probability of misstatements is lower, are audited in September and October when there are restricted possibilities for introducing corrections. The National Audit Office conducts audits of the nationally significant central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

Figure 2 illustrates the **positive impact that the corrections³** to the identified misstatements in the Annual Financial Statements had on the reliability of information contained in these statements for 2019. Had corrections not been introduced, the BNAO

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

would have issued **adverse opinion** on the financial statements of 94 public entities and **qualified opinion** on the financial statements of 30 public entities. **As a result of the corrections, the number of adverse opinions was reduced by 97%**. At the same time, the number of unqualified opinions grew by 65%. This goes to show that the corrections of the misstatements identified by the BNAO led to a significant increase in the number of financial statements that provide a true and fair presentation of the financial performance, financial results of operations and cash flows of the public sector entities. The most significant change was witnessed at the level of municipalities, where the number of unmodified opinions grew by 81, i.e. 116%.





2.1. Financial audits of ministries, agencies and public universities

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

- Miscalculation of the depreciation expenses following events requiring a change of the depreciation schedule (impairment, overhaul, adjustment of the useful life of the asset, etc.) and irregularities in the initial disclosure and depreciation of the long-term tangible assets, incl. partial or non-reported stock-taking. This affects both the amortization costs and the balance value of the non-financial long-term assets (also identified in the audits of the 2018 and 2017 annual financial statements).
- Improperly accounted bank guarantees, commitments and provisions, which usually leads to underestimation of expenses and on-balance sheet and off-balance sheet liabilities
- Some public entities failed to report their holdings in commercial companies (also identified in the audits of the 2018 and 2017 annual financial statements). This results in misstatement of the shareholdings and the related income in the annual financial statements.
- Inaccurate accounting of commitments and provisions (also identified in the audits of the 2018 and 2017 annual financial statements), usually resulting in

understating of costs and balance sheet and off-balance sheet liabilities.

- Incorrect classification of assets, liabilities, income, expenditure and transfer to the accounts of the Public Entities Chart of Accounts and the paragraphs from the Uniform Budget Classification (also identified in the audits of the 2018 and 2017 annual financial statements) resulting in misstatement of the positions in the balance sheet, the profit and loss statement (P&L) and cash-flow statement.

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

- ✓ Adjusting the depreciation expenditure to ensure fair presentation of the carried value and depreciable assets.
- ✓ Disclosure of previously unreported assets, liabilities and costs (also adjusted during the audits of the 2018 and 2017 financial statements). These corrections ensure fair presentation and comprehensiveness of the financial statements
- ✓ Correction of (mainly) technical errors in the cash-flow statements to ensure fair presentation of the cash execution of the budget, the EU funds and third-party funds (also adjusted in the course of the audits of the 2018 and 2017 financial statements).
- ✓ Correction of the classification of assets, liabilities, income, expenditure and transfers to the accounts of the Public Entities Chart of Accounts and the Uniform Budget Classification (also adjusted in the course of the audits of the 2018 and 2017 financial statements). This ensured the correct presentation in the balance sheet, P&L and cash flow statements.



2.2. Financial audit of municipalities

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

- Miscalculation of the depreciation expenses following events requiring change of the depreciation schedule (value loss, overhaul, adjustment of the useful life of the asset, etc.). The incorrect accrual of depreciation of long-term non-financial assets is a result of wrong calculation of their expiry (not taking into account their acquisition date, physical and moral state) and failure to calculate the residual value of assets. This impacts the rate of depreciation expenditure, and the carried value of the non-financial long-term assets (also identified during the audits of the 2018 and 2017 financial statements).
- Incorrect classification of assets, liabilities, income, expenditure and transfers to the accounts of the Public Entities Chart of Accounts and the paragraphs of the Uniform Budget Classification (also identified in the audits of the 2018 and 2017 annual financial statements) resulting in misstatements

- Non-capitalized expenditure for infrastructure construction (also identified during the audits of the 2018 and 2017 financial statements), resulting in understating of the value of these assets in the Balance Sheet Statement, understating of the depreciation expenditure and overstating of expenditure capitalized under Other Accounts and Operations.

- Misrepresentation of the holdings of the municipalities in commercial companies and of the changes in the share of these investments (also identified during the audits of the 2018 and the 2017 financial statements). This results in unfair presentation in the annual financial statements of the shareholdings of municipalities and the related revenues.

- Incomplete inventory of assets and liabilities, which is a significant shortcoming of the Financial Management and Control System regarding the accuracy of the financial statements.

- Not accounted or incorrectly accounted commitments and realized commitments and new commitments for expenses, which usually leads to underestimation of expenses and on-balance sheet and off-balance sheet liabilities.

- Incomplete disclosures about the status and changes in assets, liabilities, income and expenses, which limits the ability of users of the financial statements to make informed decisions.

- Expenditures for preparation of general development plans (GDP), detailed development plans (DDP), digital terrain models, cadastral maps and other similar plans are incorrectly recognized in the reporting of municipalities as intangible fixed assets, instead of being reported as current expenses, as there is no direct link between them and forming a specific asset or complex of assets and they do not meet the criteria for recognition of an intangible asset. As a result, the value of assets increases at the expense of the cost.

- Capital expenditures for construction and overhaul of tangible fixed assets are not classified depending on their degree of completion in the respective asset accounts and / or as construction in progress, production and overhaul. The untimely increase in the value of assets with subsequent costs affects the amount of fixed assets, as well as the start of depreciation.

- Non-compliance with the financial indicators under the Public Finance Act.

- Failure to accrue income and expenditure in the correction accounts at year-end resulting in misstatement of the income and expenditure for the reported period (also identified during the audits of the 2018 and 2017 financial statements).

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

By applying Art. 57 of the Bulgarian National Audit Office Act, the National Audit Office has sent audit reports to seek property or administrative penal liability. For non-compliance with the indicators under Art. 32, para. 1; Art. 128, para. 1 and 4; Art. 130a, para. 1, item 4; Art. 94, para. 3, item 2 in connection with Art. 130a, para. 1, item 3; Art. 94, para. 3, item 3 in connection with Art. 130a, para. 1, item 4 from Public Finance Act, 40 reports were sent to the Public Financial Inspection Agency. For failure to create internal audit unit

in 4 municipalities in accordance with art. 12, para. 2, item 3 of Public Sector Internal Audit Act, the reports have been sent to the Public Financial Inspection Agency. The Public Financial Inspection Agency periodically notifies the President of the National Audit Office of the measures taken, such as drawing up acts for administrative violations. Sometimes, this takes several years.

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

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

- ✓ Adjustment of depreciation expenditures resulting in true and fair presentation of the carried value of depreciable assets.

- ✓ Reporting the changes in shareholdings in commercial companies (also corrected in the course of auditing the 2018 and 2017 financial statements) to achieve fair presentation of the investments in shares and equities and the resulting revenues.

- ✓ Disclosure of commitments under contracts, bank guarantees, promissory notes and other off-balance sheet assets and liabilities (also corrected in the course of auditing the 2018 and 2017 financial statements) to ensure fair and complete presentation of the information regarding the off-balance sheet assets and liabilities in the Financial Statement.

- ✓ Disclosure of formerly undisclosed assets, liabilities, income and expenditure (also corrected in the course of auditing the 2018 and 2017 financial statements). These corrections ensure fair presentation and completeness of the information in the financial statements.

- ✓ Correction of (mainly) technical errors in the cash-flow statement and consolidation of the financial statements to ensure fair presentation of the cash execution of the budget (also corrected in the course of auditing the 2018 financial statements).

- ✓ Correction of the classification of the assets, liabilities, income, expenditure and transfers in line with the Public Entities Chart of Accounts and the paragraphs of the Uniform budget classification (also corrected in the course of auditing the 2018 and 2017 financial statements) resulting in adequate presentation of the positions in the balance sheet, P&L and cash flow statements.

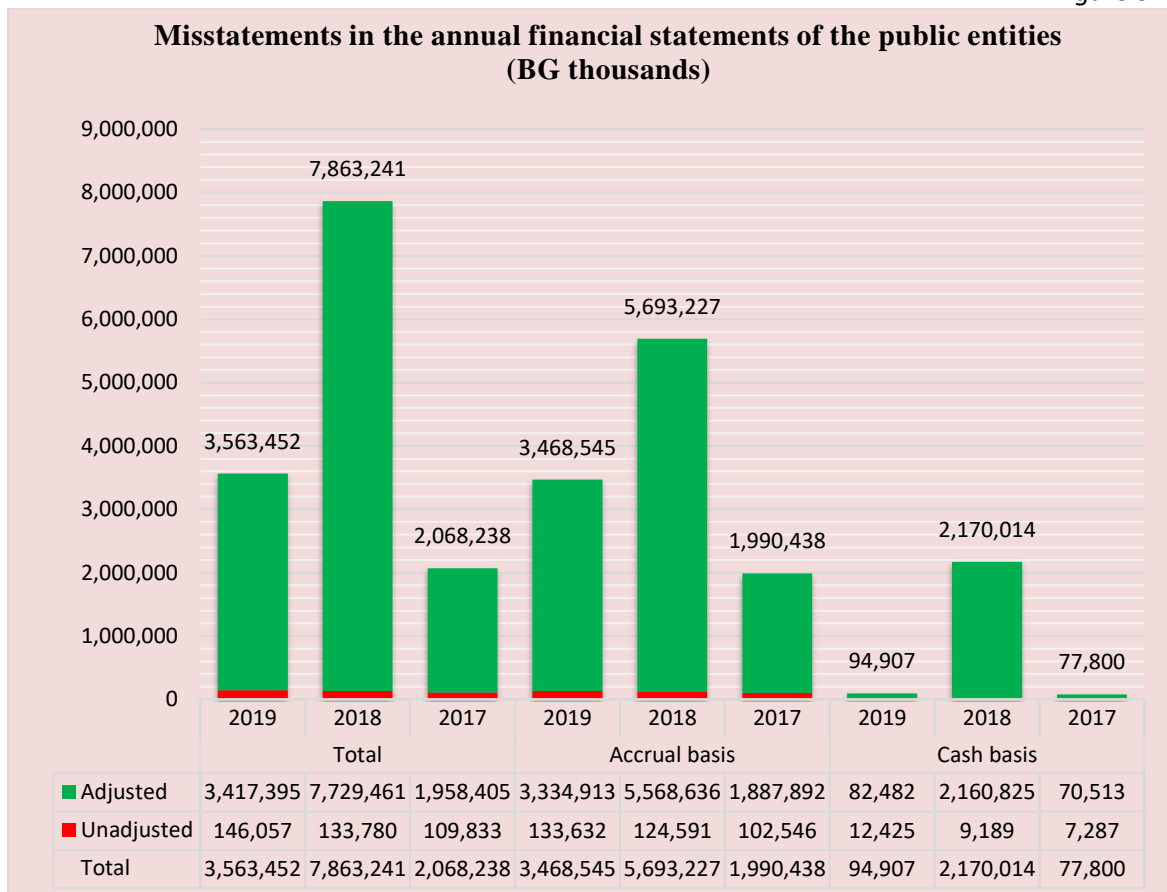
2.3. Summary of the conclusions from the financial audits of the 2019 annual financial statements conducted in 2020

The financial audits of the 2019 financial statements of public entities resulted in the adjustment of misstatements accounting for BGN 3,56 billion. Some of the reasons for the recurring misstatements in the annual financial statements are:

- Differences of opinion between the auditors and the management of public entities regarding the accounting and disclosure of specific events, transactions and operations.

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

Figure 3



2.3.1. Weaknesses in preparing the financial statements

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

because they often create exceptions to the general rules;

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

The following weaknesses in drafting the financial statements were also identified during the audits of the 2017 and 2018 financial statements.

2.3.2. Weaknesses in organizing the accounting functions

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

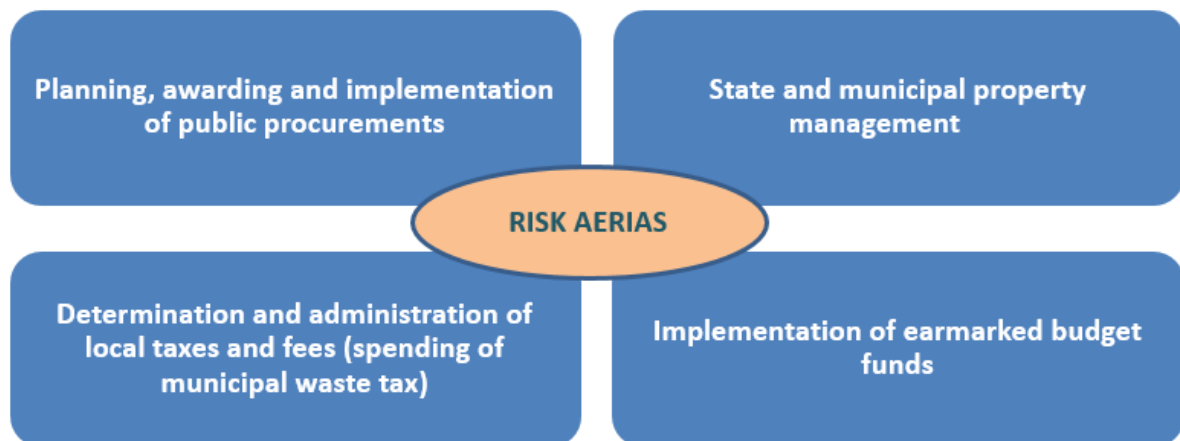
All of the accounting weaknesses mentioned above were also identified in auditing the 2018 financial statements; the first two weaknesses were specific for auditing the 2016 and 2017 financial statements.

3. OUTCOMES OF THE 2020 COMPLIANCE AUDITS

Compliance audit is a review of the financial management and control systems, incl. internal auditing and managerial decisions related to organization, planning, management, reporting and control of the budgetary and other public resources and activities within the audited entity in view of ensuring compliance with the statutory requirements, internal

regulations and the agreements.

In 2020, the BNAO endorsed 35 compliance audit reports. The focus of these audits was on the Financial Management and Control Systems (FMCS), budget execution, awarding and execution of public procurement contracts and estate management of ministries and agencies, municipalities and public universities. The checks also delved into collection of local



fees and taxes by the municipalities. Based on the findings, the auditors came up with assessment and conclusions regarding the management of public funds and conducted activities in the audited entities, and issued recommendation for the improvement thereof.

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

3.1.1. Financial management and control systems

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



3.1.1.1. Ministries, agencies and public universities

Control environment:

- ✓ Absence of regulated internal rules/procedures regarding applying of normative acts related to the performed activities;
- ✓ Adopted internal acts have not been updated in terms of changes in regulations and/or are not in line with the current organizational structure of the administration;
- ✓ Powers in the rules of procedure do not correspond to legal provisions regarding: the responsibility for the introduction, functioning and reporting of the financial management and control systems in accordance with the current legislation; the responsibility as a public contracting authority and the administrative-penal responsibility;
- ✓ The employees function structure does not provide the necessary human resources for the implementation of the functions for which the organization was created;

✓ No Internal rules for the employees salary have been adopted and approved; there is no regulated obligation for preparation and approval of a nominal schedule of job positions;

✓ The following have not been prepared: reports on the need to reassign employees to another position in the same administration; individual work plans for employees and no interim meetings and annual evaluations of the work performance of employees have been performed.

✓ Some public universities have not approved internal rules and procedures for management of state owned real estates and articles, which determine the order of their use and maintenance;

✓ The State Universities have not approved obligations of officials for maintenance and storage of files of the state-owned estates provided for management;

✓ The Rules for the organization of the administration activity and the documentation have not been updated, in connection with the implemented Automated University Information System.

Risk management:

✓ *Failure to implement periodic review and assessment of the risk for compliant and adequate goal attainment* (also identified during the 2019 audit)

Controls:

✓ Appropriate procedures have not been introduced for documenting the processes and the implementation of introduced control activities, which does not ensure transparency and traceability of actions. The lack of clearly defined functions and their dissemination among the responsible officials, as well as proper documentation of the actions of the participants in the processes have not provided an audit trail for carrying out ex-ante control;

✓ The control activities on the implementation of concluded contracts were performed pro forma and were not effective, as they did not find discrepancies between the provided implementation with the agreed one (also found during the 2019 audits);

✓ Ex-ante controls do not cover all functions in the public entities and are not applied continuously and consistently (e.g. signing contracts) during the audited period (also identified during the 2019 audit)

✓ Ex-ante controls regarding the conformity with the law do not cover all functions in the public universities

✓ The public universities do not regulate the procedure for: performing preliminary control before undertaking an obligation when preparing and concluding contracts; approval of the sheets for payment of scholarships and control in connection with the spending of the target budget funds for scholarships;

✓ No control activity for analysis of periodically recurring expenses is introduced in some public universities, regarding the lawful choice of the procedure for their assignment;

✓ Failure to define the functions and responsibilities of the departments and faculties in connection with the preparation of the draft budget of a public university.

Monitoring:

✓ There is no monitoring of the operations. As a result, the rules in place were not updated to account for the functional changes in the organizational structure and legal framework of the entities (also identified during the 2019 audit)

**3.1.1.2. Municipalities****Control environment:**

✓ The internal acts for introduction of the Financial Management and Control System in the municipalities have not been updated in connection with the changes in the legal framework and the organizational structure of the municipal administrations (also identified during the 2019 audit);

- ✓ No rules have been approved regarding the activities for establishing, securing and collecting local taxes and fees at the stages of the processes of management and disposal of municipal owned estates;
- ✓ No official has been appointed to perform the functions of financial controller.

Risk management:

- ✓ Risk management strategies are not updated according to the legal requirements;
- ✓ No risk registers have been compiled by municipal administrations
- ✓ The audited entities have not identified and assessed all material risks that may affect their goal attainment (also identified during the 2017, 2018 and 2019 audits);
- ✓ The audited entities failed to identify risks related to: defining and administering revenues; incurring expenditures; awarding public procurement contracts and implementation of the contracts; management and disposal with municipal-owned estate (also identified during the 2019 audit);

Controls:

✓ The audited entities have not introduced adequate and efficient controls to prevent, detect and correct infringements/ inconsistency with the legal framework and contracts (also identified during the 2018 and 2019 audits);

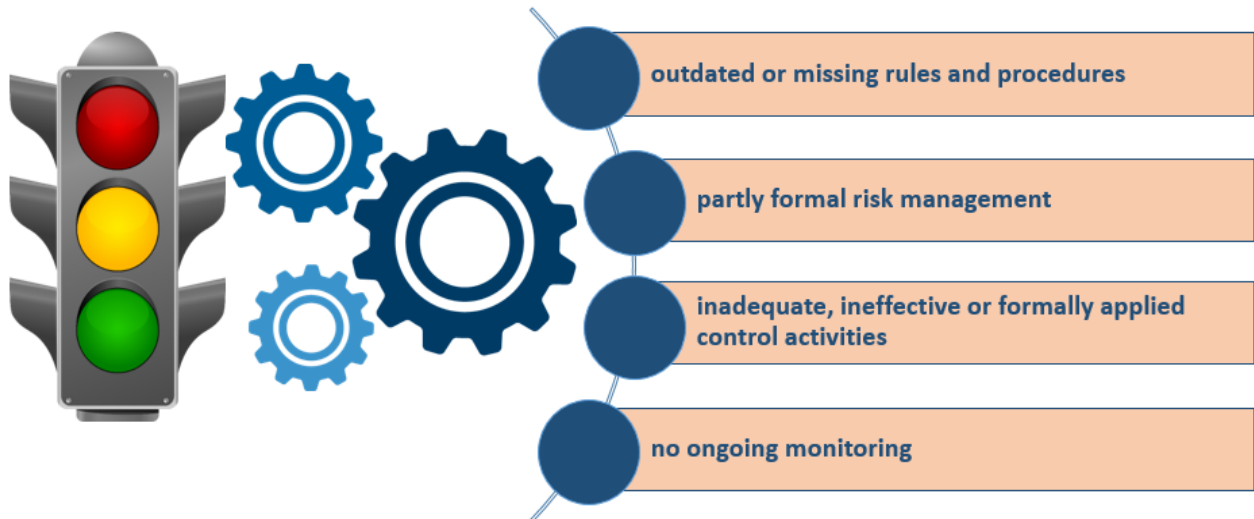
✓ The controls put in place do not cover all aspects of the audited entities' operations, have not been implemented continuously and consistently, they are not adequate and efficient enough and; they have not been analyzed and updated (also identified during the 2017, 2018 and 2019 audits);

✓ Absence of arrangements for ex-ante compliance controls before committing and incurring budget expenditures.

Monitoring:

✓ The audited entities have not performed monitoring of the financial management and control functions to assess their adequacy and ensure suitable updating in case of changes in the circumstances (also identified during the 2017, 2018 and 2019 audits).

Main groups of weaknesses in financial management and control systems



3.1.2. Budget



3.1.2.1. Ministries, agencies and public universities

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

Ministries and agencies:

✓ Taking collective decisions on issues that are within the competence of the head of the organization, according to other laws (Public Finance Act, Financial Management and Control in the Public Sector Act and Public Procurement Act) has negatively affected the process of budget management in the incurred expenditures for short-term business trips abroad, salaries and remuneration of the personnel employed under labor legal agreements in the administration and for remunerations of the personnel under non-labor legal agreements;

✓ Some entities have not adopted rules regulating the budgeting process (also identified during the 2019 audit) inconsistent with the requirements of the Public Finance Act, or the adopted internal rules do not cover all essential requirements of the law and due to incompleteness do not provide and do not guarantee the lawful, efficient and effective use of public resources; the internal rules related to the budget process have not been updated following structural changes;

✓ Failure to perform adequate planning of the costs for the implementation of the relevant activities;

- ✓ There is no written procedures for carrying out the activities for determining and collecting revenues and for carrying out control of the process, which has led to lost revenues. Control over the collection of operating revenues has not been regulated, exercised or documented. Cash payments were made from the revenues collected but not centralized in the the first-level budget spending units;
- ✓ Failure to approve appropriate procedures for incurring expenditures, and the approved ones have not been applied continuously and consistently (also found during the 2019 audit);
- ✓ Incurred expenditures under contracts where no term has been set and contain clauses for automatic extension or the term has been annexed consecutively each year, which isn't a good practice;
- ✓ Expenditures for water, fuels, energy and telecommunication services incurred without applying the public procurement procedure, without contracts, on the basis of expired contracts or under contracts with another holder. Due to untimely / irregular initiation and confirmation of payments on invoices issued in the Electronic Budget Payments System (SEBRA), obligations for payment of default interest to suppliers have arisen;
- ✓ The current internal acts for human resources management have not been updated after changes in the structure and organization of the activity and do not regulate in detail and comprehensively the procedure for determining and paying the remuneration of the employees;
- ✓ The activity for assessment of the work performance of the employees and the achieved results is inconsistent with the legal framework under the internal acts, attestation process has not been carried out, therefore the allocation of funds for additional material incentives for work results is not based on assessment of the real contribution of the employees;
- ✓ Remuneration is paid in cash, instead of bank payment, inconsistent with the legal framework; amounts with the nature of additional remunerations have been paid (for work with classified information, for achieved work results, for paid annual leave, etc.), without applying the normative definitions and / or the order approved in the organization;
- ✓ Overtime has been performed outside the maximum permissible weekly and monthly norms set out in the Labor Code and the overtime has not been reported to the Labor Inspectorate;
- ✓ The internal acts, regulating the activity for concluding the contracts on non-employment legal agreements, the determination and payment of the expenses under them are not in compliance with the normative requirements and do not create appropriate procedures for reporting and acceptance of the performance;
- ✓ The internal acts, regulating the expenses for business trips in the country, are not in accordance with the normative requirements, the specifics of the activity and the organizational structure of the departments;
- ✓ The normative requirements for short-term business trips abroad have not been met with regard to: the money spent for accommodation; some entities did not meet the statutory deadlines for reporting the outcomes of business trips abroad and failed to attach to such reports the underlying documents for the incurred expenditures (also found during

the 2019 audit); non-compliance with the requirement that the invitations for participation of the employees must be translated into Bulgarian;

✓ No deadline has been set for sending the administrative penal files to the NRA; the documentation of the performed inspections for voluntarily received amounts before sending the administrative penal files to the NRA is not regulated.



Public universities:

✓ The activities regarding the planning and drawing of the budget are not regulated by an internal act; Some public universities did not approve budget allocations for their main branches as part of the overall budget for the respective year (also found during the 2019 audit);

✓ There is no approved methodology for determining the contribution of the individual main units for trainings in each professional field for the purposes of the distribution of the revenues from training fees and the funds from the state budget for the maintenance of training;

✓ Regarding the non-employment agreements, discrepancies with the legal framework have been found related to: an unspecified date when reporting the performance of the assigned activities, and in result it cannot be established whether they have been performed within the set term; untimely preparation of the protocols for reporting the performed activity; failure to comply with the term for payment of the remunerations of the contractors; the deadline for performance of the activities precedes the conclusion of the contract or the contract is concluded during the performance of the activities;

✓ Expenditures for scientific or artistic activity have been incurred, purposefully financed from the state budget, which is not in compliance with the legal framework, as: no contracts have been concluded with the project managers who have won the competitions; non compliance of the term for submission of annual scientific and financial report or they are without date; the requirement that the director and the members of the artistic team are not members of the commission for ranking the projects has not been complied with;

✓ No updated monthly distributions of the corrected budgets have been made, after corrections made by the Ministry of Education and Science on the budget of a public university; failure to apply any adjustments made by the Ministry in connection with non-implementation of the admission plan of students, in reduction of the revenue and expenditure part of the budget according to the budget classification;

✓ No opinions on the draft budgets have been prepared by the Control Board and the Board of Trustees, inconsistent with the Higher Education Act and the internal rules;

✓ Teachers' salaries are not tied to the specific academic engagement; the minimum and maximum amount of the basic salaries for every positions has not been determined, the initial salary for every position has not been determined and the salary for academic engagement above the norm has not been determined;

✓ Expenditures for additional remunerations have been made for: irregular workload, without this being regulated by an internal act; duties included in the job descriptions of the employees; increase in the basic salary;

- ✓ The working hours of employees for performing the position under a second employment contract have not been determined; there is no regulated procedure for determining the remuneration of employees when concluding a second employment contract with the same employer; the personal work dossiers do not include job descriptions for part of the performed obligations under the main and second employment contract and additional agreements not signed by the employees are attached;
- ✓ Scholarship statements have not been approved by the Rector and have not been signed by the responsible officials; no orders have been issued to determine the deadline for submitting documents for granting scholarships.



3.1.2.2. Municipalities

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

- ✓ From the Municipal Councils: the lower level spending units have not been determined; the budget forecasts for the next three years, the annual programs for the development of the community centres activity and the programs for the development of tourism have not been adopted; ordinances have been adopted inconsistent with the normative acts; conditions and procedure for conducting a procedure for selection of a financial or credit institution or financial intermediary have not been approved; no limit has been set for new municipal debt; the legally regulated term for consideration of proposals for assuming municipal debt after a public discussion with the local community has not been observed; no Ordinance has been adopted for determining the terms and conditions for financing and supporting physical activity, physical education, sports and tourism activities;
- ✓ The ordinances of the municipal councils for defining the amounts of the local taxes, the determination and administration of the local fees and prices of services, the ordinances for conducting a public discussion for assuming municipal debt and the ordinances for the terms and conditions for compiling a budget forecast for local activities for the next three years for the preparation, adoption, execution and reporting of budgets are in partial compliance or non-compliance with regulations of a higher level (also found during the 2019 audit);
- ✓ The internal acts regulating the preparation, execution and reporting of the budget have not been updated in accordance with the changes in the legal framework; no strategies for information technologies have been developed and also no policies and procedures in connection with strategic management of information technologies in the municipalities have been developed;
- ✓ There are significant amounts of overdue receivables of municipalities from local taxes and municipal waste fee; no enforcement cases have been instituted; From the municipal administration: no obligations with expired ten-year limitation period have been written off;
- ✓ No adequate actions were taken to increase the collection of budget revenues;
- ✓ Failure to collect receivables from real estate and agricultural land lease (also identified during the 2018 and 2019 audits);

✓ The mayors of municipalities have not appointed the employees from the municipal administration with the rights and obligations of revenue authorities and in the proceedings for securing tax obligations, the rights and obligations of public executors or orders are not in accordance with the organizational structure of the municipal administration and the employees;

✓ Violations related to the food and capital expenditures;

✓ In case of expenditures for external services and current repairs, payments were made without the procedure for verification of lack of obligations of the contractor to the NRA and the Customs Agency, no requests for contract costs were prepared and no acceptance and delivery protocols were drawn up;

✓ Expenditures for major repairs for acquisition of tangible fixed assets have been incurred: without being included in the calculation of capital expenditures, without providing funding and without being approved by the Municipal Council; inconsistency between the agreed value and the one indicated in the quantity-value account; the final payment in the absence of a deed for establishing the suitability for acceptance of the construction; without sending information for inspection for lack of obligations of the contractor to the NRA and the Customs Agency; no penalties have been claimed against contractors for non-compliance with deadlines for execution of contracts;

✓ In the municipal debt management it is found: the proposal for municipal debt does not include terms and methods for utilization, the amount of costs for consulting and administrative services and does not reflect the impact of debt financing and debt service costs on the budget; the maximum amount of the debt that can be assumed during the budget year determined by the Municipal Council has not been observed; assumption of municipal debt without adoption of a decision by the municipal council and without the project being announced for public discussion by the local community; payments made on unlawfully assumed long-term municipal debt; discrepancy between the data from the accounting registers of municipalities for payments on municipal debt with the data entered in the Central Register of Municipal Debt.

✓ In some of the audited municipalities the use of municipal sidewalks, squares and street lanes or parts of them as areas for paid and free parking is not regulated;

✓ There is no regulated procedure for spending the funds from the collected tourist tax; no analytical reporting has been filed for the spending of tourist tax collected on the territory of the municipality; no annual report has been prepared for the spending of tourist tax collected on the territory of the municipality;

✓ Violations in drafting the accounts for cleaning and household waste collection and processing regarding Art.66 from Local Taxes and Fees Act; no effective control has been exercised over the performed activities for waste collection and processing; failed control regarding the fuel costs of waste collection machines; unlawfully financing of activities, outside of the ones defined by the law, with funds coming from the collected fees for household waste management;

3.1.3. Public procurements

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

3.1.3.1. Ministries, agencies and public universities



Ministries and agencies:

✓ The internal acts regulating the award and execution of public procurement are not in accordance with the legislation in force during the audited period, do not adequately present the organizational structure of the departments;

✓ No planning of the needs for supplies and services has been carried out, which has led to non-award of public procurements for provision of basic activities;

✓ The following significant inconsistencies with the statutory requirements have been identified in relation to public procurement procedures: non-compliance with the obligation to conclude written contracts with the external experts involved as members of the commission for conducting the procedure; inadmissible approach used regarding the Public Procurement Act for amendment of announcement in the award of public procurement contracts under Chapter Twenty-six of the Public Procurement Act, as well as inconsistencies and omissions in the content of the announcements; failure to submit within the statutory deadlines to the Public Procurement Agency a notice of completion of a contract for entry in the Public Procurement Registry; placing requirements that restrict unjustly the participation in tendering (also identified during the 2017, 2018 and 2019 audits); when publishing an explanation, in relation to a technical error, an incorrect approach was taken by the contracting authority, as the contracting authority did not withdraw the announcement and did not take action to publish a new one with the amended conditions; the date of approval of the minutes for the work of the commission has not been set;

✓ The buyer's profile is not maintained and not all required documents and information are published in it, as the following was found: non-compliance with the statutory deadline for publication of the decision to open a public procurement procedure; published announcements for public procurements and announcements for collection of offers, which do not contain the minimum required information (also identified during the 2019 audit); failure to publish a contract announcement and contracts with the selected contractor; public procurement contracts are published, without the annexes to them; public procurement announcements have been published without the mandatory minimum content. The information on payments made is published on the buyer's profile after the statutory deadline; the created profile of the buyer is not structured, there are no separate sections and no hyperlink to the Public Procurement Registry, which does not ensure publicity and transparency of the activity.

✓ There is no procedure for conducting introductory and additional trainings of the persons engaged in the management of the public procurement cycle;

✓ Failure to adopt order and manner for documenting the control over the public procurement process; the introduced control procedures for coordination of actions and

documents in the public procurement process have not been applied (also identified during the 2019 audit);

- ✓ When preparing the documentation for public procurement, the set deadlines for the different stages of the procedures do not comply with the regulatory requirements, the place of receipt of tenders is not indicated, as well as the date, time and place for opening of tenders, it is not announced that the public procurement is designed for implementation by specialized enterprises and cooperatives of people with disabilities; appointing committees for the acceptance, evaluation and ranking of tenders after the deadline for accepting of proposals (identified during the 2019 audit);

- ✓ Based on grant agreements, public procurement contracts have been concluded with significant changes in the conditions set out in the grant agreements;

- ✓ The contracting authority has not complied with the clauses in the public procurement contracts regarding the terms of payment: advance payments of the entire amount made or non-payment of funds due for services already performed due to lack of funds;

- ✓ The public procurement files contain all documents related to the award procedures, but do not contain the documents related to the execution of the concluded contracts, as a result of which they do not provide an audit trail of the actions;

- ✓ In case of non-execution of public procurement contracts, the contracting authorities have not claimed and, respectively, the public procurement contractors have not paid the compensations / penalties for non-execution agreed with the contracts;

- ✓ Cases of unlawful amendment of public procurement contracts to increase the price of the delivered goods have been identified.

Public universities:



- ✓ Incurring expenses (for fuel, water, electricity) based on direct agreements without public procurement tenders when the Law requires such tenders

- ✓ The following violations were identified in relation to the public procurement procedures: no schedule in place for awarding public procurement contracts; decisions and / or announcements for the opening of the procedures and for the award of the contracts are published in the form of links to the PPA website, which does not constitute publication of the electronic document on the buyer's profile; conducted a negotiated procedure without the conditions for its implementation; public procurement documentation is available on the buyer's profile before the statutory deadline; set requirements that unreasonably limit the participation of economic entities in the procedure (also identified during the 2018 and 2019 audits); the announcement does not provide information on the quantity of deliveries; the documents proving compliance with the specified selection criteria are not indicated; the commission has not ranked the tenders according to the degree of their compliance with the conditions announced in advance by the contracting authority; negotiations with the participants in the public procurement through direct negotiation are not noted in separate protocols; published documents on the buyer's profile, without specifying the date of publication;

- ✓ Concluded public procurement contract without presenting all documents certifying the lack of grounds for removal; contracts published on the buyer's profile without their annexes;
- ✓ Failure to meet the statutory deadline for informing the Public Procurement Agency of the completed contracts (also identified during the 2019 audit).



3.1.3.2. Municipalities

- ✓ Some internal rules on managing the public procurement cycle do not comply with the minimum required contents set out in the Rules on the implementation of the Public Procurement Act (also identified during the 2019 audit) and are not updated in accordance with the amendments of the Public Procurement Act;
- ✓ Certain municipalities did not plan their public procurement procedures failing to identify the needs of construction, supplies and services and no schedules for public procurement were prepared (also identified during the 2018 and 2019 audits);
- ✓ Unlawful choice of public procurement procedure;
- ✓ Incurring expenses (for fuel, water, electricity) based on direct agreements without public procurement tenders when the Law requires such tenders (also identified during the audits in the period 2017 - 2019);
- ✓ The following significant infringements of the legal framework were identified in relation to the award of public procurement contracts: requirements included in the announcements that unreasonably restrict the participation of economic operators in the procedure; the contents of the announcements do not correspond to the minimum defined in the law; the completeness and the way of presenting the information in the documents was used as an indicator for evaluation of the offers; methodologies for evaluation of tenders, which do not contain precise and clear instructions for the work of the commissions; decisions and announcements for opening of procedures are published on the buyer's profile before the publication of the announcements in the Public Procurement Registry; the documents were published on the buyer's profile prior to the publication of the announcements in the Official Journal of the EU; protocols and reports of commissions for review and evaluation of the submitted bids are published on the buyer's profile before the decisions for selection of contractors are sent to the participants; contract announcements have been sent for publication in the Public Procurement Registry after the specified deadline and have not been published in the buyer's profile;
- ✓ The following irregularities were identified in relation to awarding public procedures through open tenders in line with Chapter 26 of the Public Procurement Act: the announcements do not contain the minimum specified information; requirements for participants are included, which unreasonably restrict participation in public procurement; methodologies have been approved which do not allow the specific bids to be evaluated objectively and do not contain precise instructions for the work of the commissions; the chosen contractors did not prove their compliance with the set selection criteria; Annexes

to the concluded public procurement contracts have not been published on the buyer's profile;

- ✓ During the execution of the public procurement contracts it was found: non-compliance with the agreed deadlines by public procurement contractors and non-compliance with deadlines for making payments under the contracts by the contracting authority; absence of protocols of receipt for the works done under the public procurement contract and lack of control by the contracting authority (also identified during the 2018 and 2019 audits); no notifications were sent to the NRA and the Customs Agency before making payments under contracts; additional activities have been paid for, without being specified in the contractor's offer; Contract execution notices have not been sent to the Public Procurement Registry and have not been published in the buyer's profile.

- ✓ Delayed release of guarantees for participation in tendering procedures and guarantees for execution of public procurement contracts (also identified during the 2018 and 2019 audits);

3.1.4. Estate

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



3.1.4.1. Ministries, agencies and public universities

Ministries and agencies:

- ✓ The form and content of the Estate Registry for state owned property have not been adopted with an internal act and the information for some of the estates has not been updated;
 - ✓ The deeds of state owned estates are not updated after their entry into force of the Cadaster map;
 - ✓ The order, responsibilities and control procedures regarding the organization and preparation of the documentation for conducting tenders for leasing of estates or parts of them, provided for management, are not regulated;
 - ✓ Lease procedures have not been carried out in a timely manner and the lease agreements have not been settled upon the expiration of the valid contracts;
 - ✓ The state owned estates and articles, the lease agreements and the use of the estates/ parts of the estates are not managed with the due care of a good owner and according to the principles of legality and good financial management - the tenants / users are illegally credited with the value paid from the budget consumables (electricity, water, local taxes);
 - ✓ Failure to comply with the legal requirements for mandatory insurance of the state owned estate which is in material inconsistency with the legal framework under the State Property Act (also identified during 2019 audit)
 - ✓ In material inconsistency with the legal framework, areas / parts of estates - public state owned estates - have been provided free of charge for commercial activities;

- ✓ Recreation centers are not categorized as tourist sites under the Tourism Act, which does not ensure compliance of their management with the legal framework;
- ✓ Occurred grounds for payment of indemnities for occurred insurance events have not been presented to the insurers;
- ✓ For state-owned estates provided for management, no declarations for taxation with local taxes and fees have been submitted at all or have been submitted with a significant delay. Liabilities for local taxes and municipal waste tax are not repaid within the statutory deadlines, for which interest for delay is due in significant amounts.



Public universities:

- ✓ The form and content of the estate register are not adopted with an internal act and the obligations of the officials for maintaining the estate register are not determined by an internal act;
- ✓ The deeds of state owned estates are not updated after their entry into force in the Cadaster map;
- ✓ The orders for opening tenders do not specify the composition of the commissions for their holding and for evaluation of the submitted applications for participation; the commissions do not include a lawyer, as well as reserve members;
- ✓ The legally established procedure for leasing parts of state-owned estates isn't observed; signing contracts for leasing state owned estate without conducting tenders as required by law (also identified during the 2018 and 2019 audits).
- ✓ Delivery and acceptance protocols with an inventory of the sites in violation of the concluded lease agreements and also internal rules have not been drawn up.



3.1.4.2. Municipalities

- ✓ Ordinances on the management and disposal with municipal estate (also identified during the 2017, 2018 and 2019 audits) for establishing housing needs and renting in municipal housing and on holding rights of the municipalities in commercial entities are not in line with the effective legal framework (also identified during the 2019 audit);
- ✓ The strategies for management of the municipal property and the programs for management and disposal of municipal owned estates are inconsistent with the requirements of the Municipal Property Act. Some municipalities have not adopted strategies for the management of the municipal estate for the duration of the Municipal Council's term in office (also identified during the 2017, 2018 and 2019 audits);
- ✓ Failure to identify which private municipal owned estates and municipal owned articles are subject to mandatory insurance. Non-compliance with the legal requirements to have the mandatory insurance of the public municipality owned estates (also identified during the 2018 and 2019 audits);

✓ When leasing non-residential estates and agricultural lands, discrepancies with the legal framework were found, related to: unregistered acts for private municipal property in the Registry Offices; estates not included in the Municipal Property Program; the orders for opening tender procedures do not specify a deadline for purchasing the tender documentation and the time and manner of inspection of the sites; the composition of the commissions for conducting the tenders does not include the mayors or their representatives, on whose territory the properties are located; the lease agreements have not been registered with the Registry Office; no delivery and acceptance protocols have been drawn up for the transfer of estates; no decision has been made by the Municipal Council to index the rental prices of estates;

✓ Leasing of estates - public municipal property without a decision of the Municipal Council;

✓ During the tenders for disposal of municipal owned estates the established violations are in relation to: the estates are not included in the Programs for management and disposal of municipal estates; the mayors or their representatives, on whose territory the properties are located, are not included in the commissions for conducting auctions; failure to draw up delivery and acceptance protocols for the actual handover of estates; failure to entry sales in the main register of private municipal owned estates; unissued orders for writing off estates from the act books; disposition transactions with municipal owned estates are not recorded in the acts of municipal property; they have been unlawfully determined and overheads have been paid by the buyers, representing two percent of the value of the estates; concluding contracts for the sale of estate before the determined price has been paid;

✓ Annual reports on the condition of the municipal property and the results of its management by types and categories of sites have not been drawn up and have not been submitted to municipal councils (also found during the audits in 2019);

3.1.5. Local taxes and fees

The efficient collection of local taxes and fees is conducive to ensuring the necessary funding of local operations, reducing budget deficits and maintaining economic and financial stability at municipal level. In 2020, BNAO endorsed fifteen reports on the audits of municipalities that delved into the administration of revenues from local taxes and fees, incl. real estate tax, motor vehicles tax and household waste collection fees.

The projected revenues from local taxes and fees are not aligned with the size of the receivables for 2020 and the previous calendar years. In fact, the draft budgets were prepared based on the receivables for the current year and the collection rate from the preceding year, without taking into consideration the possible collection of receivables from previous periods. There is no analysis of the collection of local taxes and fees for municipal waste and the amount of overdue receivables that are expected to be collected during the budget year. As a result, unrealistic execution / overfulfillment of revenues from local taxes and fees in the municipal budgets was reported - over 90 percent.

It is noteworthy that these revenues are only carried on a cash basis. They are not subject to current accrual⁴ - a principle that requires the recognizing of the transaction effects through the date of their occurrence, regardless of the date of receipt of the cash revenues or equivalents thereof. They have to be disclosed in the financial statements for the period for which they refer, while being carried once the cash revenues are received.

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

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

- ✓ No written procedures and instructions for work and control were introduced by internal acts, which would cover the various stages of the administration of local taxes and fees (also identified during the 2019 audit). There are no rules for the activities for establishing, securing and collecting taxes regarding properties, waste management and productive assets;

- ✓ Certain municipalities (in their capacity of taxable entities) didn't declare all estates – municipal property and did not pay real estate taxes for the declared ones and also did not pay waste collection fees for the private municipal owned real estate and waste collection fees for the public municipal real estate (also identified during the 2019 audit).

- ✓ The decisions of some Municipal Councils for endorsing the annual budgets do not contain information of the value of outstanding receivables from local taxes and fees planned for collection during the current budget year, which is in violation of the Public Finances Act (also identified during the 2019 audit);

- ✓ Priority repayment of the current deposit, and the liabilities from previous years and the interests remain as difficult to collect revenues; no analysis of overdue receivables by the revenue authorities has been performed;

- ✓ Failure on behalf of some municipal administrations to take measures (or timely measures) for collection of receivables through: invitation for voluntary payment; issuing penal protocols for overdue receivable; filing for forced collection; referring cases to the National Revenue Agency and to private bailiffs for collection. As a result, significant overdue receivables of local taxes and fees were written off based on 10 years statute of limitation. (also identified during the 2019 audit);

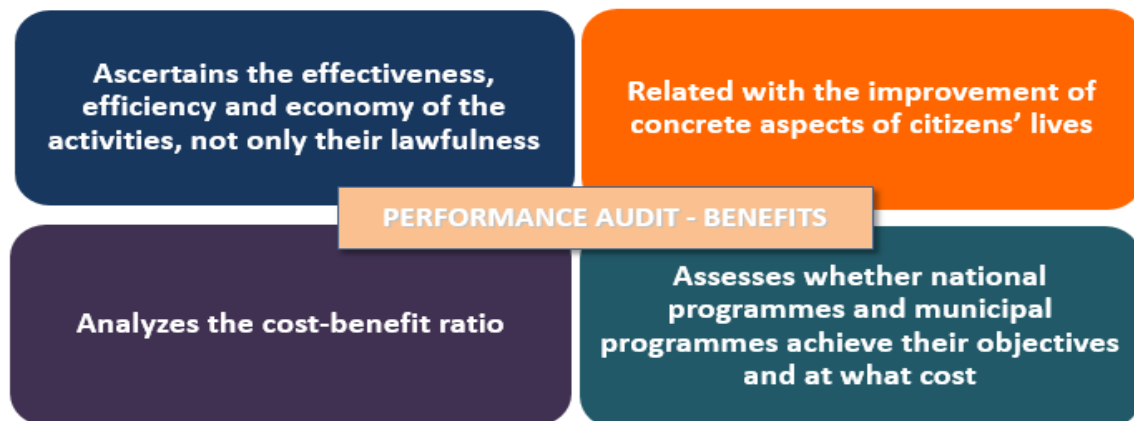
- ✓ No orders were issued for assigning audit procedures in accordance with the law;

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

- ✓ In some of the audited municipalities there is no procedure for deferral and rescheduling of obligations for local taxes and fees;
- ✓ Inconsistencies between declared data and the information entered in the software product for local taxes and fees, which leads to the determination of a lower amount of real estate tax and municipal waste tax than legally due;
- ✓ The legal order for clarification of the necessary data in connection with the correct determination of the tax assessment of the estates has not been applied, which does not provide assurance that the real estate tax has been determined legally;
- ✓ Extending motor vehicle tax relief for certain individuals without verifying the validity of the declared grounds thereof (also identified during the 2019 audit);
- ✓ Unfounded exemption of individuals from paying waste collection fees; failure to perform checks of the declared grounds for exemption from waste collection and transportation fees (also identified during the 2019 audit);
- ✓ In relation to charging tourist tax, some municipalities failed to cover all places offering accommodation, and failed to collect the annual tax returns of all categorized places for accommodation (also identified during the 2019 audit);
- ✓ Infringements/inconsistencies in the administration of revenues from kindergarten fees; the deadline for collecting and paying fees for kindergartens were not met;
- ✓ Absence of control over collecting the local taxes and fees in cash in the municipalities and their reporting
- ✓ Absence of controls on the operations of the revenue agencies (also identified during the 2019 audit), which creates preconditions and may lead to violation of the principles of "Legality" and "Objectivity", defined in the Tax and Social Security Procedure Code, in connection with the Law on Local Taxes and Fees, as well as failure to achieve the objectives of administrative penalties and lost revenue for the municipal budget.

4. OUTCOMES OF THE PERFORMANCE AUDITS

Performance auditing is a review of the planning, implementation and control at all levels of management within the audited entity in view of their effectiveness, efficiency and economy. **Effectiveness** describes the extent to which the audited entity has achieved its goals by comparing the actual to the expected outcomes of its operations. **Efficiency** is defined as achieving the maximum level of performance/output out of the inputs used to perform the audited entity's operations, and **economy** focuses on acquiring the resources needed for the operations of the audited entity at the lowest cost, while meeting the requirement for quality.



The Bulgarian National Audit Office supports the national mid- and long-term efforts to achieve accelerated economic growth, enhance the standard of living of the Bulgarian citizens and ensure gradual convergence with the average European standards. In 2020, BNAO's auditing priorities continued to focus on attaining the goals of the National Reform Program towards the implementation of the EU 2020 Strategy and the "Bulgaria 2020" National Development Programme, balanced and sustainable regional development, strengthening of the institutional environment and enhancing the implementation of EU-funded programs and projects.

In 2020, the BNAO endorsed 7 performance audit reports, while 4 performance audits were terminated and 12 transitional audits have been implemented whose implementation will continue in 2021 in the following thematic areas:

Audit reports endorsed in 2020	Audits carried out in the reporting period, but still not completed to 31.12.2020 ⁵
Education, Science and Culture	
	1. Vocational training for adults
Agriculture and Environment	
	2. Plastic waste management 3. Effective and transparent use of public funds to overcome the consequences of the COVID 19 pandemic - measures to support farmers
Social Affairs and Employment	
1. Effectiveness of measures to reduce poverty	4. Effective and transparent use of public funds to overcome the effects of the COVID 19 pandemic - social support and employment measures'
Healthcare	

⁵ Incl. quality control stage

	5. Effectiveness of the system for psychiatric services
Public Finance	
2. Effective management of the VAT revenues 3. Effective use of program-based budgeting as a tool for optimal resource allocation	6. Effective collection of state public receivables by the National Revenue Agency
Economy, energy and tourism	
	7. Effective and transparent use of public funds to overcome the effects of the COVID 19 pandemic - economic measures for micro, small and medium-sized enterprises'
Justice and Home Affairs	
	8. Effective organization and controls of the maintenance and storage of the Registry Agency databases
Management of EU-funded Programs and Projects	
4. Monitoring and evaluation of OP Environment 2014-2020 5. Effectiveness of the implementation of OP Good Governance – Axis 1 “Administrative Services and E–Governance”. 6. Effective planning and contracting of funds under OP Regions in Growth, priority axis 1 “Sustainable and Integrated Urban Development” 7. Management of the direct grant scheme under OP Human Resource Development, measure BG05M9OP001-2.003 “Accept me”	9. Administration of irregularities 10. Effective building and modernization of R&D infrastructure under <i>OP Science and Education for Smart Growth 2014 – 2020</i> 11. Monitoring and evaluation of the Community driven local development approach 12. Management, control and monitoring of the funds under the Maritime Affairs and Fisheries Program 2014-2020

4.1. Conclusions of the performance audits finalized during the year

4.1.1. Social Affair and Employment

Effectiveness of measures for reducing the poverty level in the period 2015 - 2018

The key audit question was: Are the measures for reducing poverty level effective?

The audited entities were: the Ministry of Labour and Social Policy, the Ministry of Education and Science.

The national goal, set in the context of the Europe 2020 Strategy, is set in the National Reform Program and the National Development Program (NDP) Bulgaria 2020. The policies that should contribute to its achievement are defined and a precondition for the implementation of the country's commitments to achieve the goal of the European Union to reduce the number of people living at risk of poverty or social exclusion has been created.

Measures for combating poverty are not effective enough, due to :

- limited progress in achieving the national goal;

- increasing inequality in income distribution;
- strong differences in poverty level among the regions;
- lagging behind and setting apart from poverty levels in other EU countries, against the background of low unemployment levels and the country's economic development.

Therefore, **it is necessary the mechanisms of planning, implementation, monitoring and evaluation of the policy for combating poverty and social inclusion to be totally reconsidered**, in order to improve of the quality of life for vulnerable groups of people and to create conditions for their full realization.

The established strategic framework addresses the key problems related to poverty, but the strategic objectives are not put into use and there is no clear definition of the identified target groups. **This hinders the adequate planning of concrete activities and the impact of their implementation**, and does not provide for undertaking the necessary actions to change their implementation, if necessary.

The action plans for the implementation of the National Strategy for Poverty Reduction and Promotion of Social Inclusion 2020 have been developed by an interdepartmental working group. There are serious delays in the adoption of two of the plans, which creates a risk for achieving the set goals. **The weaknesses in the activity of the interdepartmental working group are related to:** lack of targeted measures towards poverty;

- limited role of the experts from the Ministry of Labour and Social Policy – they perform only coordinating functions, without any analytical work;
- delay in providing the necessary information by certain government institutions, etc.

The National Strategy for Poverty Reduction and Promotion of Social Inclusion 2020 **has not been updated during its 7-year implementation period** since its adoption, though the level of achievement of the national target shows a serious delay and need to change the planning of measures and activities to combat poverty.

The activity of the National Council for Social Inclusion has a number of weaknesses identified:

- lack of meetings;
- holding meetings and decision-making with less representatives than the statutory set composition;
- failure to express opinions on issues under consideration

There is no assurance provided that the Council effectively performs its functions in relation to coordination, cooperation and consultation in the development, implementation, monitoring and evaluation of the government policy in the field of social inclusion.

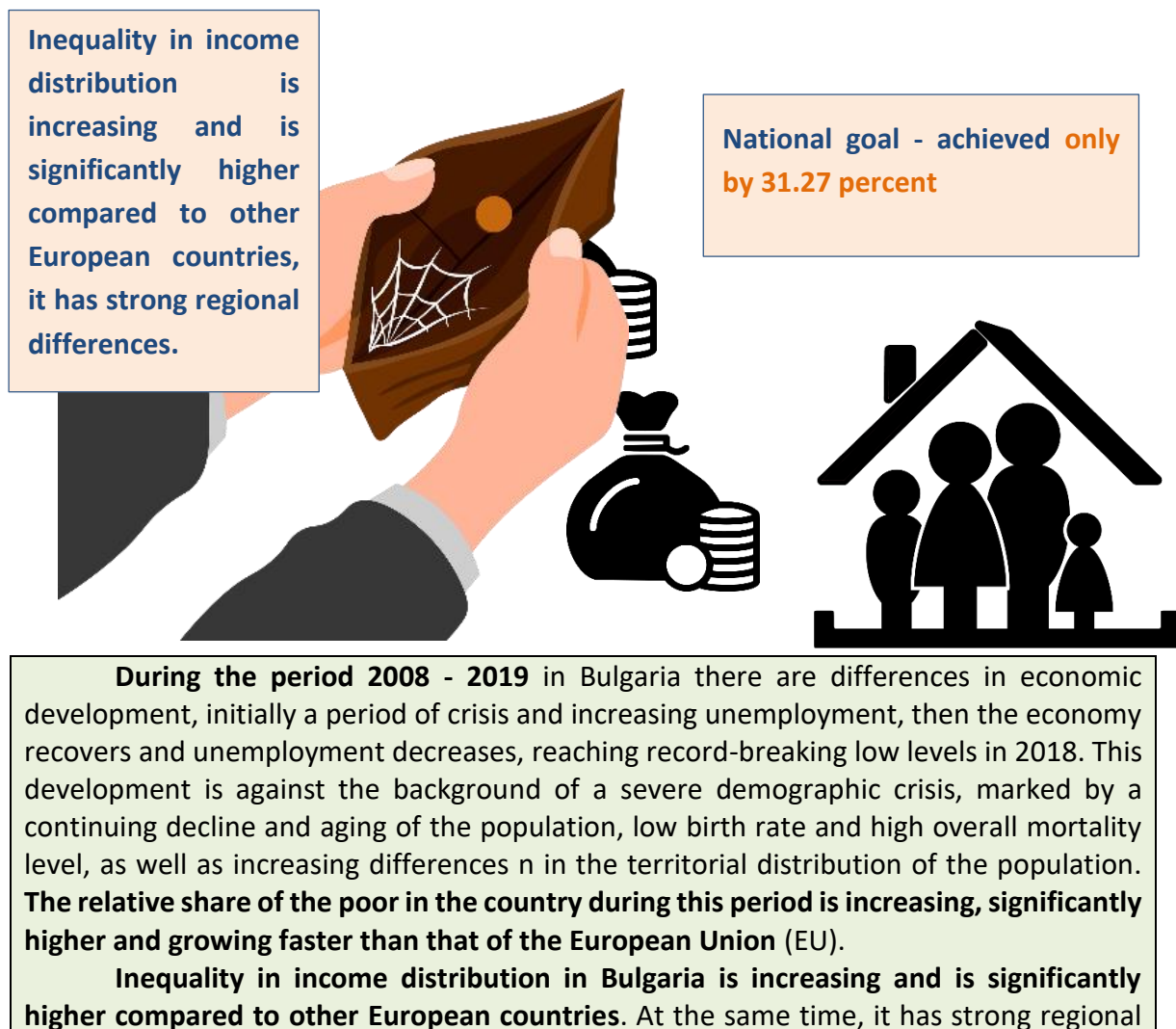
Monitoring and evaluation mechanisms need to be significantly improved in order to be effective and to contribute for changing policies and measures to address adequately poverty issues.

A comprehensive and reliable system of indicators to measure the implementation of poverty reduction policy has not been established. The National Development Programme Bulgaria 2020 and its action plans do not contain indicators at the level of measures, areas of impact and sub-priorities. The National Strategy for Poverty Reduction

and Promotion of Social Inclusion (NSPRSI) 2020 does not contain indicators to measure the level of attainment of the goal and the progress of the strategy, as well as indicators for results, which hinders the assessment of progress in achieving the national goal. The monitoring process is additionally complicated by the lack of targeted values of the performance indicators in some of the activities and mechanisms for impact of NDP Bulgaria 2020 and NSPRSI 2020.

The system for collection of reporting data and information is not organized to ensure unity in the approach of reporting and complete information on the implementation indicators in the action plans to NDP Bulgaria 2020 and NSPRSI 2020. **Reporting on the implementation of measures and activities do not contain analysis results at a regional level**, which limits the possibilities for undertaking actions, in accordance with the specifics of the individual regions.

During the audited period, **no impact assessments have been carried out on the implementation of measures for combating poverty**, the impact of the deteriorating demographic structure and migration on the indicators of poverty and social inclusion and the achievement of the set goals were not analyzed and assessed.



differences, which shows the need to adapt measures and activities to the territorial aspects of poverty.

At the end of 2019, statistic data shows that the national target was achieved by only one third - 31.27 percent.

The forecast shows that if this trend continues until 2020, the national goal for reducing the number of people living in poverty will not be achieved even by half. The degree of achievement of three of the specific sub-goals is also not encouraging. The sub-goal related to the reduction of the working poor has a significant increase compared to the base year. Even the decrease in the population can not lead to a decrease in the number of poor children, which by 2018 is only 3,000 less than in the base year. The decrease in the number of people living in poverty over the age of 65 is limited and the degree of achievement of this specific sub-goal is 29.23 percent. Significant progress has been achieved only in reduced number of unemployed in the 18-64 age group living in poverty, and it is expected the specific sub-goal to be achieved.

4.1.2 Public finances

Effective management of the VAT revenues for the period from 01.01.2016 till 30.06.2018

The key audit question was: Is the activity of the National Revenue Agency for the management of the revenues from the value added tax effective?

The audited institution was the National Revenue Agency (NRA).

A series of strategic and operational actions have been undertaken by the NRA to manage the VAT revenues.

Efforts have been made to improve the efficiency of the activity, along with the positive trend established regarding the results achieved from the voluntary payment of obligations under the VAT Act.

At the same time, there are possibilities for improvement, whose realization would significantly improve the efficiency and effectiveness of the VAT revenues management. An important emphasis in the efforts for improvement should be put on the management of the NRA's internal risks, including corruption risks.

The process of estimating VAT revenues in the NRA is carried out within the budget procedure for the respective year and **without an internal procedure established**. Estimates for VAT were prepared on the basis of a methodology for forecasting revenues, which has not been approved.

During the period 01.01.2016 r. – 30.06.2018 the budget effects related to the VAT revenues as a result from discretionary tax measures⁶ were evaluated and reflected in the forecasts. The fiscal effect of the actions taken by the NRA to manage the risks of non-compliance with tax legislation and to administer VAT revenues (reduction of the gray

⁶ regulatory increase in the excise duty on cigarettes and the effect of no VAT on donated expired foods

economy and increase collection) are not included in the assessment of projected VAT revenues, since the effects lead to change in the macroeconomic indicators.

The NRA activity is based on the model of voluntary compliance with tax and social security obligations aimed at increasing the number of taxpayers who voluntarily comply with tax laws. The activity of risk management from non-compliance with tax legislation is organized through procedures for identification, analysis, prioritization and management of risks and assessment of the effect of the risk management, as per the guidelines for non-observance contained in the Risk Management Guide for Tax Administration of the European Commission.

A customer segmentation project has been implemented in order to achieve a better understanding of their behavior and needs, as well as a project for calculating VAT tax deficits following the methodology of the International Monetary Fund.

The use of predominantly "soft" management methods leads to improved results and efficiency in the administration of the VAT revenues.

During the audited period the process of identifying the corruption risk in the NRA has not been carried out systematically and consistently. The development of annual anti-corruption plans for prevention and response to corruption for the period 2016 – 2018, without assessing the risk factors for the main business processes, creates a risk for the correct scoping of the planned measures and the effective detection and response to internal corruption practices.

In 2016, the National Revenue Agency developed and approved a Corporate Risk Management Strategy. A register of strategic risks is being maintained, based on the operational risks determined by the competent directorates and the planned control activities for their management. **Key structural units in the NRA have underestimated the process of operational risk management and have not identified and managed them accordingly.**

There is a lack of coherence between strategic and operational risks, **which poses a threat to the proper and effective functioning of the operational risk management process, and hence to the achievement of strategic and operational objectives** related to the management of the VAT revenues.

Identification, modeling, introduction, implementation, measurement, analysis and optimization of the business processes are carried out regarding the control over the observance of the tax legislation by the taxpayers, including the observance of the VAT Act, in order to fulfill the objectives of the NRA. Working procedures and instructions are being developed, which should contain a detailed description of the processes. In view of the proper regulation of the procedures. A special internal procedure has been created, which covers the all stages in the process of development and approval of procedures and instructions in the NRA. **The identified omissions in the procedure do not provide assurance that timely updating and completeness of the other procedures is ensured, which creates a risk for the quality of the control activity.**

The revenue authorities carry out the tax and social security control by carrying out inspections and checks. The control actions are performed and documented in the

Information System "Control", covering all stages and procedures in the control proceedings. Working procedures have been approved for the types of inspections and checks performed by the NRA.

The National Revenue Agency applies a "selection" work process consisting of an assessment made of the necessary control action against debtors. **Omissions have been identified in the procedures regulating the actions for implementation of the selection process**, as well as discrepancies between the practice established in the "Control" Information System and the approved procedures.

The allocation of cases for inspections and checks is done automatically. The Territorial Directorate of Large Taxpayers and Insurers and the Directorate of Medium Taxpayers and Insurers do not perform an automated distribution of inspection cases. The refusal to use the automated allocation of teams of inspectors creates a corruption risk.

In accordance with the procedures, the inspections/checks are assigned by a revenue authority assigning the inspections / checks, which in the different structures of the NRA is performed by persons holding different positions, depending on their specific organizational structure. **Omissions have been identified in the procedures for carrying out inspections** (for example, the regulation of the reasons for changing an automated selection of team), which create a risk for the traceability and control over the implementation of the procedures for assigning inspections.

Mandatory ongoing quality assurance through review of actions is regulated for revision proceedings, and appropriate procedures have been adopted. The respective functionalities for documenting the review in the Control Information System have also been introduced.

Within the procedure for inspection of offsetting and refund and that for current quality assurance through review of actions, it is determined **that ongoing quality assurance is mandatory performed when the declared amounts for refund exceed BGN 50,000. This requirement does not apply to Territorial Directorate for Large Taxpayers and Insurers and for the Directorate for Medium Taxpayers and Insurers.** Failure to put in place regulations for these two directorates regarding the ongoing quality review of the checks leads to different practices **and creates a risk for the consistent and transparent assignment of an ongoing quality review.**

An organization has been established in the work of the NRA with a view to offsetting and / or refunding VAT amounts in compliance with the legislative deadlines set and minimizing the public expenses for payment of interest for delay.

An organization and procedure for electronic service of documents drawn up and issued in the course of control proceedings has been created, which is a prerequisite for compliance with regulatory requirements and for improving the efficiency of the control activities. No reliable regulation of the processes of ongoing collection and archiving of the documents created / issued / received in the course of the control proceedings has been created.

The activity of the VAT administration in the National Revenue Agency is supported by introduced and implemented information systems and specialized software products for data exchange and processing. Since 2011, the NRA has been involved in the exchange of targeted information of the European network for early warning and anti-fraud Eurofisc.

No procedures have been introduced for regular inspections to establish unregulated access to tax and social security information, as a preventive measure for its protection and for avoiding corruption practices.

In relation with the introduction of the information technology in the field of business, in 2016 a special department was established within the National Revenue Agency, whose main task is to develop the approach to data analysis in electronic form when performing control proceedings. As of December 31, 2018, **the purchased specialized software for electronic audit was still of limited use.**

Effective implementation of program – based budgeting as a tool for optimal allocation of resources for the period 2016 - 2018.

The main audit question was: Is the implementation of program – based budgeting effective as a tool for optimal allocation of resources?

The audited institution was the Ministry of Finance (MoF).

Main findings and assessments

The rules approved by the Ministry of Finance for the organization of the budget procedure do not provide effective control of the information submitted by the first level budget spenders regarding the program formats of the budget forecasts and draft budgets. The internal rules for the organization of the budget process of the first level budget spenders are not sufficiently complete and up-to-date; some of them are not aligned with the amendments to the Rules of Procedure of the respective spender and with the amendments to the Public Finance Act and do not contain procedures for review, amendment and supplementation of the elements of the budget program format by policy areas and budget programs, as well as for interaction with other budget organisations, which contribute to the fulfillment of the goals of the defined areas of policies and budget programs.

During the period 01.01.2016 - 31.12.2018 the Ministry of Finance makes efforts to implement the activities of the program budgeting and to strengthen the good budget management to satisfy the relevant first-level budget spenders and to encourage them to use their program budgets as a real management tool through:

- introduction of procedures for establishing a new program classification;
- introduction of requirements in the guidelines for linking the objectives of the policies and budget programs with the government policy, NDP Bulgaria 2020 and the Convergence Program;
- definition and introduction of key indicators;

- requirements for indicating all sources of funding in the program – based budgets;
- the process launched in 2017 at the stage of planning the medium-term budget forecast and the draft budget of one budget spender unit to consolidate all costs for product / service / activity, including delegated budgets;
- classification of expenditures into institutional and administered as a basis for their tracking in the consolidated budgets.

The effective implementation of program budgeting by first level budget spenders as a tool for optimal allocation of resources is still a challenge that requires definition and application of principles and rules for:

- determination of expenditure ceilings by policy areas / budget programs within the budgets of the spending units responsible for their implementation;
- planning, implementation and reporting of horizontal policies;
- prioritization of expenditures by different policy areas and within the individual budget programs;
- the mechanism for exchange of information among the participants in the budget process, implementing measures and activities in the same policy area;
- verification of the information from the reports submitted by the first level budget spenders, including the performance indicators and the benefit / effect indicators when defining specific deadlines and requirements introduced for the documentation of the process;
- introduction of procedures, order and criteria for reviewing and evaluating the results of the implementation of policy areas and budget programs;
- provision of information for change of expenditures by policy areas and budget programs in the process of implementation of the budgets of the first level budget spenders and how it will affect the performance indicators and the policy benefits/effects.

It is necessary to clarify and update the rules, procedures and methodology for drawing up, implementing and reporting budgets in a program format, as well as their regulation with a higher-level act, thus creating conditions for greater sustainability and duration in their application. The regulation of the process on drafting budget forecasts and draft budgets of the first-level budget spenders with annual guidelines and the lack of a systematic, complete and up-to-date methodology for the implementation of program budgeting does not ensure sustainability, stability and predictability and hinders the application of program and the results – oriented budget approach and the use of its advantages.

The allocation of expenditure by policy and budgetary programs in drawing up budgets in program format is not effective due to:

- failure to reflect all consolidated budget expenditures;
- planning of budget forecast and draft budget without in-depth review and analysis of the expenditures from the previous stage and the achieved results on the policies and indicators for implementation of the programs performed;
- lack of clearly defined criteria for prioritization of costs.

The documents requesting the additional funds needed above the approved expenditure ceilings are not sufficiently explained and motivated. They are not accompanied by clear calculations of their allocation by policies and budget programs, and they are not linked or clearly related to the benefit / effect indicators of budgetary policies and performance indicators for budget programs.

Most of the operational objectives in the analyzed policy areas are concrete, achievable, measurable, result-oriented and limited in time. There are difficulties in assessing the extent to which they have been achieved due to their significant number and insufficient focus of the indicators. **In some cases, there is no relation between operational objectives, indicators for their measurement and the strategic objectives** for which the budget programs have been defined. The slow process of awareness by the first level budget spenders of the need for the introduction of a regular review for the implementation of the strategic and operational objectives hinders their achievement.

The lack of functioning control systems in practice within the first level budget spenders to ensure monitoring of the objectives in the strategic documents and their relation to the available resources, in line with the requirements of the MoF and the prioritization of their implementation, **poses a risk for failure for the achievement of the set national goals.** The Ministry of Finance does not perform a detailed and in-depth monitoring of the forecasting, planning, implementation and reporting of the budgets of the first level budget spenders in program format in the part for achieving the set goals by benefit / effect indicators and for achieving the goals with least expenditures. The monitoring is carried out on the planned and incurred expenditures by policy areas and budget programs for the purposes of monitoring and control of the expenditures under the state budget and compliance with the fiscal rules under the Public Finance Act. **The structuring of program budgets by budget programs follows mainly the functional competence and the organizational orientation, and it is not focused on the public products / services / activities provided by them.** The activities under budget programs of the first level budget spenders do not allow valuation of the produced public goods and services and they cannot be used as a tool for assessing the degree of implementation of the goals set in the government programs and strategies and for assessing the impact on targeted groups of society. **It is difficult to determine which budget programs are successful and which have potential for improvement** with a view to undertaking corrective actions and redirecting the available resources.

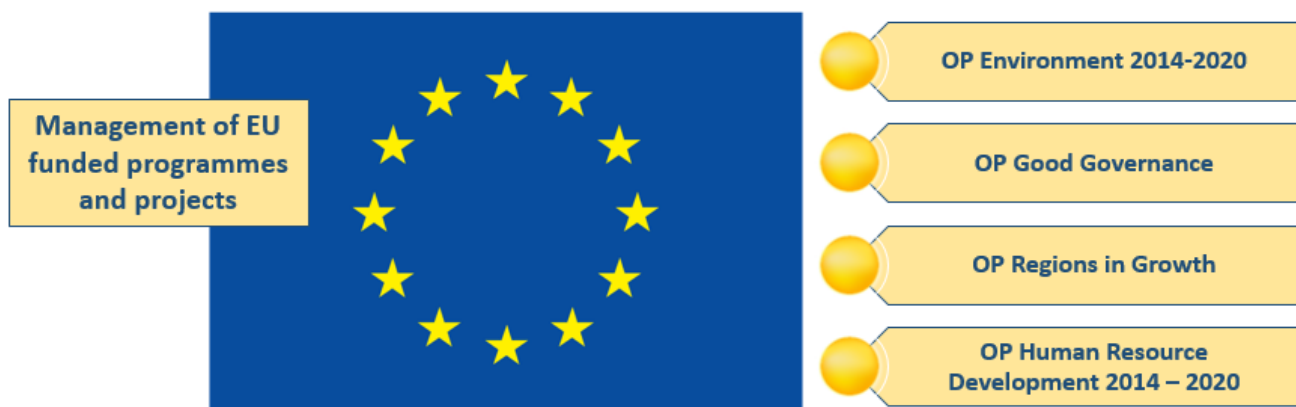
The reports of some first level budget spenders do not contain the expenditures made on other budgets of ministries / departments, which are also responsible for the implementation of the policies. **As a result, complete, accurate and fair information on all expenditures incurred for the implementation of policies and budget programs is not provided and evaluations of the effectiveness and efficiency of their implementation can not be made.** **The lack of all consolidated expenditures** in the reports of the primary budget managers, in the part of the administered expenditures on other EU budgets and accounts, **does not ensure comparability with the expenditures for the respective year approved by the State Budget Act of the Republic of Bulgaria.** The reasons are also related to the

difficulties of the primary spending units for consolidating the information at national level due to the lack of established mechanisms for reporting sectoral and horizontal policies.

The information contained in the reports on the implementation of the program budgets of the first level budget spenders for the period 2016 - 2018 **did not present the degree of achievement of the objectives** of the implemented policies through the set benefit / effect indicators.

The lack of public discussion and feedback on the implementation of program budgets by the responsible committees and subcommittees in the National Assembly reduces the effect of the measures undertaken by the MoF, as well as **the motivation among the first level budget spenders for further development of the program budgeting.**

4.1.3. Management of EU funded programmes and projects



Monitoring and evaluation of OP Environment 2014-2020 for the period 01.01.2014 - 30.06.2018

The key audit question was: Is the monitoring and evaluation of OP Environment 2014-2020 effective (OPE)?

The audited entity was the Ministry of Environment and Water (MEW) – managing authority of OP Environment

The effective implementation of the monitoring activities is still a challenge for the Managing Authority of OPE 2014-2020 and requires:

- division of control and executive functions and avoiding overlapping of functions for the activities related to providing information for the program analysis and evaluation;
- improving the human resources management in the selection, appointment and training of the employees at the Managing Authority and in the selection, appointment and reduction of the turnover of the officials with managerial functions;
- optimization of the working procedures taking into account the possibilities of the Management and Monitoring Information System (UMIS) 2020;

- ensuring the use of the risk assessment tool integrated in UMIS 2020 and Arahne (EC Risk Scoring Tool) and the overall improvement of the risk management activities for the implementation of the operational program;
- improving the ongoing monitoring of performance indicators at project level, including through their introduction in UMIS 2020;
- more active participation and flexible application of the different types of financial instruments according to the specifics of the program and the planned grant procedures.

Weaknesses have been identified in the separation of control from executive functions and duplication of functions with regard to the activities for providing information for analysis and evaluation of the program, **due to the lack of clear specification of responsibilities of some structural units of the Managing Authority.**

The existence of weaknesses in the human resources management regarding the selection, recruitment and training of staff indicates the **need to take additional measures to comply with Regulation (EU) № 1303/2013 and the EC Guidelines on the administrative capacity** required for managing authorities. **For the period from 01.01.2014 to 30.06.2018 the head of the Managing Authority has been changed seven times.**

The rules, procedures and controls introduced by the Managing Authority with the procedural manual created conditions for collection, analysis, evaluation and reporting of the information necessary for the monitoring, evaluation, management and control in the performance of its responsibilities, as well as providing complete and reliable information in UMIS 2020. When specifying the obligations of the structural units in the management and control systems, it is necessary to provide for integration in some working procedures of the introduced functionalities of the management and monitoring system UMIS 2020.

The further development of the UMIS 2020 all introduced functionalities will facilitate the Managing Authorities and control bodies in monitoring the implementation of the operational program by reducing the time required to perform certain processes and improving the user interface and analytical functions of the information system.

There are gaps in risk management related to the identification of the main risks for the implementation and evaluation of the program. **The Managing Authority of OPE 2014-2020 has not undertaken sufficient action to use all mechanisms for good risk management of fraud and ensure transparency.**

The framework for implementation for 2018 under the priority axes of OPE 2014-2020 includes 19 indicators to be reported to the European Commission. The analysis of the implementation of the program for the first half of 2018, compared to the reported results as of 31.12.2017 shows progress in terms of implementation of the financial indicators of the program in the part of the agreed funds under the individual priority axes, while maintaining the risk of non-implementation. targets for the certified means, despite corrective actions taken for corrections in the operational program.

As a result of the efforts of the Managing Authority in 2018 to speed up the process of certification of expenditures and renegotiation of the financial plan under the operational program in connection with the application of the rule for cancellation of

budget commitments, **the risk of loss of funds under the financial plan for 2015 has been terminated** and the total potential loss of funds under the Cohesion Fund and European Regional Development Fund has been reduced to EUR 14 million.

Following its statutory obligations, the Managing Authority has prepared reports on the progress achieved and analysis of the implementation to the entities involved in the process of managing the EU funds. **The quarterly progress reports are incomplete, and do not contain information on problematic projects, as well as there is no explanations on the reasons for the problems encountered.** Hence, the possibility the reports to be used as a tool for undertaking actions for managing the identified difficulties for the implementation of the indicators, milestones and final objectives of the operational program is very limited.

The difficulties identified during the on-the-spot inspections of the beneficiaries of projects financed under four priority axes of OPE 2014-2020 are related to:

- lack of liquidity and insufficient financial resources for project management;
- insufficient administrative capacity in awarding public procurement procedures.

The weaknesses of the Managing Authority are related to:

- the lack of mandatory requirements for conducting on-the-spot checks when making payments;
- insufficient capacity regarding the administration of irregularities;
- lack of capacity to implement Natura 2000 procedures.

The approved indicators with the project proposals of the beneficiaries are aimed at achieving the general indicators for implementation under the respective priority axes, and the utilization of the resource affects the implementation of the financial indicators under the operational program. Delays in the implementation of most of the projects examined may have a negative impact on the implementation of the indicators related to the milestones, as well as on the sustainability of the results of these projects.

As of the end of March 2018, no criteria have been developed for the evaluation of the program and no change has been made in the evaluation plan. In April 2019, a contract was concluded with a selected contractor for a public procurement: "Carrying out evaluations of the implementation of the Operational Program" Environment 2014-2020". Rules and procedures for reviewing and updating the preliminary evaluation of OPE 2014-2020, are not included in the procedural manual.

Investment strategies for financial instruments under Priority Axes 1 "Water" and 2 "Waste" have been developed by the Fund of Funds . For the period from 01.01.2014 to 30.06.2018 only one financial agreement was signed by the Managing Authority with the Fund of Funds, under priority axis 2 "Waste", on 10.01.2017. **As of 30.06.2018 still no financial intermediaries have been selected to provide financial instruments.**

Effectiveness of the implementation of OP Good Governance Axis 1 "Administrative Services and E-Governance" for the period 01.01.2017 - 30.06.2019

The main question of the audit was: Is there a risk for achieving the objectives of Priority Axis 1 "Administrative Services and e-Government" of the Operational Program "Good Governance" (OPGG) 2014-2020?

The audited entity was the Administration of the Council of Ministers, "Operational Program" Good Governance " Directorate, Managing Authority of the Operational Program.

During the period from 01.01.2017 to 30.06.2019, the Managing Authority of the Operational Program "Good Governance" 2014 - 2020 makes systematic efforts to continuously increase the efficiency in the implementation of priority axis 1 "Administrative services and e-government" under the operational program. **Additional efforts are necessary to overcome the delay in the implementation of some of the projects financed under the priority axis in order to eliminate the risk of loss of financial resources by the end of the programming period.** The Managing Authority of OPGG 2014-2020 creates conditions and organization for effective management and implementation of project activities aimed at implementing the national policy in the field of administrative services and e-government, financed under Priority Axis 1 "Administrative services and e-government" on OPGG 2014-2020.

Commitment has been achieved with thematic goal,⁷ investment priority⁸ and the two specific goals⁹ under the priority axis with the objectives and priorities set in the national strategic and program documents, in accordance with the identified investment needs in improving the administrative service, including through e-government. **Compliance of the approved projects** under Priority Axis 1 with the objectives and priorities of OPGG 2014-2020 **has been ensured.**

The grant procedures under Priority Axis 1 planned in the Indicative Annual Work Programs have been timely announced.

Sufficient administrative capacity of the Managing Authority and assistance to potential beneficiaries for effective management and implementation of projects under the priority axis **has been provided. Sufficient conditions have been created for taking informed management decisions and adequate corrective actions** due to the information included in the annual reports on the identified risks and difficulties in the implementation of Priority Axis1.

The Managing Authority makes efforts for effective and efficient implementation of the process for evaluation of project proposals and implementation of the concluded contracts under priority axis 1 "Administrative services and e-government" by developing and updating rules and procedures in the Manual for implementation of Operational Program "Good Governance" 2014-2020, regulating the processes of planning, evaluation, negotiation and implementation and evaluates and negotiates the projects of the beneficiaries under the priority axis within the statutory deadlines set.

⁷ Thematic goal 11 „ Enhancing the institutional capacity of public authorities and stakeholders and contributing to effective public administration“

⁸ Investment priority 11i „Investing in institutional capacity and in the efficiency of public administrations and public services at national, regional and local levels in order to implement reforms and achieve better regulation and good governance“

⁹ Specific goal 1 "Reducing the administrative and regulatory burden on citizens and businesses and introducing the principles of "life episodes" and" business events "; Specific goal 2 " Increasing the services available to citizens and businesses, provided electronically"

It is necessary the efforts of the Managing Authority of OPGG 2014-2020 to continue regarding:

- the effective management of the risk of delay in the implementation of the activities and indicators under the contracts / orders for beneficiaries' grants under priority axis 1 of the operational program, as well as the risk of delay of the absorption of funds;
- improving the established control environment to achieve compliance with the legislative requirements for regulating the rules and procedures for monitoring the implementation in the performance of the on-the-spot inspections and the administration of signals for irregularities;
- the increase of the efficiency of the on-the-spot inspections by implementing the approved rules and procedures and covering all completed projects to ensure the implementation of the objectives of the financed projects, the specific objectives of the priority axis and the operational program.

Effective planning and contracting of funds under OP Regions in Growth, priority axis 1 "Sustainable and Integrated Urban Development" for the period 01.07.2015 – 3.12.2018

The main audit question was: Are the planning and contracting activities of Priority Axis 1 "Sustainable and Integrated Urban Development" of the Operational Program "Growing Regions" (OPRD) 2014-2020 effective?

The audited entity was the Ministry of Regional Development and Public Works - the Managing Authority of OPRD 2014-2020 .

Appropriate mechanisms for planning and contracting have been developed, defining the order, organization and responsibilities of the participants in the procedures. **The approved planning and contracting procedures are a prerequisite for good governance and control.** The approved procedural manual and management and control systems define clear rules and responsibilities for planning the procedures for provision of grants, including under Priority Axis 1 "Sustainable and Integrated Urban Development" of OPRD 2014-2020. This allows the planning to be done in accordance with the project preparedness of the Managing Authority and the beneficiaries and provides for timely actions for updating the indicative annual work program so as to prevent loss of financial resources and achieving the objectives, in compliance with the principles of publicity and transparency.

The established organization for the operation of the Intermediate Bodies and working groups in the beneficiary municipalities, the guidelines for application and their amendments approved by the Managing Authority of OPRD 2014-2020, as well as the Methodological guidelines for development and implementation of Integrated Plan for Urban Reconstruction, approved by the Minister of Regional Development and Public Works,

create adequate conditions for the submission of timely and of good quality project proposals for grant application under the priority axis.

The mechanism for evaluation of project proposals by the intermediate units and by the MA, **the procedures and rules for evaluation and contracting guarantee the approval of project proposals**, which ensures the implementation of the objectives of the Investment Programs of the beneficiary municipalities.

There is a delay in the evaluation of project proposals in some municipalities exceeding the three-month period set, and in some cases the delay is for more than two years. This creates risk of untimely contacting of the grants under the priority axis and to the risk of non-achievement of the specific objectives. **The Managing Authority of the Operational Program "Growing Regions" is making efforts to overcome the delay in contracting the projects** included in the investment programs of the beneficiary municipalities, as well as the challenges related to effective control in decentralizing the management of funds under the priority axis.

The average relative share of the projects included in the Investment Programs of Beneficiary Municipalities for which a grant has been agreed is 76 per cent, **but the implementation of the activities under the concluded contracts amounts to only 31 per cent and the actually paid funds represent only 14 percent of the overall agreed financing under the priority axis.**

The identified weaknesses in the evaluation process create risks in the implementation of the activities of the Intermediate Bodies and the Managing Authority, which lead to delays in the implementation of the Investment Programs in some municipalities. Hence, **additional efforts should be made towards improving the activities for evaluation of project proposals and control over their implementation.**

Management of the direct grant scheme under OP Human Resource Development, measure BG05M9OP001-2.003 "Accept me" for the period 2015 – 2018.

The main audit question was: Is the procedure BG05M9OP001-2.003 "Accept me 2015" effectively implemented?

The audited entities were the Ministry of Labour and Social Policy and the Social Assistance Agency (SAA).

Despite the achieved result indicators before the deadline of the project and the expected implementation of the financial indicators, additional efforts should be made to ensure:

- planning of activities related to on-the-spot visits by social workers from the Regional Foster Care Teams, the coordinators for organization and management and the quality monitoring coordinators in the National Team for organization and management;
- equal workload of the coordinators for organization and management and the quality coordinators for monitoring of the foster care, as well as of the social workers;

- developed procedures, additional instructions, instructions, orders or other internal acts related to the quality provision of the service;
- effective control by the coordinators for organization and management, the coordinators for quality monitoring in the implementation of the project activities;
- improving the interaction and communication with the Child Protection Departments in the Social Assistance Directorates;
- sufficient and comparable statistic data and analytical information on the implementation of the legally defined functions and activities performed by the Social Assistance Agency under the project;
- updating the Methodology for the conditions and order regulating the provision of the social service “foster care” in the country.

During the period from 01.12.2015 to 31.12.2018, the **SAA has created conditions and organization for the implementation of activities**, establishing a "National team for organization and management" and "project management teams" at municipal / district level **In most of the municipalities a change has been made in the composition of the project management teams, which creates a risk for its effective implementation.**

At the end of 2018, more than half of the municipalities in Bulgaria were included in the project. Partnership Agreements have been concluded with them, allocating the obligations for implementation of the project activities between the concrete beneficiary and the respective municipality.

The SAA has undertaken the necessary steps to include representatives of all stakeholders in the Advisory Expert Council, including representatives of non-governmental organizations related to child protection activities.

The SAA has planned the needs for development of the social service "foster care" at national, regional and municipal level. A Plan for the development of foster care for the period from 2016 to 2017 has been prepared.

Specific indicators have been defined under the project for partners municipalities related to the number of the approved foster families and the children hosted within them, as well as the number of social workers, according to the approved standard for workload per a social worker.

Adequate analyzes have not been performed for updating the Foster Care Development Plan and as a result **the updated plan do not contain specific indicators and the actual need of provision of the social service “foster care”** at national, regional and municipal level **cannot be determined.**

In order to provide the “foster care” service under the project, foster care teams have been formed by the partner municipalities, to provide all activities according to the Methodology for the conditions and order for provision of the service, aimed at foster parents, families of relatives and friends, as well as applicants for foster families. **Some mayors of municipalities did not comply with the requirements of the procedure for inclusion of qualified experts** in the composition of a Commission for selection of a foster care team, **which leads to a risk of selection of social workers by experts not having the necessary qualifications.**

Due to the lack of candidates, social workers who do not meet the requirements of the project for the position have been hired, and in some of the foster care teams the social workers are responsible for a larger number of foster families than in the approved workload standard. This creates a risk of ineffective quality control of the "foster care" service provided.

There is a discrepancy in the data for the number of children placed in foster families at the launch of the project, **which shows omissions in the system for monitoring and reporting the values of the monitored indicators**, and for monitoring and reporting specific objectives at the launch of the project no specific indicators were defined. There is no summarized and systematized information at the project beneficiary for some of the specific groups of children at risk.

The project activities related to the training and supervision of social workers from the foster care teams, the members of the Foster Care Commissions and the social workers from the Regional Directorates for Social Assistance have started at the second stage of the project implementation (as of 01.11.2016), and in some partner municipalities with a delay of up to one year after that, which hindered the implementation of the planned trainings. In most of the municipalities there are no approved schedules for conducting the trainings and supervisions, which is in non-fulfillment of the project requirements, complicates the monitoring of the implementation and reporting of the activities and hinders the provision of sufficient capacity. The control exercised by the beneficiary on the partners municipalities under the project regarding the compliance with the requirements of the Methodology for carrying out the attestation of the employees, appointed under the procedure "Accept me 2015", is ineffective. The ASA does not have enough information to monitor the achievement of all objectives of the project in terms of quality of service provided, assessment of the impact of training, as well as information related to the feedback survey conducted among children and adults about the introduced "Alert System and complaints. "

In order to monitor the observance of the approved procedures and the quality of the provided "foster care" service under the project, the ASA has established a team of quality monitoring coordinators in the National Organization and Management Team. **Despite the efforts made, there is a lack of data to achieve an equal distribution of the observation sites by the individual monitoring coordinators** in carrying out ongoing monitoring by tracking the foster care provided for children placed in foster families and tracking the information cards prepared by social workers. for each placed child. The monthly and quarterly reports developed by the monitoring coordinators on the ongoing monitoring of the quality of the "foster care" service were presented to the project manager with a significant delay. The reports have different content and form, and some of them do not contain data on the main parameters, monitored under the project. **As a result, the ASA does not have updated and summed up information on the development of the "foster care" service and its quality.**

The main problem is the inefficient interaction and lack of cooperation and jointly coordinated actions among the social workers from the Child Protection

Department in the Social Assistance Directorates and the social workers from the Regional Foster Care Teams under the project, especially in the exchange of information and documents for children. .

For the quality of the periodic monitoring carried out by the quality monitoring coordinators through on-the-spot visits, no schedules have been prepared, which does not provide for adequate allocation of time and human resources and does not meet the project requirements. **The number of on-the-spot visits by the monitoring coordinators in the Regional Foster Care Teams during the period decreased and varied by 24 percent in 2017 to 11 percent in 2018 by all project partner municipalities.** No visits were made in three districts of the country during the whole period. **The number of foster families visited during the on-spot visits was also insignificant.**

Due to the lack of explicit instructions from the National Team for Organization and Management regarding the content and organization of the documents in the files of the foster family and the children placed in foster families under the project, as well as due to inefficient communication and interaction between social workers from the regional foster care teams and social workers from the Child Protection Department, the **foster families' files under the project do not contain schedules for visiting and monitoring the children, in violation of the requirements of the Methodology for the conditions and order of providing the social service "foster care".** The main reason for this is the ineffective control exercised by the quality monitoring coordinators in the National Organization and Management Team.

The Methodology for the conditions and order for provision of the social service foster care does not define a deadline for the implementation of the recommendations given to foster families, and the Ordinance on the criteria and standards for social services for children states that an "appropriate deadline" is set. Therefore, it is not possible to assess the adequacy of the set deadline for undertaking actions and the extent to which the safety and security of the child placed in a foster family is guaranteed, which violates the project contract,

There is no summarized and systematized information in ASA on the number of terminated contracts for raising and placing a child in foster families on the grounds and reasons for termination, including by fault of the foster family.

According to the requirements of the project contract and the Methodology for the conditions and order for provision of the social service "foster care", the project partner municipalities have developed "Signal and Complaint Systems", which, however, do not meet all requirements set in the Ordinance on criteria and standards for social services for children and the Methodology. The main reason for this is the lack of effective control by the National Organization and Management Team. The lack of files of the complaints or signals received by the respective municipality under the project, does not allow to assess undoubtedly the observance and effectiveness of the procedures related to their review by the Commissions for review of complaints and signals within the municipalities.

For the period until 31.12.2018, the advance and interim payment requests submitted by the beneficiary have been verified by the Managing Authority of OPHRD 2014-2020 within the statutory deadlines. Through UMIS 2020, the Managing Authority regularly submitted to

the Certifying Authority reports for certification and declaration of eligible costs, including all verified costs under the project, and **for the period no financial corrections were imposed and no irregularities were detected.**

4.2. Summary conclusions from performance audits

Parallel with the positive results achieved in specific areas that bring Bulgaria closer to the best European practices, the 2019 audits identified deviations from the principles of good financial governance. Almost all weaknesses, negative practices and their root causes identified in 2020, were also detected in the audits during the preceding 3 years.

Among the significant weaknesses are:

- Unclear strategic goals and priorities;
- Missing or inappropriately defined criteria and indicators;
- Lacking of targeted and basic values;
- Failure to meet the criteria and indicators;
- Delayed implementation and multiple extension of deadlines;
- Lack of established internal rules and / or non-compliance with the internal rules and regulatory requirements;
- Inefficient internal control systems;
- Inconsistent management of key processes and activities.

Some of the key and most common root causes for the above deviations are related to:

- Ineffective organization and control over the implementation of processes and activities;
- Omissions in the arrangement of public relations with regulations;
- Insufficient administrative capacity for effective implementation;
- Poor coordination among the responsible institutions;
- Frequent structural and personnel changes.

5. OUTCOMES OF THE SPECIFIC AUDITS

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

In 2020, BNAO endorsed 9 specific audit reports, including:

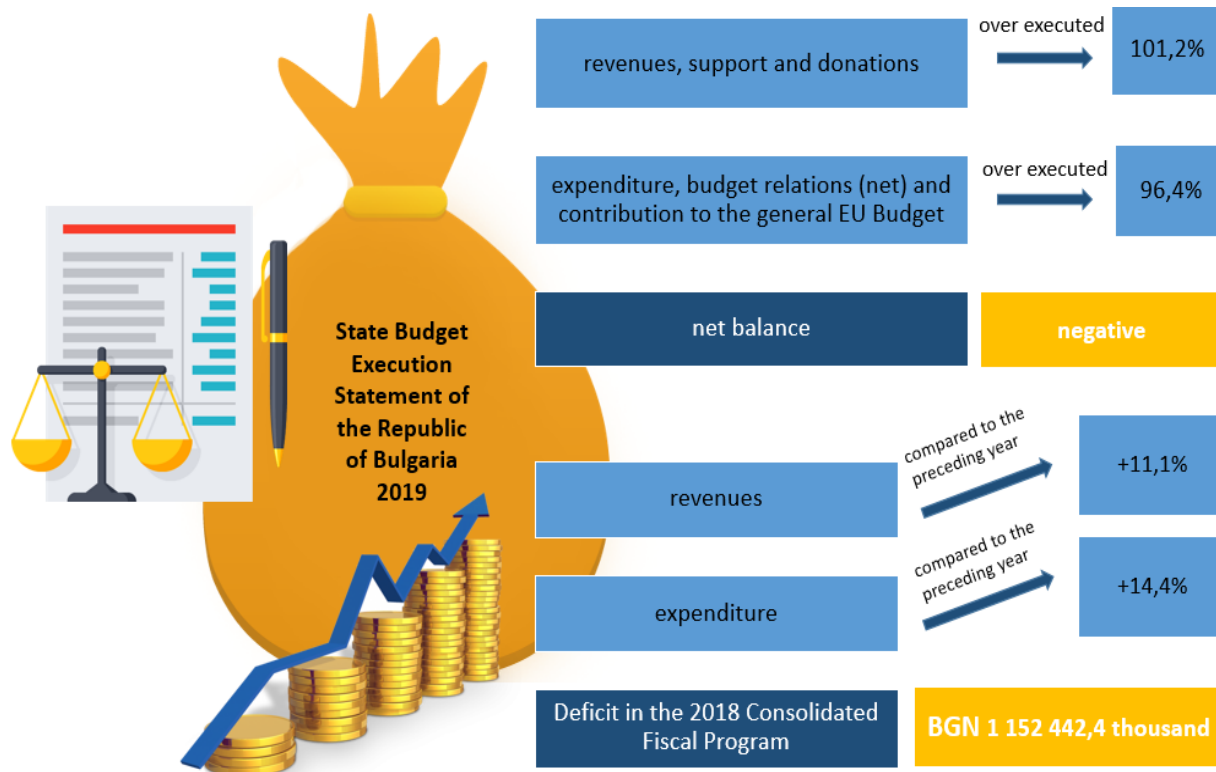
- ✓ Execution of the State Budget of the Republic of Bulgaria, budget execution of the Public Social Security System and the National Health Insurance Fund;
- ✓ Budget management and expenditure of the Bulgarian Central Bank
- ✓ Operations and management of state-owned enterprises
- ✓ Controls over the implementation of concession agreements
- ✓ Financial operations in relation to the participants in the election campaigns

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

5.1. Conclusions of the specific audits conducted during the period

5.1.1. Audits on Budget Execution and Expenditure

Audit of the 2019 State Budget Execution Statement of the Republic of Bulgaria



The audit concluded that the 2019 Statement on the Execution of the State Budget **is compliant with the requirements** set out in the Law on Public Finances, the internal regulations in effect during the audited period and the guidance issued by the Minister of Finance.

The period marked an over execution of the revenues, support and donations planned in the 2019 Budget Law of 101.2 %. It was due to the **collected tax proceeds that exceeded the estimated values.**

The audit did not identify excess of the maximum planned limit for expenditures made in 2019. The maximum amount of the new commitments for expenditures, accumulated in 2019 compared to the specified plan, was exceeded by three first-level budget spenders that incurred more expenditure than planned in the State Budget **in violation with the budget discipline.**

The expenditure, budget relations (net) and contribution to the general EU Budget reported in the 2019 State Budget Execution Statement show a 96.4 % execution of the projections laid down in the 2019 Budget Law.

The net balance is negative – BGN 1 314 372,5 lower than projected in the 2019 Budget Law.

One of the first level budget spender incurred more staff expenditure than planned in the Budget in violation of the 2019 Budget Law and budget discipline. All financial justification forms attached to the requests by the first-level budget spenders for approval of additional expenditure/ transfers (that were checked as part of the audit sample) were in line with the applicable requirements.

There were an increase of the revenues by 11,1% and an increase of the expenditures by 14,4% compared to the preceding year and **the generated deficit in the 2018 Consolidated Fiscal Program amounted to BGN 1 152 442,4 thousand.**

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

The budgeted annual rate of **the state subsidies to political parties and coalitions is in line with the regulatory requirements of Political Parties Act (PPA)**, since their calculation was based on the count of the actual electoral votes received by each party and coalition. The annual subsidy granted for the period 26.05.2016 - 25.06.2019, is re-calculated and partially reimbursed from the Central Budget by political parties and by parties from the respective coalitions under the PPA. The control activities ensure compliance of the activity with the requirements of the legal framework.

[Audit of the Statement on the execution of the 2019 Public Social Security Budget](#)

The statement on the execution of the 2019 Public Social Security Budget was drafted, endorsed and submitted to the National Audit Office and the Parliament **in line with the statutory procedures and deadlines.** The structure and contents of the statement is in line with the 2019 Law on the Budget of the Public Social Security System and the Social Insurance Code. All **transfers in, expenditure and transfers out** carried in the statement and unforeseen in the 2019 Law on the Budget of the Public Social Security System, **are in compliance with the legal requirements.**

The actual proceeds to the system exceed the projected revenues by 1.2 percent, which is due to the higher number of individuals covered by the system, the increased income base, and a higher collection rate.

The total expenditure of the Social Security Budget is 0,8 percent lower than the projections, which is due to the decreased spending for paying out pensions.

In 2019 there is a **decreasing trend** (compared to the preceding 2 years) **in the state budget subsidy used to finance partially the social security expenditure.**

The 2018 Social Security Budget Execution Statement **disclosed a deficit of BGN 5 664,9 thousand.** No deficit (surplus) was planned in the 2019 Social Security Budget.

The controls introduced by the internal rules are effective and are applied consistently throughout the audited period, which presupposes the prevention of discrepancies in the studied processes. **The system for financial management and control has ensured compliance of the studied processes with the requirements of the legal framework.**

Audit of the 2019 Statement on the Execution of the National Health Insurance Fund (NHIF) Budget

The 2019 statement on the execution of the NHIF budget **was drafted in compliance with the structure and indicators laid down in the 2018 NHIF Budget Law.** All proceeds, expenditure and transfers disclosed in the statement are in line with the requirements of the Health Insurance Law.

The 2019 statement on the execution of the NHIF budget was endorsed by the NHIF Supervisory Board and submitted to the National Audit Office in keeping with the relevant statutory requirements. The statutory deadline under Art. 30, paragraph 1 of the Health Insurance Law regarding the submission the annual statement through the Minister of Health to the National Parliament by 30 June 2020 was not met.

The reported revenues and transfers were 2.25% higher than the planned in the 2019 NHIF Budget Law.

The audit identified that the 2019 **actual revenues from health insurance contributions exceed the planned proceeds by 2.89%:** the surplus was allocated to cover health insurance payments, provided in line with the rules on the coordination of social security systems.

The reported expenditure and transfers are 1.9% higher than the projections in the 2019 NHIF Budget Law.

The reserve funds in the budget amounting to BGN 127 105 thousand were spent to cover health insurance payments **in keeping with the statutory requirements.**

The endorsed 2019 NHIF budget is with negative balance of BGN **37 036** thousand reported at year-end.

During the audited period **the financial management and control systems were functioning well, with the exception of the processes related to the submission of the 2019 NHIF annual statement** where the controls failed to ensure compliance with the regulatory framework.

Audit of the 2019 budget expenditure and management of the Bulgarian National Bank

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

The planning of the budget spending and the endorsement of the 2019 budget of the National Bank was done in keeping with art. 48, paragraph 1 and Art. 50 of the Law on the Bulgarian National Bank and the Internal Rules on drafting, execution and reporting the BNB budget.

The allocations for operational costs and investments of the BNB were not spent in full. **The Bank reported 87.8% execution of the planned operational costs, and 23% execution of the planned investments.**

The adjustments of the expenditure in the 2019 BNB budget was done in line with the requirements contained in the Internal Rules on drafting, execution and reporting the Bank's budget.

The expenditure incurred by the BNB in 2019 is compliant with the law and backed with underlying documents. The spending was within the limits for the separate accounts set out in the 2019 BNB Budget law.

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

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

Audit on the effectiveness of the control over the implementation of the concession contracts for extraction of mineral resources in the Ministry of Energy for the period from 2017 to 2018.

The main audit question was: Is the control over the implementation of the concession agreements for extraction of mineral resources at the Ministry of Energy (ME) effective?

The audit concluded that the control exercised by the Ministry of Economy over the implementation of the concession contracts for extraction of mineral resources is **not effective enough**.

The created conditions do not ensure effective control over the implementation of the concession contracts, since the approved internal rules regulating the control over the implementation of concession contracts **do not contain requirements regarding:**

- the minimum content of the statement of findings identified from the conducted documentary and on-the –spot inspections;
- procedure for control over the implementation of the annual work projects;
- procedures for monitoring the implementation of investment, social and environmental programs;
- the specific controls to be performed by officials during documentary and on-the –spot inspections
- control activities of the officials for determining the amount of the due concession fee and their documentation;
- procedures for control of signals;
- procedures for control over the implementation of the recommendations given on the basis of performed inspections conducted as a resulted of the signals received at the ME.

The audit also identified that the department in the directorate, exercising control over the implementation of the concession contracts, functions with less personnel, which affects the workload of the employees. There is **no analysis performed of the need for human resources and their workload**, as well as no analysis of the needs of employees of material resources for conducting on-the –spot inspections, which also does not create conditions for exercising effective control.

The control exercised over the implementation of the concession contracts for extraction of mineral resources is not effective enough due to:

- The exercised control, regardless of the place of its performance (documentary or on-the-spot), is conducted mainly documentary and is based on the data provided by the concessionaires;
- the results of the inspections contain information on the fulfillment of part of the conditions for implementation of the concessions and part of the obligations of the concessionaires under the concession contracts;
- control over the costs reported by the concessionaires in relation with the implementation of the investment, environmental and social programs has not been documented.
- the Ministry of Economy did not perform control for the fulfillment of the obligations of the concessionaires, by taking samples from each production, result from the exploitation of the deposits, as well as by conducting surveys;
- lack of or untimely reporting of the results of the current control;
- the decisions taken at the meetings of the control commissions in connection with the performed control have not been reported timely to the Minister of Energy;
- the relatively low level of collection of public receivables practically reduces the effect of the control activity, since some of the sanctions are not imposed at all;
- untimely information on the implementation of the concession contracts was not submitted or was submitted in the National Concession Register for a large part of

the contracts, which hindered the public access to up-to-date data and did not ensure transparency of the implementation of the concession contracts in ME;

- An electronic system ensuring traceability of the fulfillment of the monetary and non-monetary obligations under the individual concession contracts, as well as systematization of the information according to separate criteria has not been established and maintained.

[Audit on the State Enterprise “Bulgarian Sports Totalizator” \(SE BST\) for the period from 01.01.2017 to 31.12.2018](#)

The main audit question was: „Is the activity of State Enterprise BST for providing funds for the development of sports in the Republic of Bulgaria effective and efficient?”

The audit concluded that during the audited period **the activity of SE BST has not been efficient and effective enough**, which is mainly due to competition from private organizers of gambling, which have a regulatory market advantage over the state enterprise.

As a result of the audit, it was concluded **that additional efforts** are needed to:

- **improvement of the legal framework** (including for: new various ideas to use the funds raised by BST; ensuring publicity of the collected bets and the paid state fees under the Gambling Act (GA))
- providing conditions for financial stability of the SE; issuance of the ordinance under Art 5, Para 5 form GA; regulating the order for financing of sponsorships and donations);
- **improving the processes for planning and monitoring the implementation** in SE BST (including integration in the accounting system of the planned indicators of the regional directorates and timely analysis and overcoming of the reasons that led to their non-implementation);
- **ensuring publicity, transparency, efficiency and economy of the contracts of SE BST for the provision of program time and television broadcasting;**
- giving emphasis to **the noble cause of** the SE in promoting the games and ensuring publicity of the activities of SE BST to provide funds for **sponsorships and donations.**
- timely **change of the price of the bets.**

5.1.3 Audits of political parties, coalitions of parties and initiative committees

[Compliance audit on the declared revenues and the expenditures incurred in relation to the election campaign of the Bulgarian participants in the EU parliamentary elections, held on 25.05.2019](#)

All audited election participants have met the deadline set in the Election Code for submitting to the BNAO report on the revenues, expenditures and payment commitments assumed in relation to the election campaign. The submitted reports have been drawn up in accordance with the model established by the BNAO in compliance with the requirements under Art. 172 (4) of the Election Code. All required documents under Art. 172 (1) and Art. 172 (3) of the Election Code are annexed to the reports.

One political party, four coalitions of parties and three initiative committees have failed to comply with the legal requirements to submit to the BNAO, in the course of the election campaign, information on facts and circumstances incurred for publishing in the Unified Public Register for Election Participants (UPREP).

All audited election participants **have met the legal requirements regarding the sources of funding of the election campaigns, except for one coalition of parties** in favour of which gratuitous services have been provided by a legal entity.

Unreported expenses from two parties and one coalition of parties in the total amount of BGN 128,984 and unreported revenues from two parties and two coalitions of parties in the total amount of BGN 16,077 have been found. From one party in the report on the revenues, expenditures and payment commitments assumed are reported fewer revenues than actually received due to technical error.

As of the date of the audit, one party and one coalition of parties have outstanding liabilities to suppliers of goods and services in the total amount of BGN 3,712.

The requirement for the financing of any financial resources raised and spent in connection with the election campaign in an amount exceeding BGN 1,000 to be effected by bank transfer has been breached by one political party and one coalition of parties.

The audited political parties, coalitions of parties and initiative committees **have complied with the legal requirement for the total amount of election campaign funding.**

[Compliance audit on the declared revenues and the expenditures incurred in relation to the election campaign for the elections of municipal councillors and mayors which were held in 2019 – political parties and coalitions of parties](#)

All audited election participants have met the deadline set in the Election Code for submitting to the BNAO a report on the revenues, expenditures and payment commitments assumed in relation to the election campaign. The submitted reports have been drawn up in accordance with the model established by the BNAO in compliance with the requirements under Art. 172 (4) of the Election Code and all required documents under Art. 172 (1) and Art. 172 (3) of the Election Code are annexed to them.

Three political parties and four coalitions of parties have failed to comply with the legal requirements for submitting to the BNAO during the election campaign the information about the facts and circumstances for publication in the UPREP.

The legal requirements for raising funds for the election campaigns **have been met** from all audited participants in the elections.

Funds have been raised by one coalition of parties to finance the election campaign after its completion, in non-compliance with the Election Code.

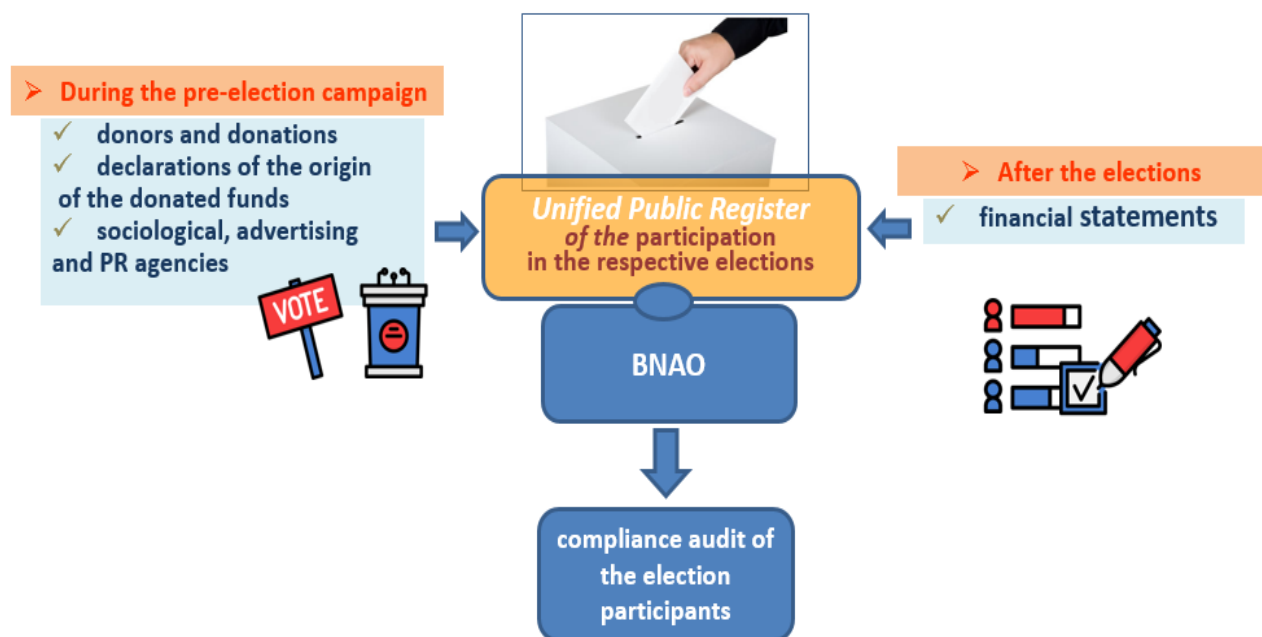
Unreported expenses from ten parties and two coalitions of parties in the total amount of BGN 22,205 and unreported revenues from eight parties and five coalitions of parties in the total amount of BGN 16,403 were found.

As of the date of the audit, four political parties and two coalitions of parties have outstanding liabilities to suppliers of goods and services in the total amount of BGN 32,277.

The requirement for the financing of any financial resources raised and spent in connection with the election campaign in an amount exceeding BGN 1,000 to be effected by bank transfer has been breached by two political parties and one coalition of parties.

The audited participants in the elections **have complied with the legal requirement for the total amount of election campaign funding.**

OVERSIGHT OF ELECTION CAMPAIGN FINANCING



[Compliance audit on the declared revenues and the expenditures incurred in relation to the election campaign for the elections of municipal councillors and mayors which were held in 2019 – local coalitions and initiative committees](#)

The deadline set in the Election Code for submitting to the BNAO a report on the revenues, expenditures and payment commitments assumed in relation to the election campaign **was met by the audited participants in the elections, except for one initiative committee, whose report was submitted with a delay. One local coalition have not**

complied with the requirement under the Election Code for annexing to the revenues, expenditures and payment commitments assumed report a statement of the bank account intended for servicing the election campaign, while two other local coalitions did not submit to the BNAO declarations for the origin of donated funds.

14 initiative committees and 38 local coalitions have not complied with the legal requirements for submitting information during the election campaign to the BNAO for facts and circumstances for publication in the UPREP.

All audited participants in the elections **have complied with the legal requirement** regarding the sources of financing of the election campaigns.

Mismatch between the revenues declared by the audited election participants and the ones found during the audit, as well as between the reported total amount of funding of the election campaign and the one found during the check, respectively by BGN 22,007 and BGN 23,572, was found.

Five local coalitions have breached the requirement for the financing of any financial resources raised and spent in connection with the election campaign in an amount exceeding BGN 1,000 **to be effected by bank transfer**.

All of the audited election participants **have complied with the legal requirement for the total amount of election campaign funding, with the exception of one initiative committee**.

6. FOLLOW UP ON THE IMPLEMENTATION OF RECOMMENDATIONS GIVEN BY THE NATIONAL AUDIT OFFICE

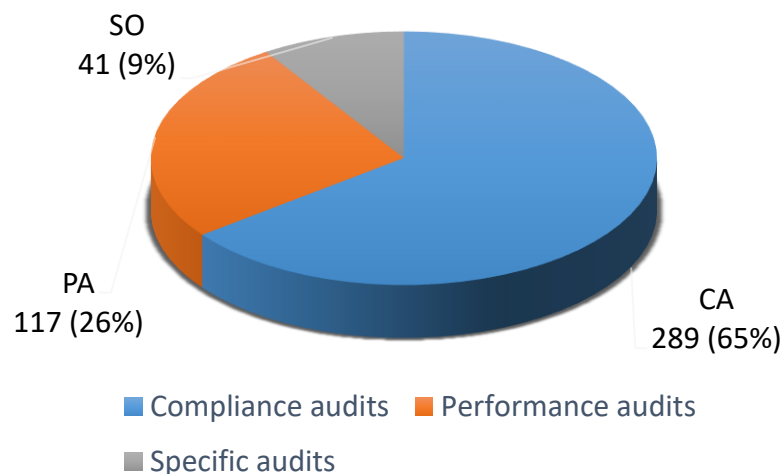
In 2020, the BNAO conducted checks on the implementation of the recommendations given on 43 audit reports (37 in 2019), as three of these were repeated checks (audits of: Enterprise for Management of Environmental Protection Activities, concession contracts in the Ministry of Environment and Water and "BDZ Freight Services" Ltd.). The checks have been conducted in 46 auditees.

№	INDICATOR	2016		2017		2018		2019		2020	
		Number	%	Number	%	Number	%	Number	%	Number	%
1.	Number of follow-up checks	26		53		43		37		43	
2.	Total number of recommendations given by NAO	180		514		579		315		447	
3.	Implemented recommendations – number/%	102	57%	307	60%	381	66%	232	74%	308	69%
4.	Non-implemented recommendations – number/%	22	12%	74	14%	57	10%	30	10%	55	12%
5.	Partially implemented recommendations - number/%	21	12%	57	11%	62	11%	16	5%	34	8%

6.	Recommendations in the process of implementation - number/%	31	17%	67	13%	72	12%	32	10%	45	10%
7.	Not to be implemented – number /%	4	2%	9	2%	7	1%	5	2%	5	1%
8.	Notified institutions	12		32		20		15		15	
9.	Responses received from the notified institutions	0		1		1		5		0	

As in the previous 2019, the most checks were for the implementation of the recommendations given in compliance audits - 29. Seven checks for follow-up control were conducted by the Performance Audits Directorate. The Specific Audits Directorate has carried out seven checks, incl. three repeated checks.

The implementation of 447 recommendations was checked, incl. 376 recommendations and 71 sub-recommendations. The distribution of the checked recommendations by types of audits is presented in the following graph:



The increase in the total number of recommendations and sub-recommendations given in 2020 (447) compared to 2019 (315) is a result of the fact that in 2020 the implementation of the recommendations given was checked per larger number of audit reports (37 for 2019; 43 - for 2020;) and that three of the audit reports contain the results of the implementation of horizontal audits, in the scope of which the actions of more than one auditee are analysed and evaluated (10 auditees). Horizontal audits bring higher added value. They are planned and conducted in cases when significant issues on processes related to more than one public organisation as well as issues of national importance need to be covered and analyzed.

The number of checks and respectively recommendations depend of the nature of conducted audits, number of adopted audit reports, the deadlines for the implementation of the recommendations given, and last but not least - of the administrative capacity of the audit directorates. The other factor influencing the number of recommendations is the

actions the management of the auditees took to address the irregularities and their consequences both during the course of the audits and following the handing of the audit reports, as well as between the handing of the draft audit report and the endorsement of the final report by the BNAO Board.

The actions taken by the management during the course of the audits lead to a reduction of the recommendations given in the audit report, which is a positive indication both of the efforts on behalf of the auditee and the work done by the National Audit Office. By committing sufficient resources for follow-up control over the implementation of the recommendations, the National Audit Office of the Republic of Bulgaria successfully fulfils its mission and improves the accountability of budget organizations and the lawful, efficient, effective and economical management of public funds and activities, thus adding value to the society.

The data analysis shows continuing trend of implemented recommendations to have the highest relative share for 2020 – 69 % (74% for 2019).

The relative share of the recommendations that were **partially implemented in 2020 is 8% (5% for 2019) while the share of the recommendations that are in the process of implementation is 10% (same as in 2019)**. In the first case, the responsible officials have undertaken the specifically prescribed actions, but there is no evidence of improvement or elimination of an issue identified during the audit, while in the second case the process of their implementation is not completed. These levels of implementation of the recommendation shows that there is a proactive behaviour from the auditees in relation to the discrepancies found during the audits. The actions undertaken to implement the recommendations are an expression of confidence in the BNAO and conviction of the auditees that the implementation of the recommendations will lead to an improvement in their performance.

There is significantly low share of cases in which actions have not been taken by the responsible officials and the recommendations in 2020 have been reported as non-implemented – 12% or 55 recommendations (2019 – 10%, 30 recommendations).

The non-implemented recommendations and sub-recommendations (20), given in the conducted compliance audits, mostly concern not submitted proposals and not adopted amendments and supplements to regulations (ordinances of the municipal councils), not adopted or out-of-date internal acts, not introduced or out-of-date registers in the auditee. The non-implementation of four recommendations given to municipal councils (Municipality of Lovech, Municipality of Tvarditsa, Municipality of Godech and Municipality of Straldzha) is functionally dependent on the previous non-implementation of recommendations for submission of proposals for adoption of amendments and supplements of regulations that were given to the respective mayors.

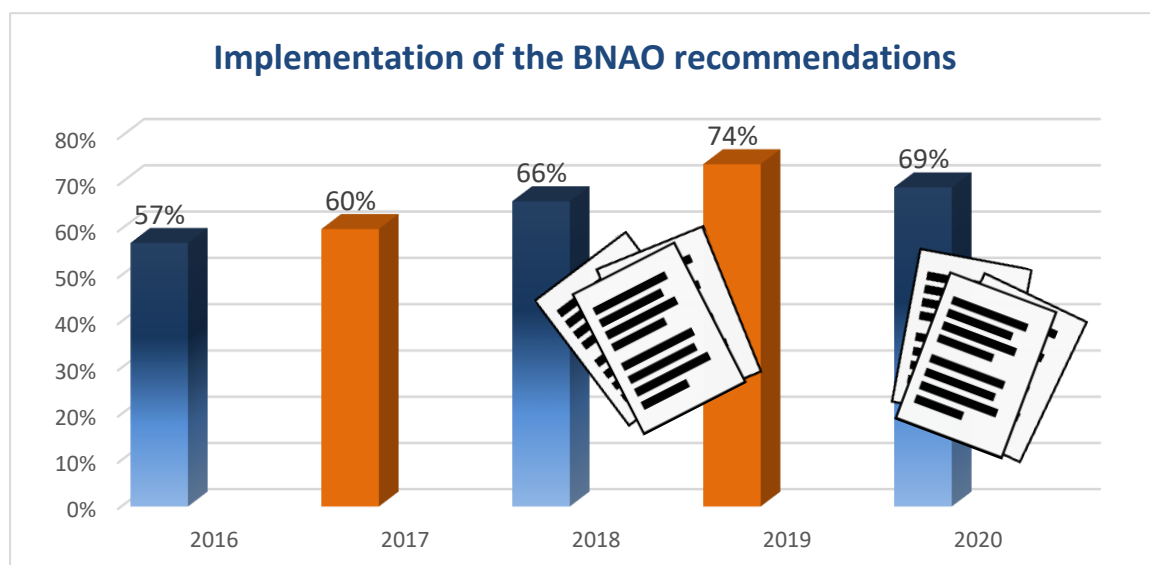
As for the performance audits, the highest number of non-implemented recommendations and sub-recommendations (which total number is 31 for 2020) are registered during conducted checks of operational programs. The non-implemented

recommendations refer to: updating of internal acts, initiation of proposals for legislation amendments, improvement and optimization of work processes in the organizations, introduction of effective control activities for improvement of the processes, conducting trainings. The largest number of non-implemented recommendations is registered in the audit "Effectiveness of measures and activities for improvement of the management of municipal waste, funded by Operational Programme "Environment" 2014-2020 for the period 01.01.2015 to 31.12. 2018 - six recommendations and 15 sub-recommendations have not been implemented out of 10 recommendations given, three of which with 17 sub-recommendations.

For the specific audits, there are 4 non-implemented recommendations which are related to the establishment of internal organization for the implementation of certain activities and undertaking separate management actions.

In line with Art. 50 of the National Audit Office Act, the BNAO informs the National Assembly, the Council of Ministers or the respective municipal councils of all recommendations that are partially implemented, in the process of implementation or not implemented, so that these institutions can take the necessary actions. In line with that, the reports of 17 checks were sent to: Council of Ministers, Environment and Water Committee to the National Assembly, Municipal Councils of: Kazanlak, Dimitrovgrad, Lovech, Smyadovo, Vetrino, Boynitsa, Pordim, Suhindol, Kameno, Tvarditsa, Godech, Straldzha, Karlovo. In 2021 the BNAO received notifications from the notified institutions that they had taken actions to ensure the implementation of recommendations on three audit reports (notifications from: Ministry of transport information technology and communications, Municipal Councils of Straldzha, Municipality of Karlovo).

The relative share of the recommendations that are not to be implemented is just 1%. It has been found that significant changes have occurred after they have been given and no further action is needed.



Actions have been taken to upgrade the existing BNAO Audit Activity Information System (IS) in order to provide systematized and reliable information and to support the process of following up the implementation of the recommendations. After commissioning the additional functionalities under this IS and defining user roles within it, a better traceability of each audit task will be ensured from its inclusion in the Audit Program to the adoption of the report on the implementation of the recommendations, as well as will give opportunity for the preparation at any time of references and analyses in different directions.

7. ADMINISTRATIVE SANCTIONS

In 2020, the National Audit Office performed functions related to administrative sanctions in line with the following legal acts:

- Election Code;
- Political Parties Act;
- Public Procurement Act;
- Concessions Act.

Following the audits on public procurement contracts and in implementing the functions related to administrative sanctioning vested in the National Audit Office under the **Public Procurement Act**, for the period 01.01.2020 – 31.12.2020 the BNAO issued 65 protocols for administrative violations (PAV).

As of 31 December 2020, the relevant institutions responsible for administrative sanctioning passed decisions on 42 of these protocols: penal orders were issued in 14 cases; 25 warnings under Art. 28 of the Administrative Violations and Sanctions Act and 3 resolutions for suspension of the proceedings. In the remaining cases the administrative bodies with mandate to impose sanctions passed their decisions within the statutory deadlines, but later than 31 December 2020. In addition, in 2020, 8 penal orders were issued, 2 resolutions for suspension of the proceedings and 7 warnings in line with Art. 28 of the Administrative Violations and Sanctions Act in relation to 17 administrative proceedings initiated in 2019.

In implementing its functions related to administrative sanctioning in line with the **Political Parties Act**, for the period 01.01.2020 to 31.12.2020 the BNAO issued 14 protocols for identified administrative violations.

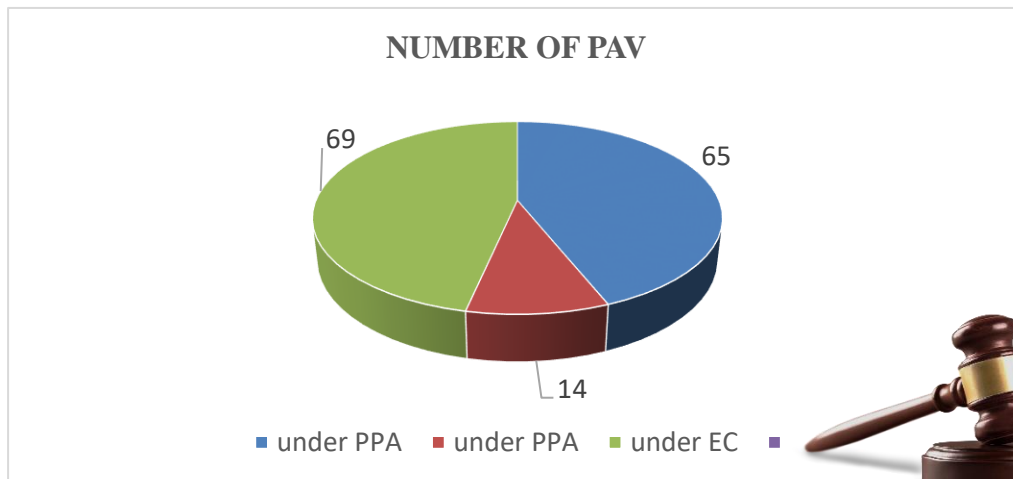
The relevant institutions mandated to impose administrative sanctions passed their decisions on these protocols through 31 December 2020 and issued 1 penal order, 9 warnings under Art. 28 of the Administrative Violations and Sanctions Act, 3 resolutions for suspension of the proceedings and 1 resolution for terminating the proceedings. In 2020, 1 warning was issued under Art. 28 of the Administrative Violations and Sanctions Act and 1

resolution for suspension of the proceedings in relation to 2 administrative proceedings initiated in 2019.

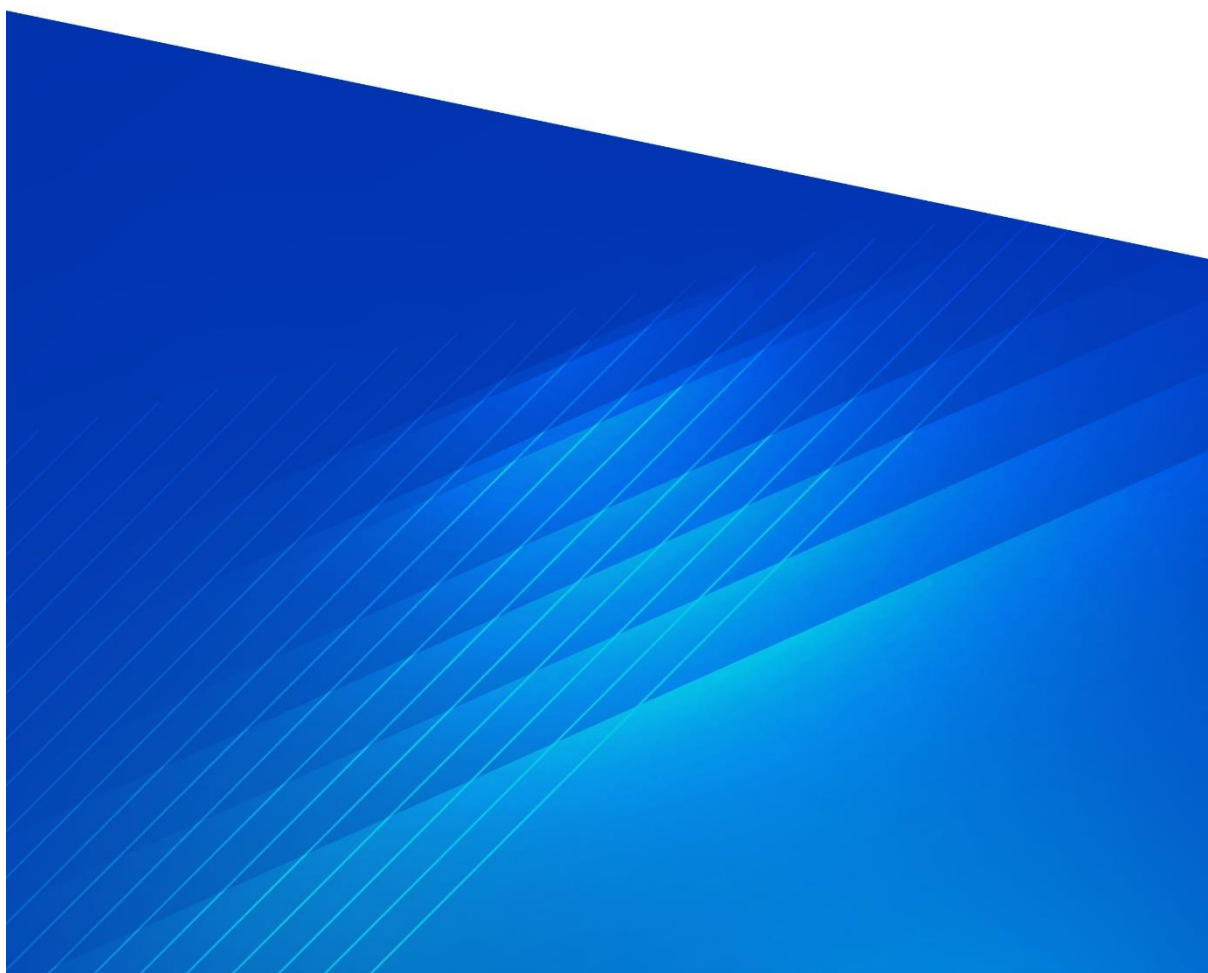
In implementing its functions related to administrative sanctioning in line with the Election Code, for the period 01.01.2020 to 31.12.2020 the BNAO issued 69 protocols for identified administrative violations.

As of 31 December 2020, the relevant institutions mandated to impose administrative sanctions passed their decisions on 66 of these protocols issuing 11 penal orders, 9 warnings under Art. 28 of the Administrative Violations and Sanctions Act, 12 resolutions for suspension of the proceedings and 2 resolutions for terminating the proceedings. In the remaining cases the sanctioning institutions passed their decisions within the statutory deadlines but after 31 December 2020.

Five warnings under Art. 28 of the Administrative Violations and Sanctions Act were issued in 2020 in relation to 5 administrative proceedings initiated in 2019.



MANAGEMENT AND ORGANIZATIONAL STRUCTURE

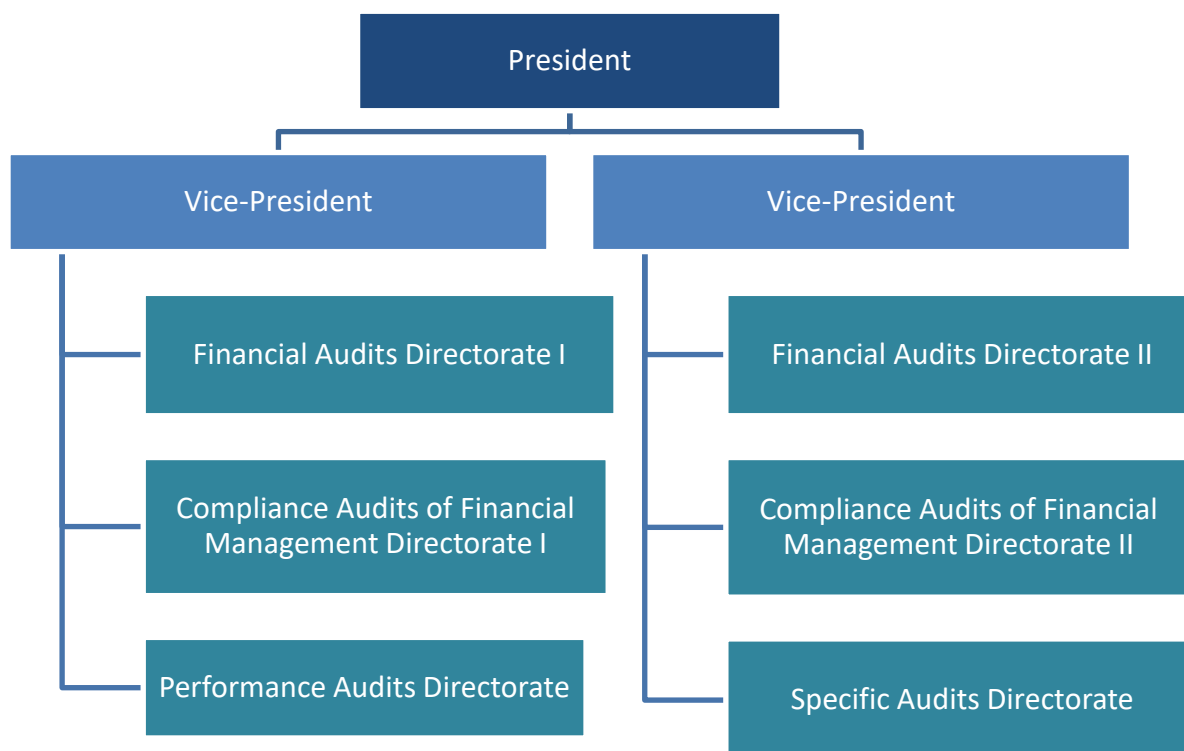


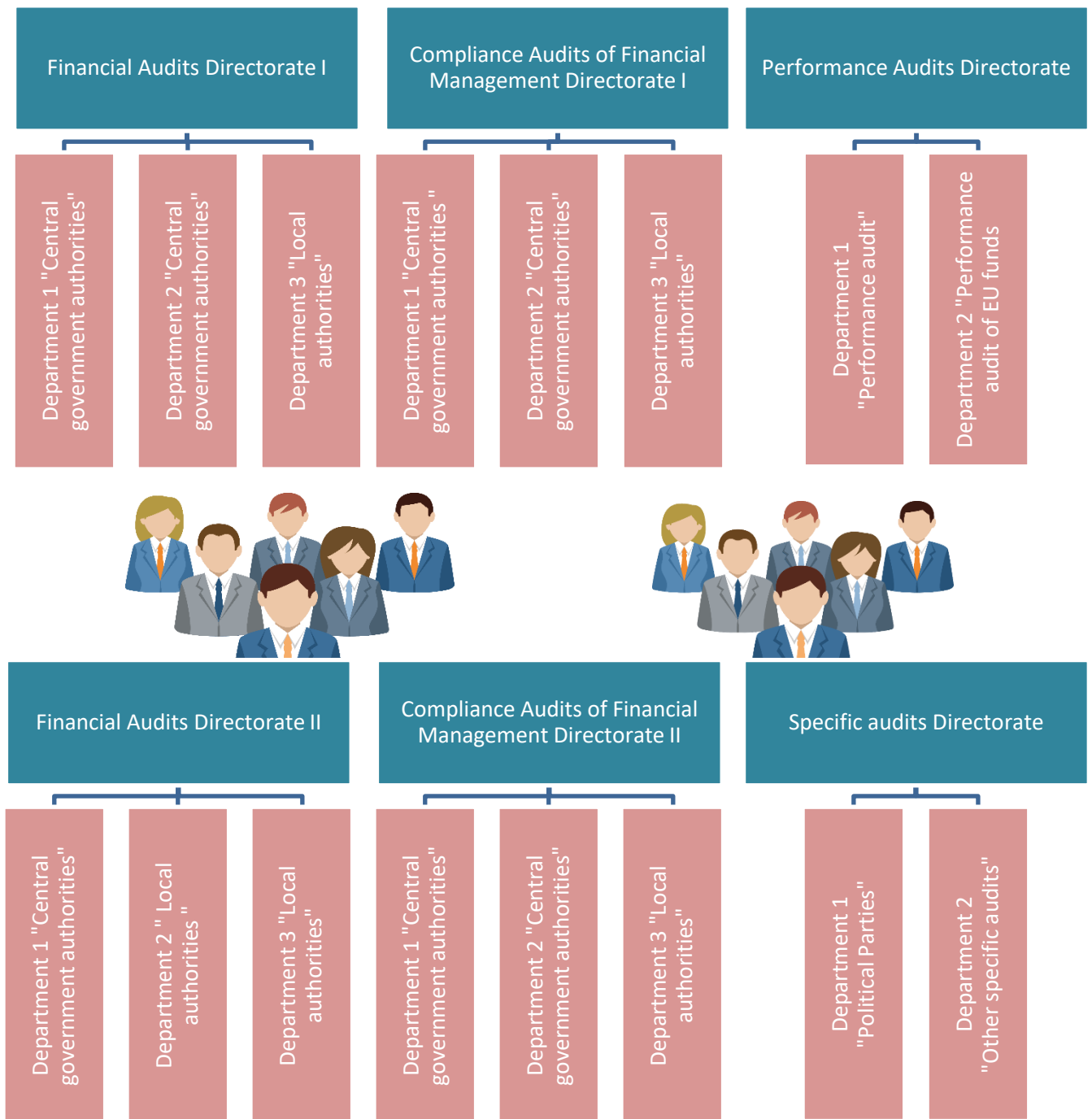
II. MANAGEMENT AND ORGANIZATIONAL STRUCTURE OF THE NATIONAL AUDIT OFFICE

1. STRUCTURE

In 2020, the six audit directorates of the National Audit Office remained unchanged. They reflect the types of audits conducted by the audit institution, namely: two financial audits directorates; two directorates auditing compliance of financial management; one performance audits directorate; and one Specific Audits Directorate that conducts audits mandated by specialized legislation.

The audit directorates have a number of central departments and regional units throughout the country.





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

2. Institutional and administrative capacity

In line with the BNAO staffing schedule, as of 31 December 2020 the **National Audit Office has 405 employees.**

Between 1 January 2020 and 31 December 2020, the **employment relations of 51 employees were terminated** for the following reasons:

- ✓ Eligibility for retirement based on length of service – 22 cases;
- ✓ Upon request by the employee – 8 cases;
- ✓ Mutual consent of the two parties – 14 cases;
- ✓ Taking up government office – 1 case;
- ✓ Termination during the testing period – 3 cases;
- ✓ Lowest annual score in the performance appraisal – 1 case.
- ✓ Death of an employee – 2.

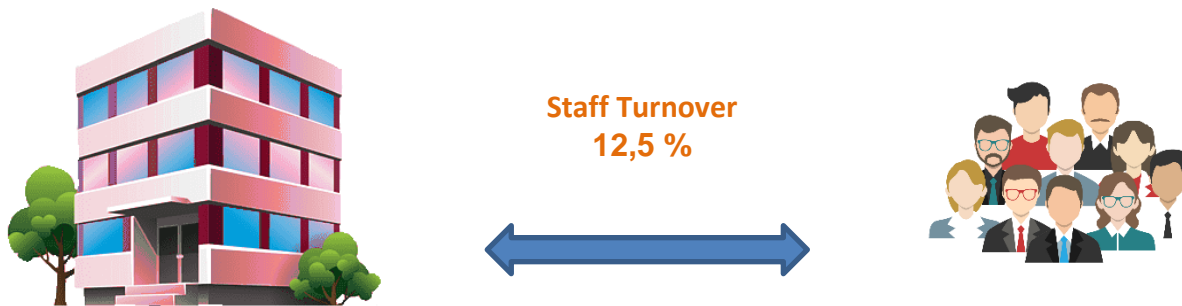
In 2020, **37 employees** were appointed at the following positions: chief auditor – 1; first degree senior auditor – 2; auditor – 5; trainee auditor – 19; advisor – 1; experts – 5; technical auditing staff – 1, technical administrative staff – 3.

As of 31 December 2020 **the audit directorates of the National Audit Office had in total 309 employees**, holding the following positions: director of audit directorate – 6; head of department in the audit directorate – 16; chief auditor – 109; second degree senior auditor – 37; first degree senior auditor – 41; auditor – 41; trainee auditor – 49; experts reporting to the directors of the audit directorates – 9; technical auditing staff – 1. A total of 277 positions for auditors and trainee auditors in the NAO are filled; out of them 126 are positions in the regional offices.

Превод легенда: в одитните дирекции – in the audit directorates; в администрацията – in the administration



All members of the NAO auditing staff hold master's degrees, four of them have PhD. The majority of employees have economic background (268) and legal background (26), and the rest have technical (15) or other background.



There are **93 administrative employees** working at the NAO. Of them 84 hold university degrees of which 70 have master's degrees and three - PhD.

3. Training and qualifications

The training of the NAO staff aims at offering new qualifications, upskilling and expanding the professional knowledge of the institution's employees taking into consideration the structural and/ or individual qualification goals. Training is conducted in line with an annual plan.

In 2020, there were 66 training courses in total covering 546 participants under the following training programs:

1. **Specialized professional training programs** – 55 trainings on specific topics related to the functions of the respective directorates or administrative units:

- Practical guidance on the implementation of ISSAIs and the Manual on the application of internationally recognized audit standards and BNAO audit functions;
- Topical issues related to the budget organizations financial reporting in 2020;
- Electronic document probative value;
- Code of conduct;
- Practical aspects of human resources management;
- Upskilling in specialized auditing techniques and methods;
- Major amendments, supplements and practices related to the implementation of the Public Procurement Act and its provisions;
- Preparation of audit report;
- Topical issues related to the Labour Code;
- Topical issues related to the Income Taxes on Natural Persons Act and the Social Insurance Code;
- Good practices in defining the audit sample etc.

2. **Information technology and communication training programs** – the topics were tailored to provide necessary knowledge and skills for work with specialized software products in the implementation of specific audit tasks. In total, there were 8 trainings in the following areas:

- Practical use of audit software for database analysis and control and/ or audit planning and management;
- Implementation of information security management system in the BNAO;
- Operating with the Centralized Automated Information System “Electronic Public Procurements” (CAIS EPP).

3. **Programmes with organizational and managerial focus** – these aim at providing leadership skills and specific personal qualities. In total, there were 2 trainings on:

- Government reforms: post COVID-19;
- Developing communication skills of the internal auditors.

Courses in foreign languages – beginners’ and more advanced language courses tailored to the needs of the institution. One training course was offered to 1 employee.

4. Audit Methodology

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

In 2020, the BNAO updated its Manual on the Application of the International Standards of the Supreme Audit Institutions (ISSAIs) and on BNAO’s auditing practices in the following aspects:

- introduction of requirements on the audit documentation in case of restrictive measures related to epidemic or other health threat;
- updating model working documents for conducting audit under the Political Parties Act and the Election Code;
- updating model working documents for conducting monitoring and financial audit of the annual financial statements of public sector organisations; model documents for communication with the Audit Committee.

Functionalities in the specialized software for management of the audit activity Pentata have been improved, including the user manuals for financial and compliance audit.

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

5. Information and communication environment

The new challenges posed by the COVID-19 pandemic (remote work, electronic document exchange, etc.) have accelerated the process of modernizing the BNAO IT infrastructure and information security in order to increase the resilience of the institution in times of crisis.

CONTINUITY OF OPERATION – HOW IT BECAME POSSIBLE

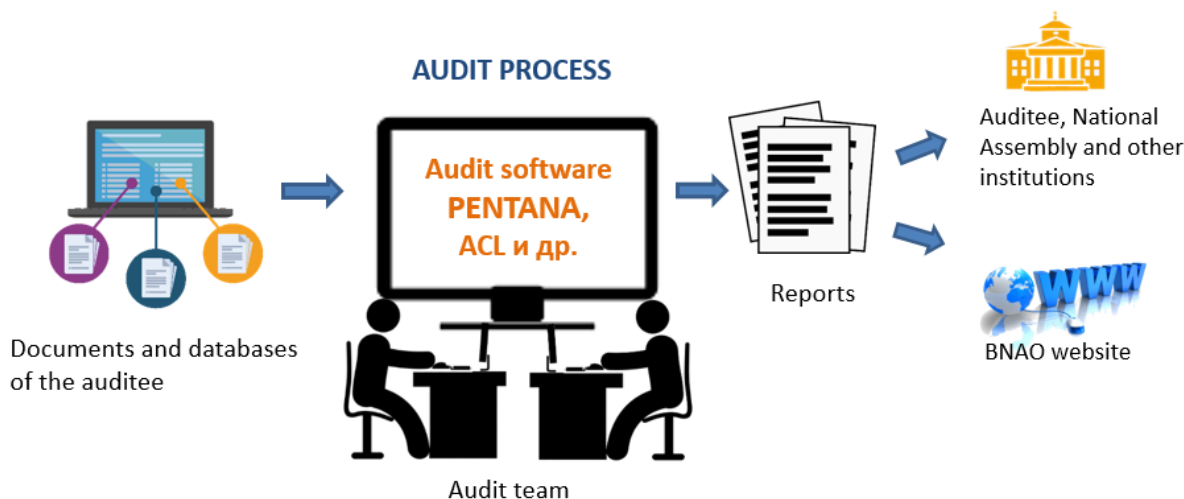


Information security management system was introduced followed by obtaining certification under the international standard ISO27001:2013. The ISO 27001:2013 standard (formerly know as ISO/IEC 27001:2005) provides framework for information security management system that ensures preservation of confidentiality, integrity and availability of the information, as well as compliance with the legal provisions. ISO 27001 certification is essential for the protection of the most important asset - information. The implementation of ISO 27001 was the ideal response to potential security threats, such as computer crimes, personal data breaches, vandalism, theft, virus attacks, as well as various regulatory requirements.

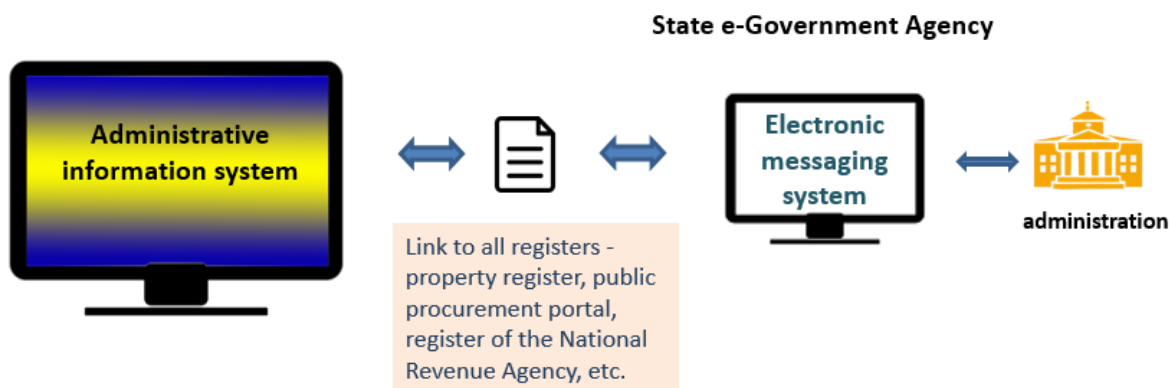
The e-mail system has been completely updated. The most used and modern e-mail platform - Microsoft Exchange - has been introduced. Exchange is a Microsoft e-mail server program that creates, organizes, and manages e-mail. It can be used for a variety of tasks in infrastructures with Microsoft products and is suitable for all transmission platforms.

In 2020, the activities of transferring existing databases to new servers with new operating systems, as well as server virtualization, which simplifies deployment and management and reduces energy and cooling needs continued.

The general information environment for conducting audits is provided by the Pentana audit software. During the year, the latest version of the product was successfully implemented, with 315 BNAO employees having an installed software product, which they use in the audit process. A specialized software for analysis of ACL databases is also used in the BNAO audit activity. An organization has been set up to train new employees to work with ACL by a team of trainers. The “Arbutus” and “EKVA Ravnenie” software products are also used to ensure the audit process.

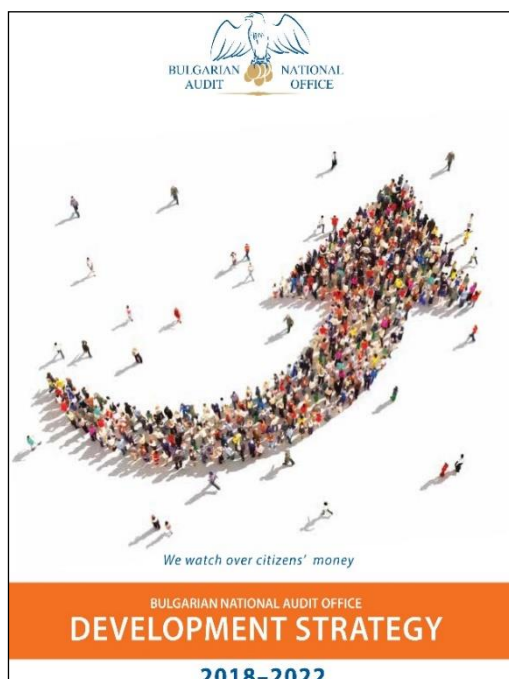


Through the integrated information system, including the office system and the intranet portal, all employees have immediate access to decisions, internal documents, working and external information, including from the media. The experience gained during joint meetings, seminars and other forums of auditors from the National Audit Office with representatives of other SAIs (held mostly online in 2020) is shared, information on good practices of other Supreme Audit Institutions and of international professional organizations is published.



The National Audit Office also exchanges electronic documents with other institutions and state administrations, as part of the Electronic Service Information System, administered by the State e-Government Agency.

6. Implementing BNAO's strategic and operational goals



The BNAO Development Strategy 2018 – 2022 outlines **16 strategic goals** in three priority areas to ensure an independent, effective and efficient audit function, development of the HR management system, and enhancing of public sector governance and accountability through improved stakeholder collaboration. Specific actions have been outlined for the attainment of the outlined goals coupled with performance indicators.

The BNAO adopts **operation plans which ensure consistency between the strategic horizon of its development and the operational goals of each of its structural units**. The documents contain the activities that will contribute to achieving the goals; they also outlines the time frame and responsible persons.

The performance measurement of the BNAO Operation plan for 2019 outlined a tendency to reduce the level of implementation of activities to achieve the strategic goals of the institution, as the share of fully implemented activities in 2019 decreased by 10% compared to 2018. The main reasons for this are insufficient administrative capacity (lack of sufficient staff with appropriate qualifications) and external factors. On the other hand, the activities

in the operational plan for 2019 are 40% more than those for the previous year, as the unimplemented activities from 2018 have also been added, which also contributes to the lower percentage of implemented strategic activities.

In order to overcome the difficulties that have arisen, the BNAO adopted a Procedure for prioritization of strategic goals and activities, based on the latest international practices for SAI strategic management - SAI Strategic Management Handbook, developed by the INTOSAI Development Initiative (IDI). The procedure includes formulating the prerequisites for the implementation of the goals, defining the causal links between the goals, performing a SWOT analysis on the impact of changes in the environment (including the COVID-19 pandemic) on the strategic goals of the institution, and applying evaluation criteria for the importance and feasibility of each strategic goal. In this way, the BNAO will be able to focus its limited resources on achieving the higher priority goals, through which to add value for the auditees and the citizens.

The Bulgarian National Audit Office annually updates its Strategic Audit Plan and applies a flexible approach towards strategic management that allows the institution to remain adequate to emerging risks. An example of this is that in July 2020, the BNAO adopted a decision to carry out the first three audits related to overcoming the effects of the COVID-19 pandemic, which will be completed in 2021. The audit scope comprises the costs of economic measures for micro, small and medium-sized enterprises, social support and employment measures and measures to support farmers.

Changes in the audit activity - three performance audits: „Effective and transparent use of public funds to overcome the effects of the COVID-19 pandemic



Support to micro, macro and medium –sized enterprises



Social support and employment

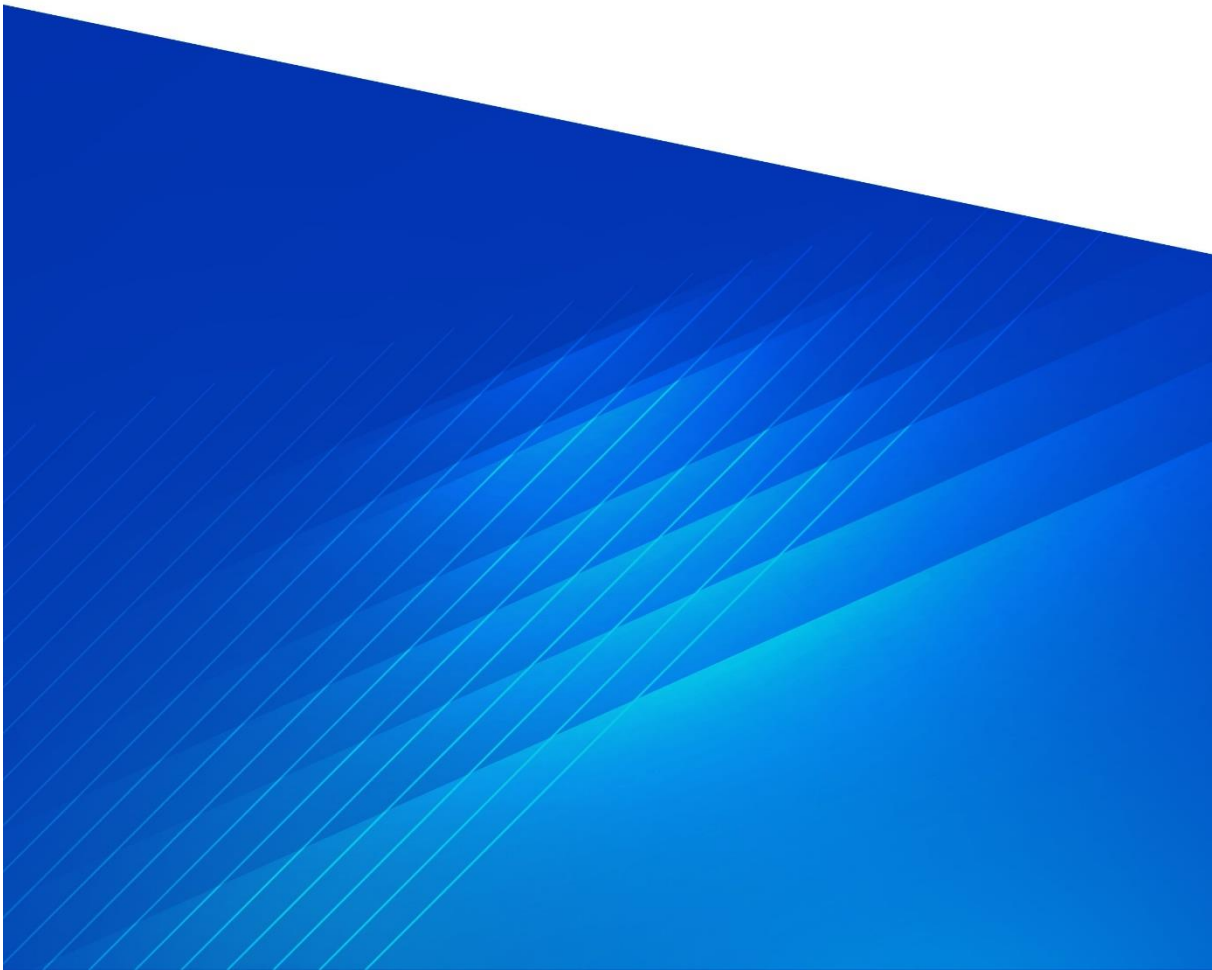


Measures to support farmers

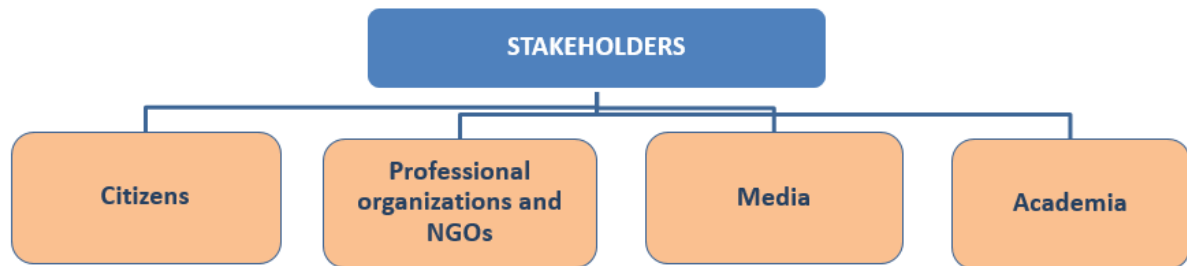
In the context of the significant changes in the environment that occurred in 2020 in relation to the COVID-19 pandemic, the BNAO demonstrates proactive risk management to achieve its strategic and operational goals by quickly adapting its policies and procedures in a way that enabled the institution to continue to build capacity and to increase the relevance of its audits so as to add value to the key stakeholders and citizens.



COOPERATION



III. COOPERATION



1. Government agencies, professional and non-governmental organisations

In 2020, despite the difficult environment and conditions caused by the COVID-19 pandemic, the BNAO continued to develop its cooperation with all stakeholders - citizens, professional and non-governmental organizations, academia, media.

Bulgaria is part of the group of 71 countries in which the mechanisms for control over public finances by an independent Audit Office are considered "adequate", with a score of 83 points (out of 100 possible). The budget transparency survey of Bulgaria according to the international index "Open Budget" for 2019 was announced by the Institute for Market Economics (IME), as the index "Open Budget" is the only international independent comparative survey of budget transparency.



Improving transparency in relation to the financing of political parties was the topic of a meeting between the management of the audit institution and representatives of the Bulgarian Institute for Legal Initiatives. The discussion was part of the activities under the international project "Effective Combat against Corruption", which is implemented in three countries - Bulgaria, Romania and Montenegro, and is funded by the

US State Department. Our goal is to take advantage of international expertise in this area and to apply the best practices for transparency on the finances of the parties. The President of the Bulgarian National Audit Office Tzvetan Tzvetkov and the Director of Bulgarian Institute for Legal Initiatives - Bilyana Gyaurova-Wegertseder, as a partner of the project for Bulgaria signed a cooperation agreement to foster independence and effectiveness of the financial control of the political parties, as the goal is the prevention of the irregular financing by improving the audit techniques and procedures.

Within the national competition "Young Auditor, the Bulgarian National Audit Office presented for the first time the award "Academician Ivan Gyuzelev" ". The BNAO established the award in its anniversary year with the idea to motivate young people to learn more about the auditor profession, to



prepare themselves professionally and to choose a career in the field of auditing. The BNAO President Mr. Tzvetan Tzvetkov presented the BNAO Honorary Plaque to the Rector of the University of Economics - Varna, Prof. Evgeni Stanimirov PhD, on the occasion of the 100th anniversary of the oldest university in Bulgaria. The BNAO President and the BNAO Members Prof. Georgi Ivanov PhD and Emil Evlogiev took part in the conference "Development of Accounting Legislation in Bulgaria", organized by the University and the Institute of Certified Public Accountants in Bulgaria.

2. International cooperation

BNAO's international cooperation during the reporting period aimed at achieving its priorities set out in the Strategic Plan for its Audit Function and strategic goals, and in particular strategic goal 1.9 – "More active participation in initiatives of the international auditing community that contribute to enhancing BNAO's institutional and administrative capacity". BNAO auditors and employees are members of one EUROSAI Task force and 3 Working groups, 4 INTOSAI Working groups and 1 Working groups of the Contact Committee of the Heads of EU Supreme Audit Institutions and the European Court of Auditors (ECA).

In the context of the COVID-19 pandemic, international activity worldwide underwent a number of changes, which also affected the international activities of the Bulgarian National Audit Office. Some of the international events scheduled for 2020 were cancelled or postponed, while others were conducted through meetings of the participants in virtual platforms and electronic communication.

Online participation during the reporting period within the EUROSAI working groups:



Audit.

- virtual seminar within the EUROSAI ITG;
- 18th Annual Meeting of EUROSAI WGEA;
- 6th Meeting of the EUROSAI Working Group on the Audit of Funds Allocated to Disasters and Catastrophes;
- 4th annual meeting of the EUROSAI Task Force on Municipality

BNAO representatives took part in online events within the INTOSAI working groups:

- the first video meeting of the INTOSAI Working Group on SDGs and Key Sustainable Development Indicators, as well as a joint webinar, organized by the WGS DG KSDI, GIZ¹⁰ and AFROSAI-E;
- annual meeting of the INTOSAI Working Group on Public Debt Audit;
- online meetings of the Forum for INTOSAI Professional Pronouncements;
- 29th Annual Meeting of the INTOSAI WGITA and Webinar as well as Quarterly WGITA Webinars
- webinar as well as the 8th International Training Programme, organized by the iCED¹¹ and the INTOSAI Working Group on Environmental Auditing.



¹⁰ The German Corporation for International Cooperation (GIZ) is an enterprise owned by the German Federal Government that provides services in the field of international cooperation for sustainable development

¹¹ International Centre for Environment Audit & Sustainable Development (iCED), SAI India.

The BNAO also participated in the annual meeting of the International Board of Auditors for NATO with the Competent National Audit Bodies. During the reporting period, BNAO representatives took part in online meetings related to the actions undertaken in relation to the global COVID-19 pandemic. **The Supreme Audit Institutions actively cooperated through exchange of experience and information on the measures taken in the context of the pandemic.** The President of the Bulgarian National Audit Office took part in a round table within the EUROSAI Project Group on Auditing the Response to the Covid-19 pandemic, which was held online. BNAO representatives participated in the first meeting of the work stream D3 "protecting the economy" within the EUROSAI Project Group on Auditing the Response to the Covid-19 pandemic.



Meetings were held with Ms. Iliana Ivanova, Member of the European Court of Auditors, in relation to the presentation of the annual report on the implementation of the EU budget for 2018; with experts from the Office for Democratic Institutions and Human Rights (ODIHR) of the Organization for Security and Cooperation in Europe (OSCE) as part of a fact-finding mission to Bulgaria in relation to a review of the pre-election situation; with representatives of the Congress of Local and Regional Authorities on the preparation of a monitoring report in relation to the European Charter of Local Self-Government.

Representatives of the Bulgarian National Audit Office took part in seminars, trainings and webinars for sharing experience - audit of political parties within an integrity seminar; two EUROSAI investigations webinars; two webinars of the INTOSAI Supervisory Committee on Emerging Issues, EUROSAI-OLACEFS Joint Conference "The COVID-19 pandemic: a unique opportunity for Supreme Audit Institutions to highlight the impact of their work"; webinar on SAI Independence within the Thirteenth INTOSAI-Donor Steering Committee Meeting, online meeting for presentation of the Project Group on "Preparing for future risks and climate crisis: Time for audit to take a long-term view?", IDI webinar "Harnessing Accountability through External Public Audits".

During the reporting period, the cooperation with the IDI's Strategy, Performance Measurement and Reporting Programme continued through participation of BNAO representatives in training courses.

The Bulgarian National Audit Office continued its participation in internationally coordinated audits related to the management of plastic waste, effectiveness of poverty alleviation measures, and vocational training of adults.



The Bulgarian National Audit Office hosted online the third Meeting of the "Workforce 2030" Parallel Audit. Representatives of the SAIs of Bulgaria, Israel, Finland, Italy, North Macedonia, South Korea and the European Court of Auditors took part in the meeting. During the two-day online event, each of

the participants presented their progress in the implementation of the national audits and further actions for the successful completion of the joint project were outlined. Representatives of the scientific and academic circles and non-governmental organizations in Bulgaria engaged in the fields of the labour market and education also took part in the discussions to present updated information on the situation and trends in these areas in the current COVID- 19 crisis.

In its capacity as Auditor of EUROSAI, the SAI of Bulgaria together with the SAI of Croatia conducted an online audit of the of EUROSAI's 2019 statements and related documents through active cooperation and communication with colleagues from the EROSAI Secretariat. In relation to the postponement of the XI EUROSAI Congress for the spring of 2021, following a request from the EUROSAI, the BNAO management took a decision to extend the mandate of the BNAO as auditor of the organization until the next XI Congress.

As part of the operational cooperation, the BNAO shared information on different aspect of its audit practices in response to enquiries coming from other SAIs. The BNAO sent publications to the journals of INTOSAI, EUROSAI, and the INTOSAI WG on Environmental auditing.

In 2020, the BNAO representative to the Forum for INTOSAI Professional Pronouncements (FIPP) continued his work. The role of this permanent INTOSAI body is to provide generally applicable auditing standards for the supreme audit institutions. Among the projects that were worked on in 2020 are Component 1 " Reviewing and refining the conceptual framework" for the Strategic Development Plan for 2020-2022; ISSAI 2000 Application of the financial audit standards; GUID 2900 Guidance to the financial auditing standards; GUID 5330 Guidance on Audit of Disaster Management; GUID 4900 Guidance on

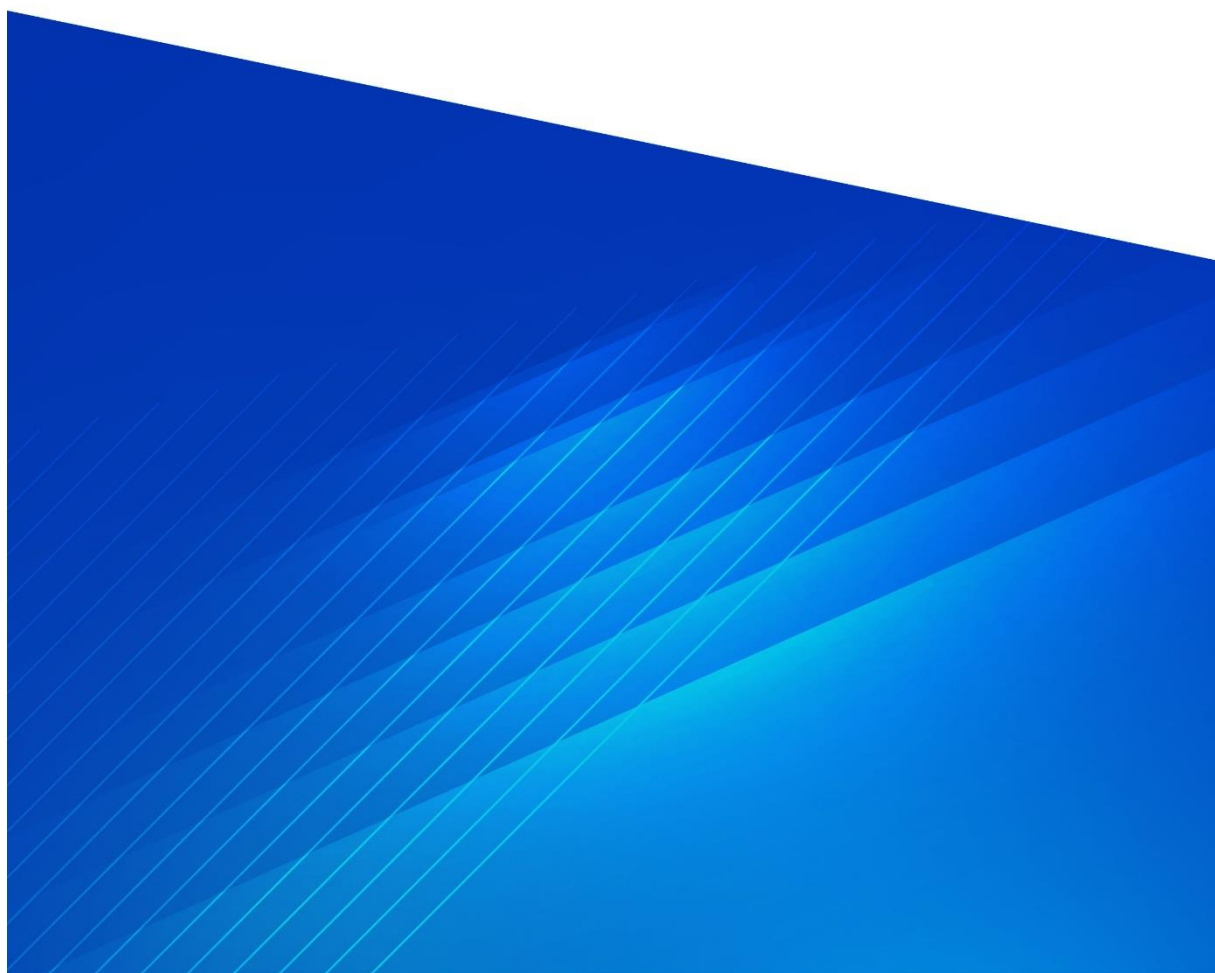
Authorities and Criteria to be considered while examining the regularity and propriety aspects in Compliance Audit and others.

In October 2020 the Bulgarian National Audit Office (as junior partner) in consortium with the State Audit Office of the Republic of Croatia (as senior partner) was selected to implement the Twinning Project MK 18 IPA FI 03 20 "Improvement of external audit and Parliamentary oversight" with beneficiaries the State Audit Office and the Assembly of the Republic of



North Macedonia. The overall objective of the project is the improvement of the effectiveness and impact of the external audit in the Republic of North Macedonia.

PUBLICITY AND TRANSPARENCY



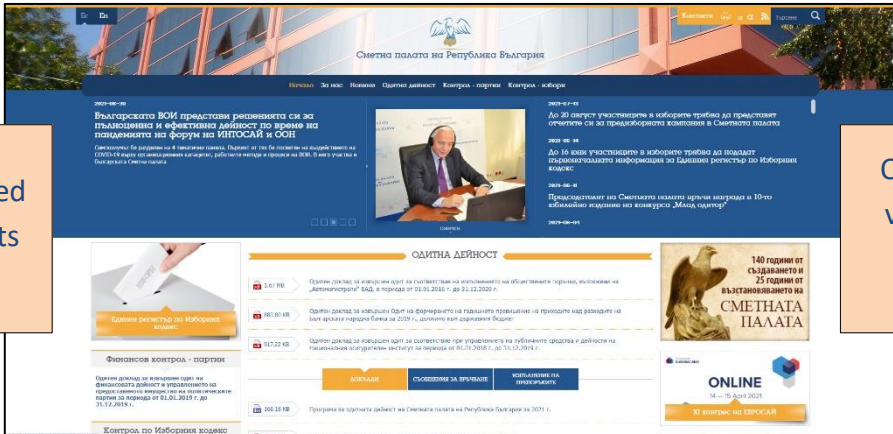
IV. PUBLICITY AND TRANSPARENCY

The Bulgarian National Audit Office contributes to the improvement of the accountability of budgetary organizations and ensures publicity and transparency. Therefore, in recent years the efforts of the National Audit Office have been aimed at ensuring that the public is well informed about the results of the audit activity.

In implementing the Law on the National Audit Office and abiding by the strategic principles of publicity and transparency, **the institution provides complete visibility to the public on the results of its activity.** Once again, in 2020, the BNAO **published all audit reports endorsed by its Board**, reports on follow-up on the recommendations, information about the handed draft audit reports.

Through its webpage, the BNAO also ensures transparency of the financial statements of political parties and their donors. The National Audit Office published the reports on revenues, expenditures and commitments assumed of 598 participants in relation to the election campaign for the elections for municipal councillors and mayors, held on October 27, 2019. In 2020, the webpage of the National Audit Office was visited 98 160 times by 35 541 visitors. The share of visitors in active age between 25 and 64 is about 67%, and half of them are between 25 and 34. The share of the youngest users of information is also high - between 18 and 24 - 27.5 %.

The United States, Germany, the United Kingdom, China, Belgium, France, Russia, Republic of North Macedonia, and Turkey rank by number of visitors on the website of the National Audit Office after Bulgaria (over 90% of all).



The screenshot shows the website's main page with a navigation bar, a central news section, and a sidebar. Two callout boxes highlight key statistics: '317 published audit reports' on the left and 'Over 98 000 visits of the webpage' on the right. The website content includes news items with dates and brief descriptions, such as 'Възстановяването на избирателния процес...' and 'Одигната дейност...'. There are also sections for 'ОДНА ДЕЙНОСТ' and 'ONLINE'.

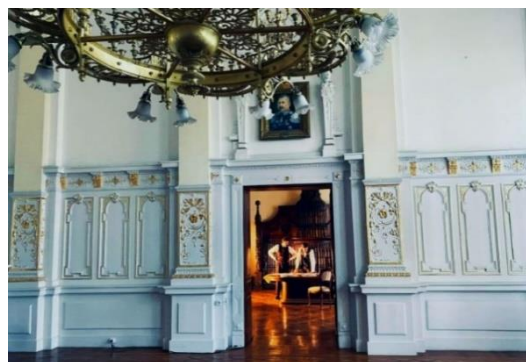
During the reporting period, the BNAO published 31 press releases and gave 3 interviews in electronic media and 1 in printed media.

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

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

2020 marked the 140th anniversary of the establishment of the Supreme Court of Accounts and the 25th anniversary of its restoration. On the day of the celebration of the professional day of the Bulgarian National Audit Office – 20th of December, the Bulgarian National Television broadcasted a documentary dedicated to the institution - "The Spirituality of Numbers". The movie traces the most important moments of the establishment of the Supreme Court of Accounts in 1880 as one of the first pillars of modern government, the gradual expansion of its powers and its role for the economic development of the country in the beginning of the 20th century. The film's history also traces the closure of the institution and its restoration in 1995, which rebuilds the traditions of budget control in Bulgaria. The documentary acquaints the viewers with the bright and significant personalities who managed the institution or worked in it until 1947, as well as with completely unknown names, who contributed to building respect for the Supreme Court of Accounts in the Bulgarian society.

Leading Bulgarian historians and scientists analysed the contribution of the Supreme Court of Accounts to the economic rise of Bulgaria after the Liberation and until the Second World War on the telecast "Istorya.bg" broadcasted on the Bulgarian National Television.



In order to better inform the audience on the history and activities of the Bulgarian National Audit Office and on the occasion of the two anniversaries, interviews with current and former heads of the BNAO since its restoration till now aired on Darik Radio broadcastings during the year. In the interviews, they shared interesting facts from the development of the institution as well as significant results related to its audit activities.

Once again, in 2020, the BNAO awarded its annual prizes for Auditor of the Year, Audit Team of the Year and Leader of the Year.

The Auditor of the Year Prize was awarded to Persida Mineva, auditor in the Financial Audits I Directorate, regional units – Montana, for her outstanding professionalism, showing initiative and for her contribution to the improvement of the audit process and ability to work in a team.

The Audit Team of the Year Prize was awarded to the audit team that conducted the audit of the state-owned company Bulgarian Sports Lottery: Dimitar Elkov, chief auditor and team leader, Virdjinia Radulova, chief auditor and team member, Petar Karapaunov, senior auditor first degree and team member and Ana Bojkova, trainee auditor and team member.

The Prize is a recognition for exceptional contribution to achieving significant audit results that help improve public sector governance. The Leader of the Year Prize was awarded to Rossena Gadjeva, head of department in the Performance Audits Directorate for her exceptional leadership qualities, professionalism and competence.



In 2020, the health, economic and social dimensions of the crisis caused by the COVID-19 pandemic affected our entire society. The BNAO's activities were also affected by these challenges, but the adequate risk management helped to take timely organizational and managerial actions to find quick technical solutions, which allowed the institution to continue effectively, efficiently and economically to exercise its powers.

Once again, in 2020, the Bulgarian National Audit Office continued to conduct independent external audits of public funds and activities in line with the provisions of the National Audit Office Act and the internationally accepted auditing standards. The audits of the Bulgarian National Audit Office contribute to enhancing accountability, transparency and integrity of public governance and public entities.

The Supreme Audit Institution was flexible in responding to the emerging risks by planning and launching three new audit tasks related to overcoming the consequences of the COVID-19 pandemic. By auditing current and important topics, the National Audit Office continued to add value for the National Assembly and to contribute towards achieving the ultimate goal of its work – improving the life of the citizens.



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