

**20
21**

ANNUAL REPORT

**of the Bulgarian National
Audit Office**



2021 Annual Report

of the Bulgarian National Audit Office

CONTENT

I.	ACTIVITIES OF THE NATIONAL AUDIT OFFICE	7
1.	BACKGROUND.....	7
2.	RESULTS OF THE FINANCIAL AUDITS	10
3.	RESULTS OF THE COMPLIANCE AUDITS	20
4.	RESULTS OF THE PERFORMANCE AUDITS	37
5.	RESULTS OF THE SPECIFIC AUDITS.....	53
6.	FOLLOW UP ON THE IMPLEMENTATION OF RECOMMENDATIONS	68
7.	ADMINISTRATIVE SANCTIONS	72
II.	MANAGEMENT AND ORGANISATIONAL STRUCTURE OF THE NAO.....	75
1.	STRUCTURE.....	75
2.	INSTITUTIONAL AND ADMINIISTRATIVE CAPACITY	77
3.	TRAINING AND QUALIFICATION.....	78
4.	AUIDIT METHODOLOGY	79
5.	INFORMATION AND COMMUNICATION ENVIRONEMENT	79
6.	IMPLEMENTING NAO'S STRATEGIC AND OPERATIONAL GOALS.....	81
III.	COOPERATION	84
1.	STATE INSTITUTIONS, PROFESSIONAL AND NON-GOVERMENTAL ORGANISATIONS	84
2.	INTERNATIONAL ACTIVITY	88
IV.	PUBLICITY AND TRANSPARENCY	94



Esteemed Members of Parliament,

I hereby submit the Annual Report of the Bulgarian National Audit Office for 2021.

Another year has passed under the heavy burden of the COVID-19 pandemic not only for Bulgaria, but also for the entire world. We too faced immense challenges, but invested all our energy and efforts and managed to carry out 332 audits, the results of which are summarized in this report.

The pandemic served as a catalyst for all the accumulated problems we had continuously warned about ever since the beginning of our mandate back in 2015 to the end of 2021, in our more than 2100 audits. We had repeatedly raised the warning flag about inefficient activities and associated mounting costs, the provision of poor quality services, poor communication between the different administrations, problems with accountability. Over the past year, we incessantly warned about the lack of a government strategy with respect to state-owned enterprises, which would foster economic growth and competitiveness, about the ineffective control over those enterprises on the part of the principal, the application of in-house procedures, which facilitated the unauthorized spending of millions of Bulgarian leva.

In the course of our mandate, we provided timely information to the National Assembly and its committees about all our negative findings, by submitting more than 100 audit reports to the Parliament. We sent more than 130 reports to the Council of Ministers with recommendations to initiate measures, and 30 reports to the Prosecutor's Office on evidence of suspected crimes. In the course of our financial audits, significant misstatements were corrected and we managed to help budget organizations improve their reporting "in real time", so that their annual financial statements gave a true representation of their financial standing to the public.

Each crisis, including a pandemic, is also a chance for nurturing improvement, creativity, more responsibility and new problem-solving skills. The National Audit Office used the crisis as an opportunity to modernize and digitalize its activity and now more than 80% of our audits are carried out entirely online with the help of a specialized audit software. We have ensured

adequate protection and storage of the information we work with and we own a certificate on information security. The reappointment of the Bulgarian National Audit Office as EUROSAI auditor during the XI EUROSAI Congress is a recognition in its own right of the progress we have achieved. We are currently implementing a second twinning project with the SAI of North Macedonia and the Parliament of North Macedonia as beneficiaries, which is an opportunity for Bulgarian auditors to share their experience on relevant audit practices and procedures with their colleagues from North Macedonia and work together towards maintaining public welfare and safeguarding public interest in our countries.

We have the courage to see things in their true colours, and the fortitude and ability to offer a way out of difficult situations. I am proud of the professional commitment of our auditors and employees, whose work adds value to the life of Bulgarian citizens. The present report is also a testament of the excellent performance of my colleagues at the Governing Board of the National Audit Office. I therefore call on you to support them with the necessary reforms of our institution, so as to enhance further its effectiveness in exercising external public sector control.

In keeping with Art. 64, para. 1 of the National Audit Office Act, I hereby submit to the National Assembly the 2021 Annual Report of the Bulgarian National Audit Office.

Tzvetan Tzvetkov
President of the
Bulgarian National Audit Office

LIST OF ABBREVIATIONS:

NAOA – National Audit Office Act	MT - Ministry of Tourism
ISSAI – International Standards for Supreme Audit Institutions	MJ – Ministry of Justice
SAI – Supreme Audit Institution	MH - Ministry of Health
FA – Financial audit	MD – Ministry of Defence
CAFM - Compliance audit of financial management	MI – Ministry of Interior
PA – performance audit	NRA – National Revenue Agency
SA - specific audit	PFIA – Public Financial Inspection Agency
AFS – Annual Financial Statement	SFA – State Fund Agriculture
UBC – Uniform Budget Classification	OP SES - Operational Programme Science and Education for Smart Growth (OP SESG) 2014 – 2020
FMCS – Financial management and control system	CLLD approach - Community-Led Local Development approach
PU – Public universities	OPHRD - Operational Program Human Resources Development
SBRB – State budget of the Republic of Bulgaria	OPE – Operational Programme Environment
PFA – Public Finance Act	OPIC - Operational Program Innovation and Competitiveness
PIAA – Public Sector Internal Audit Act	PSSS - Public Social Security System
LLTF – Law on Local Taxes and Fees	HIL - Health Insurance Law
OLT – Ordinance on Local Taxes	CRRNPLE - Commercial Register and the Register of Non-Profit Legal Entities
ODATLFPs - Ordinance on the Determination and Administration of Local Fees and Prices of Services	UMIS 2020 - Information System for Management and Monitoring of European Structural and Investment Funds
PP Act – Public Procurement Act	IACS - Integrated Administration and Control System
PPA – Public Procurement Agency	NHIF - National Health Insurance Fund
EC - Election Code	BNB - Bulgarian National Bank
RET – Real estate tax	GIR – Gross International Reserves
MVT– Motor vehicle tax	AM SC – Avtomagistralni State Company
HWCF – Household waste collection fees	IS EAD - „Irrigations Systems” Joint Stock Company
MF – Ministry of Finance	CCs – Commercial companies
MES – Ministry of Education and Science	INTOSAI – International Organization of Supreme Audit Institutions
MAFF – Ministry of Agriculture, Food and Forestry	FIPP - Forum for INTOSAI Professional Pronouncements
MLSP – Ministry of Labour and Social Policy	EUROSAI – European Organisation of Supreme Audit Institutions
MoEW – Ministry of Environment and Water	ECA – European Court of Auditors
MoE – Ministry of Economy	OSCE - Organization for Security and Co-operation in Europe
MC – Ministry of Culture	IDI - INTOSAI Development Initiative
MRDPW – Ministry of Regional Development and Public Works	ISAA - Information System for the Audit Activity
MAFF – Ministry of Agriculture, Food and Forestry	
MFA – Ministry of Foreign Affairs	
MTITC – Ministry of Transport, Information Technology and Communications	
MYS - Ministry of Youth and Sports	
ME - Ministry of Energy	

**ACTIVITIES
OF THE NATIONAL
AUDIT OFFICE**

**20
21**

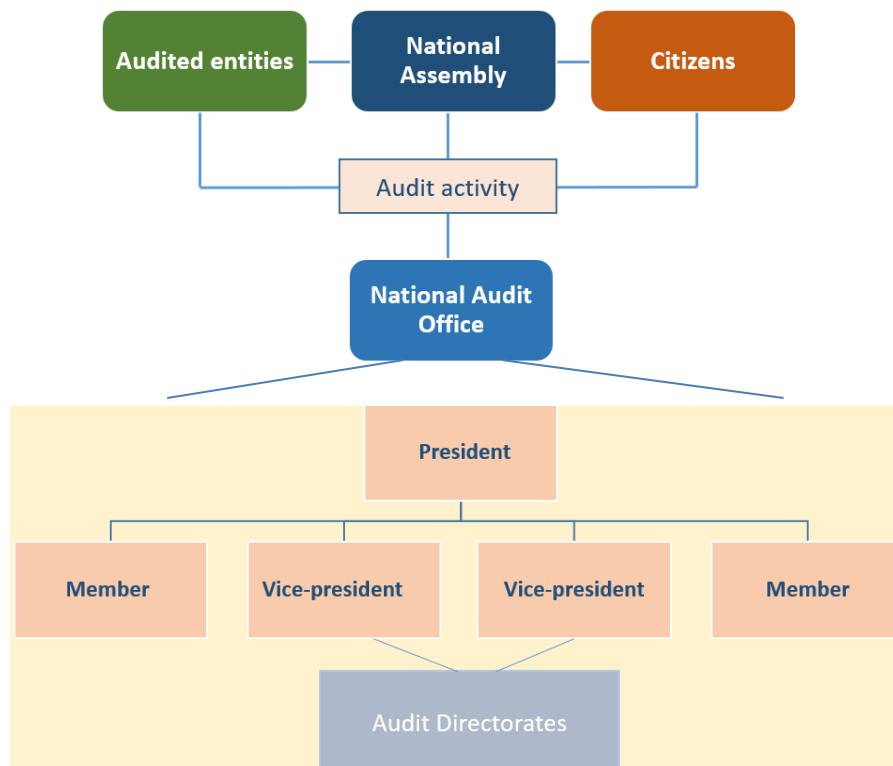


I. ACTIVITIES OF THE NATIONAL AUDIT OFFICE

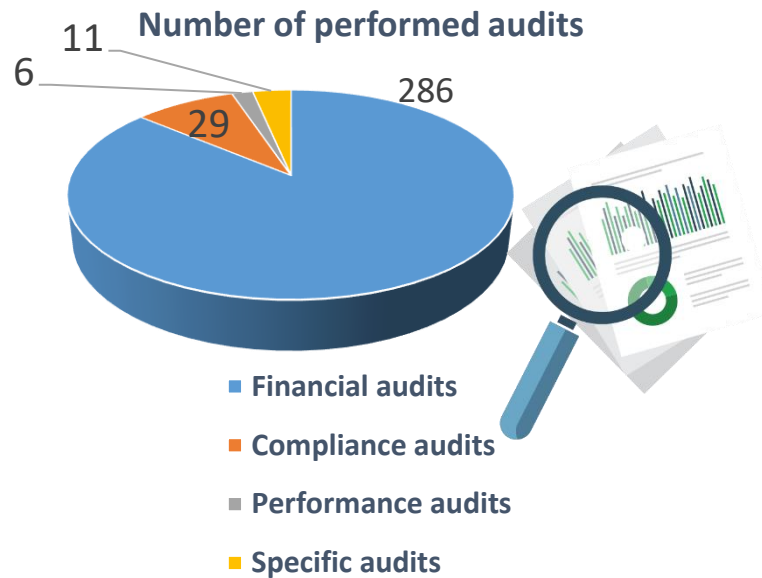
1. BACKGROUND

The Bulgarian National Audit Office (BNAO) is an independent institution, which exercises control over the reliability and authenticity of the financial statements of budget organizations 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 the 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 2021 and 31 December 2021, the Board held 49 meetings and passed in total 514 decisions. It endorsed 29 compliance audit reports, 6 performance audit reports and 11 specific audit reports. Following the audit of annual financial statements (AFS), the National Audit Office endorsed 286 financial audit reports.



16 audit reports were submitted to the Speaker of the Parliament, while another 5 were sent to the relevant Parliamentary Committees as follows:

- Committee on Budget and Finance – 1
- Committee on Culture and Media – 2
- Committee on Personal Data Protection – 1
- Committee on Environment and Water – 1

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

Sent audit reports:



Three audit reports were submitted to the Prosecutor's Office of the Republic of Bulgaria based on conclusions for suspected violations. 146 audit reports were presented to the Council of Ministries, 67 – to chairs of municipal councils, and 296 audit reports were sent to mayors of municipalities. 108 audit reports were submitted to the Public Financial Inspection Agency (PFIA) based on information for irregularities and 2 audit reports were sent to the National Revenue Agency (NRA). The audit reports on the follow-up of audit recommendations are also included in this statistics.

Following the outbreak of the COVID-19 pandemic, a number of significant changes occurred in our surrounding environment. The BNAO responded adequately and turned the challenges into opportunities, introducing changes to its mode of work. The majority of audits are carried out exclusively online by means of specialized audit software and database analysis software, which paves the way for the digitalized future of the National Audit Office.

2. RESULTS OF THE FINANCIAL AUDITS



In 2021, the BNAO conducted audits of the 2020 annual financial statements (AFS) of public sector organizations. Financial auditing is **an expression of an independent audit opinion with a reasonable degree of assurance** of whether the AFS of a public sector entity is in line, in all material aspects, with the generally applicable financial reporting framework. Therefore, the audit opinion does not express certainty about the future viability of the organization, nor about the efficiency or effectiveness of managing the activities of the public sector organization. Rather, **this audit opinion helps to increase the users' confidence in the information disclosed in the financial statements.**

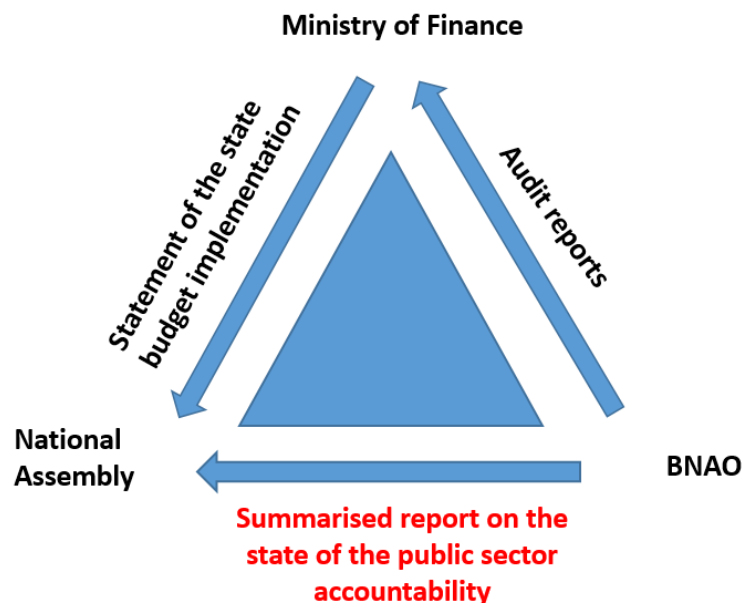
The audit opinion may be unmodified, modified or adverse opinion. **The unmodified audit opinion** indicates that the **audited financial statements are free from material misstatements**, and the notes to them do not contain any omissions of non-financial information of relevance for the users. A financial 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. **Modified audit opinion** is expressed when the **audited financial statements contain material misstatements** or omission of important non-financial information, **but the impact of these misstatements is not pervasive**. Financial statements on which the National Audit Office has issued a modified 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 opinion on a set of financial statements, it **may not be concluded whether those statements provide a true and fair representation** on the financial performance, financial results of operations and cash flows of the respective public sector entity.

TRIANGLE OF FINANCIAL REPORTING

Ministry of Finance – Report on the implementation of the State Budget – Audit reports
– National Assembly – National Audit Office – Summary report on the state of public sector accountability

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 required information to the auditors.

TRIANGLE OF FINANCIAL REPORTING



The BNAO endorsed 286 audit reports on the 2020 annual financial statements of public sector entities. The majority of these reports contain unmodified audit opinion – 85% of all issued audit opinions² on the financial statements (compared to 88% for 2019, 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**.

The last three years have seen an increase in the number of modified opinions in municipalities (from 13% in 2019 to 18% in 2020), which increases the overall percentage of modified opinions. One of the main reasons for this trend is that the financial statements of municipalities with smaller budgets, where the risk of misrepresentation is lower, are audited in September – October, when the possibilities for corrections are more limited. At the same time, the BNAO audits the more nationally significant central government bodies and municipalities in the period March – July.

The increase in unmodified opinions is mainly due to the increase in the number of financial audits of public entities.

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

Figure 1

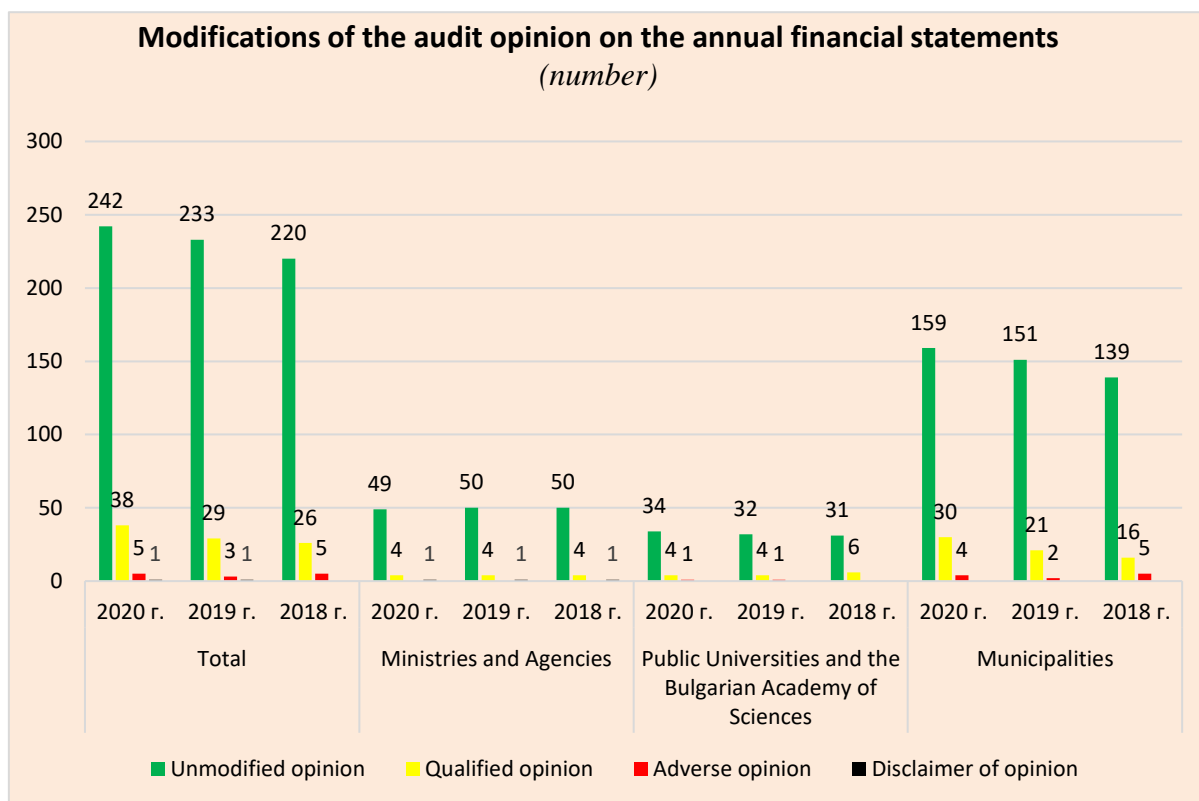


Figure 2 illustrates the **positive impact that the corrections³** to the identified misstatements in the annual financial statements had on the reliability of information contained in these statements for 2020. Had corrections not been introduced, the BNAO would have issued **adverse opinion** on the financial statements of 96 public entities and **modified opinion** on the financial statements of 32 public entities. **As a result of the corrections, the number of adverse opinions was reduced by 95%. At the same time, the number of unmodified opinions grew by 54%.** 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 public sector entities.** The most significant change was witnessed at the level of municipalities, where the number of unmodified opinions grew by 73, i.e. 85%.

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

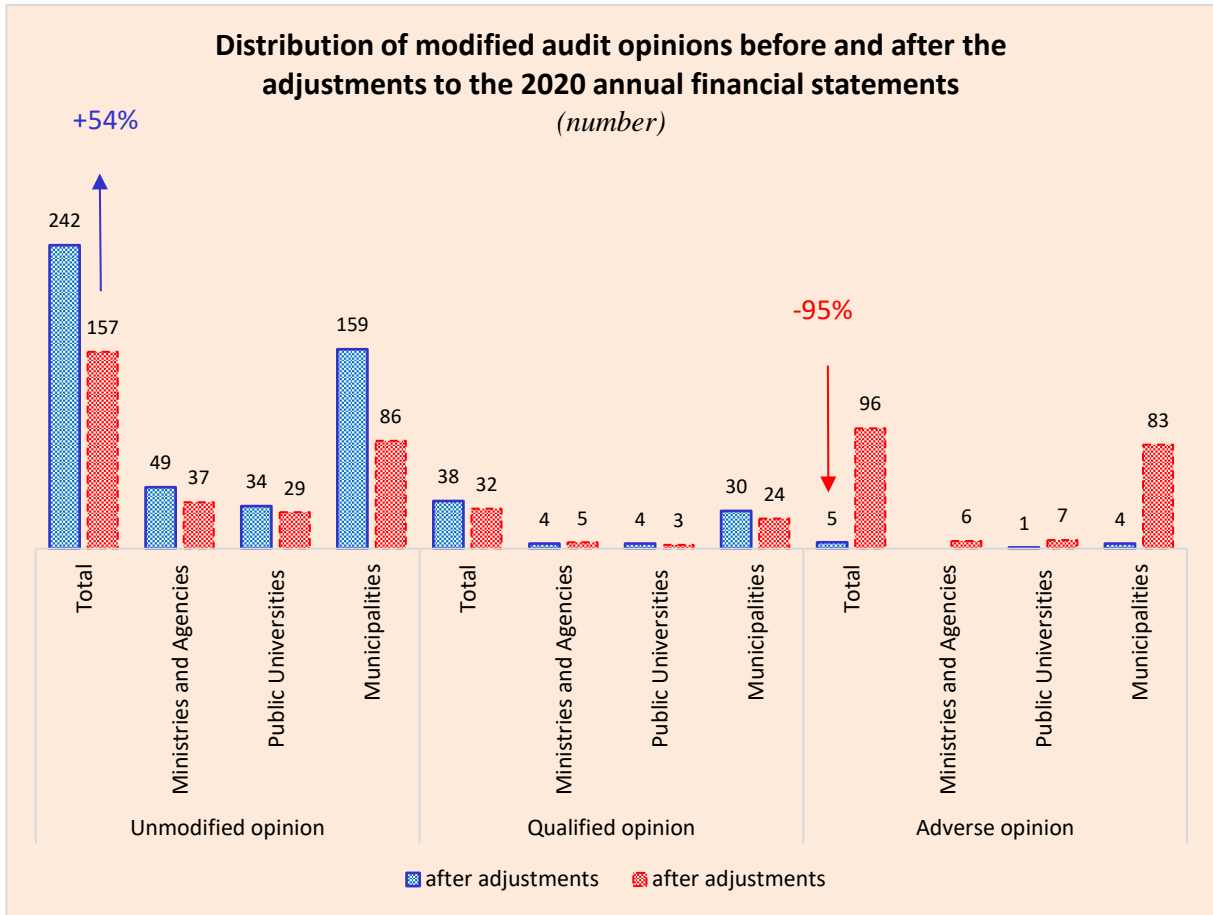
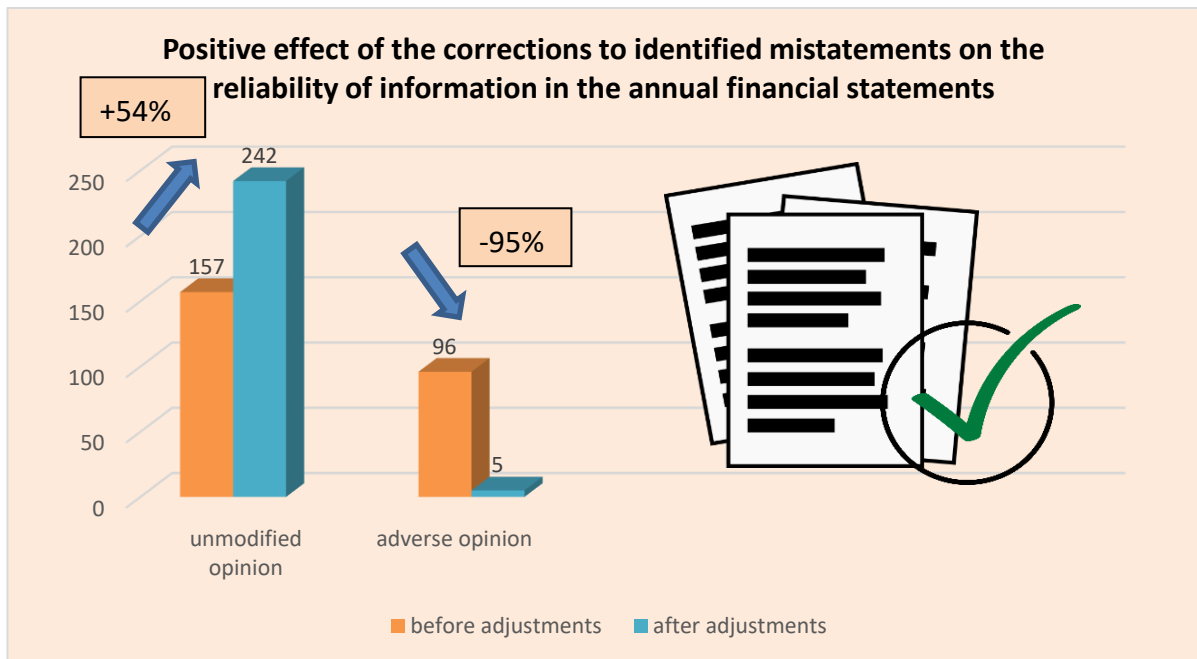


Figure 2



2.1. Financial audits of ministries, agencies and public universities

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

- Miscalculation of the depreciation expenses following events requiring a change of the depreciation schedule (overhaul, etc.), incl. as a result of the manual introduction of data in the depreciation schedule (technical mistakes). This affects both the depreciation costs and the balance value of the non-financial long-term assets (also identified in the audits of the 2019, 2018 and 2017 annual financial statements).
- Incorrect classification of assets, liabilities, income, expenditure and transfer to the Public Entities Chart of Accounts and the paragraphs from the Uniform Budget Classification (also identified in the audits of the 2019, 2018, 2017 and 2016 annual financial statements) resulting in misstatement of the positions in the balance sheet, the profit and loss statement (P&L) and cash-flow statement.
- Inaccurate accounting of bank guarantees and commitments (also identified in the 2019, 2018, 2017 and 2016 AFS) resulting in understating or overstating of the off-balance assets and liabilities.
- Some public entities have failed to report their holdings in commercial companies (also identified in the audits of the 2019, 2018, 2017 and 2016 AFS). This results in misstatement of the shareholdings and the related income in the annual financial statements.
- Misrepresentation of advance payments as expenses for the current period (also identified in the audits of the 2018 AFS) resulting in understating of receivables at the expense of overstating the expenditures for the audited period.

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 (also adjusted in the 2019 and 2018 AFS).
- ✓ Disclosure of previously unreported assets, liabilities and costs (also adjusted in the 2019, 2018, 2017 and 2016 AFS). 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 2019, 2018 and 2017 AFS).
- ✓ 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 2019, 2018, 2017 and 2017 AFS). This has ensured the correct presentation in the balance sheet, P&L and cash flow statements.

2.2. Financial audits of municipalities

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

- Miscalculation of the depreciation expenses due to failure to update the depreciation schedules following changes in the book value, the initially calculated date of expiry and the residual value of assets. Accrued depreciation of depreciable non-financial

long-term assets and derecognized accumulated depreciation of sold and scrapped assets. Incorrect accrual of depreciation of non-financial long-term assets as 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 affects the rate of depreciation expenditure, and the carried value of the non-financial long-term assets (also identified during the audits of the 2019, 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 2019, 2018, 2017 and 2016 annual financial statements) resulting in misstatements of the positions in the balance sheet, the P&L statement and cash-flow statement.

- 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 2019, 2018, 2017 and 2016 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, incl. of expenditures for assets with unfinished acquisition process in previous reporting periods (also identified in the audits of the 2019 AFS), which is a significant shortcoming of the internal control regarding the accuracy of financial statements.

- Not accounted or incorrectly accounted commitments and realized commitments and new commitments for expenses, which usually leads to underestimation of expenditures and on-balance sheet and off-balance sheet liabilities (also identified in the audits of the 2019 AFS).

- Incomplete disclosures about the status and changes in assets, liabilities, income and expenditures, which limits the ability of users of financial statements to make informed decisions (also identified in the audits of the 2019 AFS).

- Incorrect accounting when changing the titles of ownership of real estates – municipal property, which have been recognized in previous reporting periods. Recognition of real estates – municipal property based on their tax assessment rather than their fair value. Properties have often been recognized at significantly lower values, which has led to underestimation of assets.

- Incorrect accounting of received and spent funds under EU programs – transfers, advance payments and off-balance sheet statistical reporting of funds at the expense of beneficiaries, the EU and other donors. This results in misstatements of the positions in the balance sheet, the P&L statement and cash-flow statement.

- Capital expenditures for construction and overhaul of tangible fixed assets have not been classified depending on their degree of completion in the respective asset accounts and / or as construction in progress, production and overhaul (also identified in the audits of the 2019 AFS). Non-capitalized costs for acquisition and overhaul of infrastructure sites (also identified in the audits of the 2019, 2018, 2017 and 2016 AFS), which leads to underestimation of the value of these assets in the balance sheet, underestimation of depreciation costs, and overestimation of costs capitalized in the reporting group “Other accounts and activities”.

- Failure to perform an impairment or revaluation review of long-term assets or having performed only a “pro forma” review. Incorrectly applied approach as part of the

impairment review, having used as reference the book value instead of the value following depreciation.

- The financial effects in the reporting of municipalities, arising from contracts with water supply and sewerage operators under Art. 198p, para. 1 of the Water Act, have not been included. In some cases, the assets – public property, transferred from the water supply and sewerage operators to the municipalities have not been accounted. As a result, the positions in the balance sheet and the profit and loss statement (P&L) have been presented with incorrect amounts.

- No estimate of the unfinished construction has been made, which has led to the underestimation of assets and overestimation of receivables.

- Lack of documented justification of economic transactions resulting in the disclosure of unverifiable amounts in the annual financial statements (also identified in the audits of the 2019 and 2018 AFS).

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.

Cases of non-compliance with laws and other regulatory acts were established and the provisions of Art. 57, para. 1 of the National Audit Office Act were applied. Thus, the BNAO notified the relevant competent authorities (the Public Financial Inspection Agency – concerning 64 municipalities, and the Prosecutor’s Office of the Republic of Bulgaria – concerning one municipality) to initiate measures (also identified in the audits of the 2019 AFS). Examples of such cases are:

- Non-compliance with the financial indicators regulated in the Public Finances Act (PFA) – concerning expenditures, commitments for expenditures and overdue liabilities under the PFA, which is considered a violation of budgetary discipline under § 2 of the Additional Provisions of the PFA.

- Failure to set up an internal audit unit in accordance with Art. 12, para. 2, item 3 of the Public Sector Internal Audit Act (PSIAA).

- Failure to set up an audit committee in accordance with Art. 18, para. 1 of the PSIAA.

In the course of the audits of financial statement, some of the errors and irregularities have been **corrected**, namely:

- ✓ Adjustment of depreciation expenditures resulting in true and fair presentation of the carried value of depreciable assets (also adjusted in the audits of the 2019 and 2018 AFS).

- ✓ Reporting the changes in shareholdings in commercial companies (also corrected in the course of auditing the 2019, 2018, 2017 and 2016 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 2019, 2018, 2017 and 2016 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 2019, 2018, 2017 and 2016 AFS). 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 2019 and 2018 AFS). In 2020, about 84% of the misstatements of transactions with financial assets and liabilities in four municipalities were due to technical errors while filling in the information in the cash-flow statement.

✓ Correction of the classification of 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 2019, 2018, 2017 and 2016 AFS) resulting in adequate presentation of the positions in the balance sheet, P&L and cash flow statements.

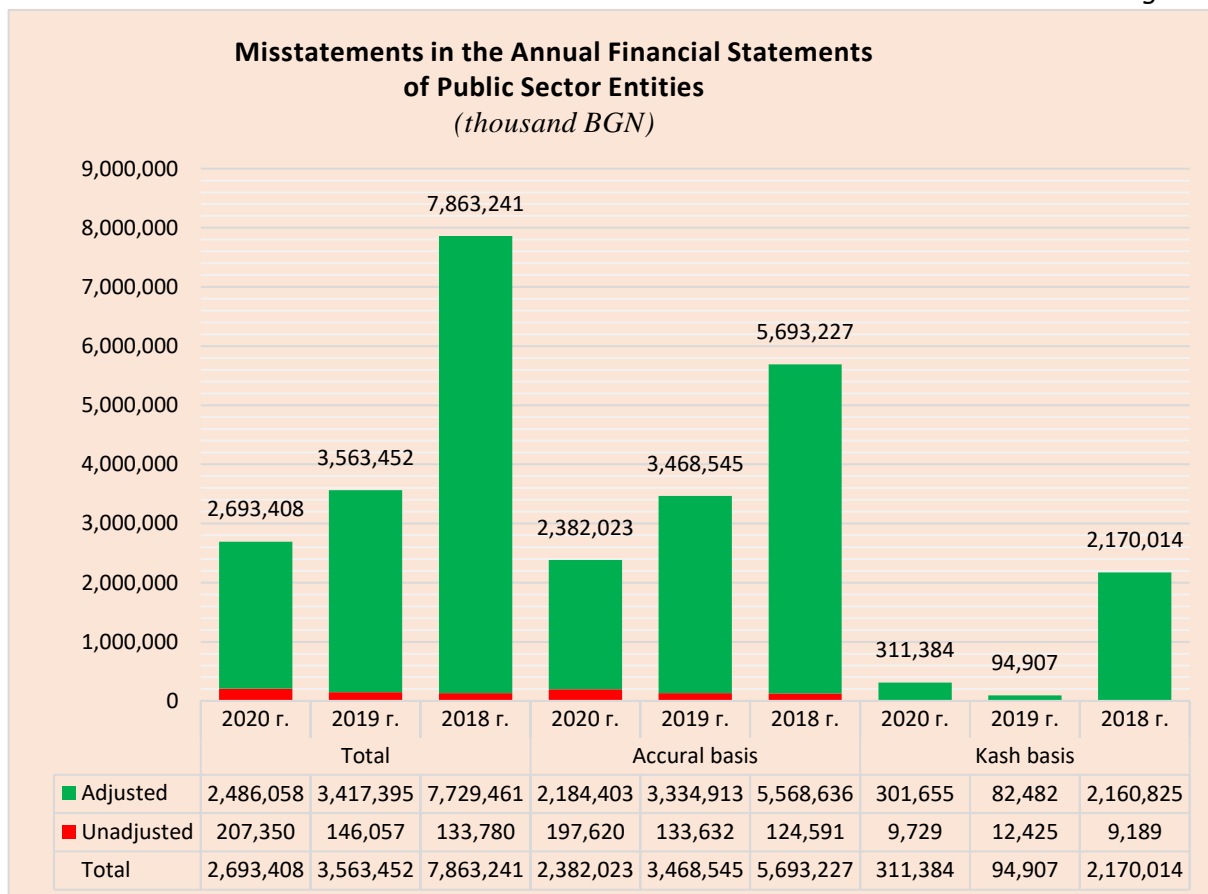
2.3. Summary of the conclusions from the financial audits of the 2020 annual financial statements conducted in 2021

The financial audits of the 2020 financial statements of public entities resulted in the adjustment of misstatements accounting for BGN 2,49 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 the 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 for off-balance sheet reporting of the commitments** (undertaken and implemented) and new commitments for expenditure, provisional receivables and liabilities.

- Difficulties in identifying and implementing the relevant principles** laid down

in the Accountancy Act.

The above weaknesses in drafting the financial statements were also identified during the audits of the 2019, 2018 and 2017 annual financial statements.

2.3.2. Weaknesses in organizing the accounting functions



- The relative share of modified (modified and adverse) opinions is highest with 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 would reduce the risk of technical mistakes in preparing and summarizing the information to be included in the statements; it would ensure audit trail and would not restrict the scope of computer-assisted audits.

- **Inefficient internal control** 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 2019 and 2018 financial statements; the first two weaknesses were specific for the 2017, 2016 and 2015 annual financial statements.

Reasons for the identified weaknesses



The requirements for financial accountability of public entities are developed based on accounting standards applied in private sector



Lack of a consolidated financial reporting framework, which is instead replaced by a number of general and individual reporting guidelines.



Frequent change of regulatory requirements and insufficiently detailed instructions from the Ministry of Finance regarding their implementation

3. RESULTS OF THE 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 2021, the BNAO endorsed 29 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 the 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 recommendations for improvement thereof.



3.1. Conclusions of the compliance audits during the reporting period



3.1.1. Financial management and control systems

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

3.1.1.1. Ministries, agencies and public universities

Control environment:

- ✓ *The internal rules (incl. those on financial management and control) have not been updated in a timely manner* and do not reflect the changes in the legal framework governing the activities (also identified in the audits in 2020);
- ✓ *The internal rules in the audited entities do not regulate the activities in a clear and comprehensive manner* and do not introduce adequate and effective control activities;
- ✓ *The internal rules on human resources management:* do not contain arrangements for initiating the process of appointment and reappointment of employees; do not describe in detail the steps and sequence of actions for exercising ex-ante control; have not been updated with regard to the adopted Ordinance on the conduct of competitions and selection for mobility of civil servants.
- ✓ *The approved job structure of employees does not ensure the necessary administrative capacity* to perform the main functions of the audited organization. Therefore, some of these functions have been assigned through contracts for non-employment relationships and the quality performance of basic functions and activities has been put at risk.
- ✓ *The recruitment of employees and the evaluation of their work is only partly compliant* with the requirements of the labor legislation and the Civil Servant Act; the recruited employees do not have the professional experience and qualification specified in the respective job descriptions or those are not duly certified/documented;
- ✓ *Rectors of universities have unlawfully delegated powers* to faculty deans for the management of properties which are public state ownership and for renting parts of the properties;
- ✓ *Existence of an internal act of a public university* on the terms and conditions for the use of parts of a property – public state property, which *contradicts the legal provisions*, as it allows for granting the property for use to third persons.

Risk management:

- ✓ *Failure to implement periodic review and assessment of the risk for compliant and adequate goal attainment* (also identified during the 2020 and 2019 audits)

Control activities:

- ✓ *Ineffectiveness of the applied control activities* in awarding public procurements, as they have not prevented the established violations of the regulatory framework;
- ✓ *The control activities on the implementation of concluded contracts have been performed “pro forma”* and have not been effective, as they have not found discrepancies between the provided services with the agreed ones;
- ✓ *Appropriate procedures have not been introduced* for documenting the processes and the implementation of introduced controls, which fails to ensure transparency and traceability of actions (also identified in some 2020 audits). *The lack of clearly defined functions* and their delegation to the responsible officials, as well as the lack of proper documentation of the participants’ actions have not provided an audit trail for carrying out routine and ex-ante control (also identified in the 2020 and 2018 audits);
- ✓ *Ex-ante controls* in the public entities have not been applied continuously and consistently during the audited period (also identified in the 2020 and 2019 audits). *Ex-ante compliance control* before committing or incurring expenses *has not been applied in all cases* (also identified in 2020 audits). *Failure to perform ex-ante compliance control* in a public university before concluding lease agreements and before incurring costs for the supply of

water, external services and materials. Public universities *have not introduced* controls on the income from dormitories;

✓ The *controls* introduced by internal rules at a university before the conclusion of a lease agreement *have not been performed* in accordance with the regulated procedure.

Monitoring:

✓ *No monitoring* on the implementation of the audited *activities has been performed*;
✓ The financial management and control systems have not been effective in identifying, preventing and correcting non-compliances with the requirements of the legal framework.

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* following the changes in the legal framework and the organizational structure of the municipal administrations (also identified during the 2020 and 2019 audits).

Risk management:

✓ Risk management strategies *have not been updated* (also identified in the 2020 audits);

✓ The audited entities *have not identified and assessed all material/significant risks* that may affect the attainment of their goals (also identified in the 2020, 2019, 2018 and 2017 audits).

Control activities:

✓ The audited entities *have not introduced adequate and efficient controls* to prevent, detect and correct infringements/ inconsistencies with the legal framework and contracts (also identified in the 2020, 2019 and 2018 audits);

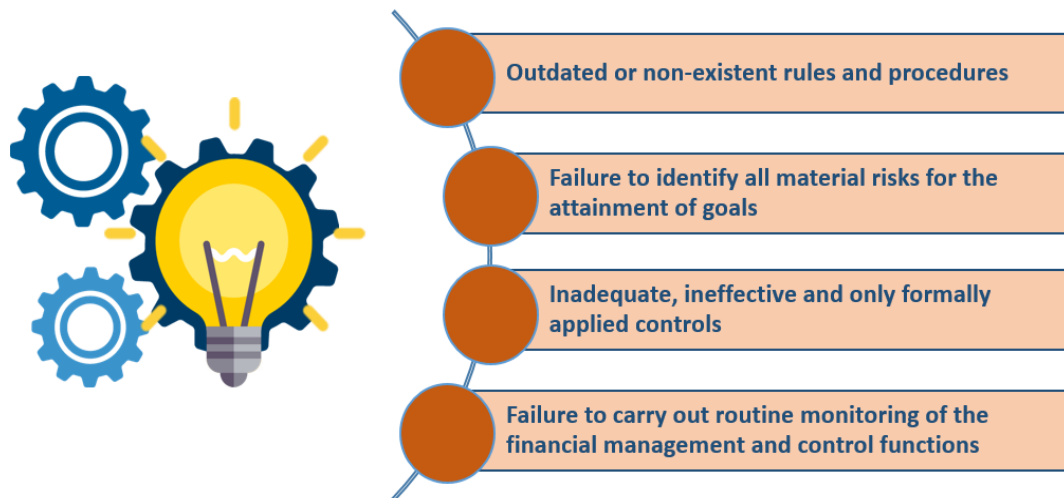
✓ *The controls put in place have not been applied continuously and consistently, have not been adequate and effective enough*, and have not been analyzed and updated (also identified in the 2020, 2019, 2018 and 2017 audits);

✓ *Absence of arrangements for ex-ante compliance controls* before committing and incurring budget expenditures (also identified in the 2020 audits);

✓ *The ex-ante control* before undertaking a commitment *has been applied after the conclusion of contract* for external services and capital expenditures;

✓ *Failure to apply the double-signature system* when concluding contracts for rent of municipal properties.

Main groups of weaknesses in the financial management and control systems



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 circumstances (also identified during the 2020, 2019, 2018 and 2017 audits).*



3.1.2. Budget

3.1.2.1. Ministries, agencies and public universities

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

Ministries and agencies:

✓ *Some entities have not adopted internal rules regulating the budget process, which is inconsistent with the requirements of the Public Finance Act (also identified in the 2020 and 2019 audits) or the adopted internal rules do not cover all activities, do not specify the relevant officials and do not provide documentation on the processes and order of movement and storage of documents;*

✓ *The processes for planning, initiating and executing expenditures have not been regulated clearly and comprehensively, while the approved processes have not been applied continuously and consistently (also identified in the 2020 and 2019 audits);*

✓ *Failure to perform adequate planning of revenues and expenditures for the implementation of inherent activities, which obstructs the pace of the processes;*

✓ The written *procedure for determining and collecting revenues* is not exhaustive and is *not linked to adequate controls*, which poses a risk for the correct determination and collection of revenues. Adequate controls have not been regulated, ensuring the timely centralization of the collected revenues from the activity;

✓ The internal acts on the conclusion of non-employment contracts, the acts of setting and reimbursement of expenses under those contracts *have not been in compliance with the legislative requirements* and have not facilitated the adoption of appropriate procedures for reporting and approval of performed services (also identified in the 2020 audits);

✓ *The normative requirements for short-term business trips abroad have not been met* with regard to: the travel orders, which do not specify the financial terms of the business trip (travel expenses, daily allowances, accommodation and other expenses); lack of reports from seconded officials on the work performed (also identified in the 2020 and 2019 audits) and failure to provide within the statutory period statements on the currency spent.

Public universities:

✓ *The budgets* of the main units within the general budget of a public school *have not been approved* for the respective year (also identified in the 2020 and 2019 audits);

✓ *Lack of approved methodology* for determining the contribution of the individual main units for trainings in each professional field for the purposes of distributing the revenues from training fees and the funds from the state budget for the maintenance of training (also identified in the 2020 audits);

✓ In violation of legal provisions, *the approved maximum amount of liabilities* to suppliers of a public university at the end of the year and the use of a loan from an account for foreign funds for budget expenditures *has been exceeded*;

✓ *No action has been taken* to repay, defer or reschedule onerous liabilities for local taxes and fees;

✓ *Illegal provision of accommodation to nonstudents* in separate housings or in housings that are part of student dormitories – public state property;

✓ Established cases of *income received before the conclusion of lease agreements*, use of premises for a period exceeding the statutory maximum period and *without a tender*, which is inconsistent with the applicable legal framework;

✓ *Conclusions of: public contracts* in violation of the Labor Code *and contracts with part-time professors* after the start of the school year and the actual teaching activity.

3.1.2.2. Municipalities

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

✓ *The ordinances* on the terms and conditions for compiling the three-year budget forecast for local activities and for compiling, adopting, implementing and reporting the municipal budget, as well as the ordinances on determining and administering local taxes, local fees and service prices, have not been updated in accordance with the changes in the legal framework and are not compliant or are only partly compliant with the legislative acts of higher order (also identified in the 2020 and 2019 audits).

✓ *The municipal councils:* have not adopted a decision on determining the pastures, measures and meadows for general and individual use; have not adopted an ordinance to discuss a project that will be financed by a long-term debt; have not adopted a program for tourism development; have not adopted a decision for setting the vehicle tax for 2020; have not adopted a draft estimate on the expenses under the “Cleanliness” activity for 2020; have not determined the terms for receiving, reporting and proving the expediency of municipal funds spent by non-professional football clubs and the football clubs participating in professional leagues; have not approved compensated changes in connection with the changes in the value of sites and those changes have not been reflected in the estimate for financing the capital expenditures; a municipal council decision on the conclusion of a contract for the provision of health services in a municipal property has not determined the payment of consumables for the used property, which has resulted in lost revenues from the municipal budget; have not taken a decision to determine the terms for awarding public bus transport to passengers under the transport scheme for intercity bus lines and the mayor of the municipality has not been ordered to organize the procedure for awarding the public transport under the scheme. The contracts have been concluded without an award procedure under the Concessions Act or Ordinance 2 of 15 March 2002 on the terms and conditions for approval of transport schemes and for public transport of passengers by bus, issued by the Minister of Transport and Communications.

✓ *The mayors of municipalities:* have not appointed 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 have not been in accordance with the organizational structure of the municipal administration and the employees (also identified in the 2020 audits). The work of employees with rights and obligations of revenue authorities has not been subject to effective control; no officials have been appointed and no committees have been established to exercise routine control over the implementation of concession contracts, in breach of legislative requirements; no control over the implementation of concession contracts has been exercised; no periodic inspections have been carried out, incl. on the fulfillment of obligations to make concession payments; no actions have been taken for forced collection of unpaid liabilities by concessionaires, which has harmed the financial interests of municipalities;

✓ No written internal rules/procedures have been introduced on concluding contracts with staff on non-employment relationships. Civil contracts have been concluded, which do not specify the legal basis for their conclusion, do not specify the specific obligations of the parties, have not set sanctions and penalties for failure to perform the assigned activities. Civil contracts have been concluded after the completion of services.

✓ *Revenue agencies:* have not reflected in the accounts the overdue public receivables for real estate tax (RET) and household waste collection fees (HWCF); have not performed an analysis on the planning of RET and HWCF of the shortfall of liabilities, as well as of the actions taken to collect overdue public receivables; have not prepared a list of debtors who have not paid in due time their debts for RET and HWCF and have not disclosed through a bulletin or through the media the lists of debtors with outstanding public debts exceeding BGN 5000; have not written off the obligations with expired ten-year limitation period (also identified in the 2020 audits); have not drawn up amended assessments and have not sent

invitations/messages for voluntary implementation to debtors with overdue obligations; have not drawn up acts for establishing administrative violations; have not collected receivables from real estate, housing, agricultural land lease (also identified in the 2020, 2019 and 2018 audits), as well as from municipal concessions;

✓ *In case of expenditures for external services and current repairs:* payments have been made without verifying the lack of obligations of the contractor to the National Revenue Agency (NRA) and the Customs Agency (also identified in the 2020 audits); the deadline for the implementation of the activities under the contracts has not been met; no penalties have been claimed against contractors for non-compliance with deadlines for execution of contracts (also identified in the 2020 audits); the control reports, acts and takeover protocols of the performed services do not contain all the minimum required information, incl. date, signature and two names of the official; payments have been made after the agreed deadline; remunerations have been paid under contracts for the provision of services without those services having been actually provided; illegally paid excess costs for snow removal on the municipal road network;

✓ *In case of expenditures for major repairs for acquisition of tangible fixed assets:* expenditures have been incurred without having been included in the calculation for financing capital expenditures and without having been approved by the municipal council (also identified in the 2020 audits); guarantees have been given for advance payment and for performance of contracts, the validity of which does not correspond to the set deadlines; the agreed deadlines for making separate payments have not been met; no notifications have been sent to the NRA and the Customs Agency for concluded contracts or the legislative deadline for notification has not been met; no penalties have been claimed against contractors for non-compliance with deadlines for performance of contracts; no officials have been appointed to exercise control over the implementation of concluded contracts;

✓ *In case of municipal debt management, it has been established that:* the 2019 indicators for new municipal debt and end-of-year debt exceed the maximum amounts for the respective year set by the municipal council; the NRA and the Customs Agency have not been notified about concluded credit agreements and about payments made under current agreements; discrepancy between municipal council decisions for assuming short-term and long-term municipal debt and loan agreements signed by the mayor, in the part concerning interest rates and credit management commissions;

✓ *In case of spending on subsidies and current transfers for non-profit legal entities, it has been established that:* no reporting arrangements have been determined for earmarked funds for community center activities; the individually distributed subsidies for community centers have not been indicated in the commission protocols on the distribution of subsidies from the municipal budget; directors of community centers have not presented to mayors reports on the amount of spent municipal funds; the executive directors of two football clubs have not provided reports with evidence of spent subsidy funds.

✓ Violations related to food and capital expenditures (also identified in the 2020 audits).



3.1.3. Public procurements

The following irregularities and discrepancies have been identified in the award of public procurements in the audited entities:

3.1.3.1. Ministries, agencies and public universities

Ministries and agencies:

✓ *The internal acts* regulating the award and execution of public procurements *do not adequately demonstrate the organizational structure of the departments* (also identified in the 2020 audits) and *do not put in place effective controls*, which would ensure the actual planning of needs and the lawful execution of procedures;

✓ *Failure to adopt* appropriate arrangements 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 2020 and 2019 audits);

✓ *In cases of public procurement notices*: the notice does not contain the minimum required content (also identified during the 2020 audits); requirements are set regarding the technical and professional capacities of participants, without providing information about the documents that would prove compliance with the selection criteria; the notice does not specify the intended guarantee and its percentage; non-compliance with the requirement that the decisions for selection of public procurement contractor be issued by the contracting authority within 10 days from the approval of the protocol on the work of the selection committee; publication of a decision and a public procurement notice in the Public Procurement Registry and the buyer's profile on different dates, contrary to the legislative requirements;

✓ *The following have not been published in the Public Procurement Registry*: the minutes on the work of the selection committee; a decision to terminate a specific lot; a decision for the selection of a contractor;

✓ *A public procurement contract* with the selected contractor *has not been concluded within 30 days* from the date of selecting the contractor, pursuant to Art. 194, para. 1 of the Public Procurement Act (PP Act);

✓ *The selection of a contractor* based on a framework agreement *is contrary to the requirements of the PP Act*. Significant delays in the conclusion of contracts have been established due to appeals or lack of financial resources to put in place the procedure;

✓ *In case of non-execution of public procurement contracts*, the contracting authorities *have not claimed* and, respectively, the public procurement contractors have not paid *compensations/penalties for non-execution* of contract terms (also identified during the 2020 audits).

Public universities

✓ *The existing internal rules on the PP Act* have not been updated following the date of their approval and do not reflect the major amendments and additions in the regulatory framework, such as: public procurement through e-platform, new requirements on the publication of information in the Registry and the buyer's profile;

- ✓ Inclusion of selection criteria and requirements which *unreasonably limit the participation of economic entities in the procedure* (also identified during the 2020, 2019 and 2018 audits);
 - ✓ The notice does not give the grounds for exclusion of participants under the PP Act – those are only indicated in the procurement documentation;
 - ✓ The notice does not provide an estimate on the quantity of deliveries (also identified during the 2020 audits);
 - ✓ The requirements for technical and professional capacities of participants are not consistent with the contract's subject, value, volume and complexity;
 - ✓ No data on a procedure have been entered into the Random Selection System of the Public Procurement Agency;
 - ✓ Inconsistency between the tender documentation and the notice concerning the information about price parameters;
 - ✓ Publication in the buyer's profile of the documentation, the decision to initiate a public procurement procedure, notice on the award of the public procurement and the contract before the decision and notice have been uploaded in the Public Procurement Registry;
 - ✓ Publication of a contract on the buyer's profile without the annexes;
 - ✓ The notice on the award of a public procurement does not include the circumstances under the PP Act on the exclusion of bidders;
 - ✓ In the course of executing a repair and construction contract, the envisaged deadline for completion of the separate sites has not been met and the specificity of the activities has not been taken into account when determining the deadline for their execution in the technical specification of the tender and in the draft contract.

3.1.3.2. Municipalities

- ✓ *The internal rules on managing the public procurement cycle have not been updated* following the amendments to the PP Act and the Rules on the implementation of the PP Act (also identified in the 2020 and 2019 audits);
 - ✓ Certain municipalities *have not planned their public procurement procedures* failing to identify the needs for construction, supplies and services (also identified in the 2020, 2019 and 2018 audits);

In the award of public procurements under the Public Procurement Act (PP Act) the following significant violations of the legal framework have been identified:

- ✓ The content of the tender notice does not correspond to the minimum requirements under the PP Act (also identified in the 2020, 2019 and 2018 audits) and does not specify the performance guarantees and/or the funds provided in advance, as well as the optional grounds for exclusion of tenderers, which have been included in the documentation.
 - ✓ The selection criteria do not correspond to the subject, value, volume and complexity of tenders and unjustifiably restrict the participation of economic entities in the tenders (also identified during the 2020 audits);
 - ✓ The technical specifications include standards on their implementation, without mentioning that other equivalent standards would also be accepted;

- ✓ Requiring documents to prove compliance with selection criteria, which are not provided for in the PP Act;
- ✓ Requirement to submit documents which could be downloaded directly and free of charge from national databases of EU member states and could be obtained officially by the contracting authority;
- ✓ Evaluation of bids which do not meet the announced requirements;
- ✓ Failure to meet the legal requirements in setting deadlines for submission of bids;
- ✓ A particular participant has not been excluded from the tender despite existing grounds for his/her removal;
- ✓ The documents have been published on the buyer's profile prior to the publication of the notice in the Official Journal of the EU (also identified in the 2020 audits);
- ✓ Failure to meet the statutory deadline for conclusion of contracts and failure to obtain officially the necessary information;
- ✓ Failure to meet the deadlines for sending procurement notices to the Public Procurement Agency and failure to complete the implementation of completed contracts (also identified in the 2020 audits);
- ✓ Failure to meet the deadlines for publishing the information on the buyer's profile;
- ✓ Failure to publish on the buyer's profile the concluded public procurement contracts, their annexes and the decision for partial cancellation of public procurements (also identified in the 2020 audits).

The following irregularities have been identified in relation to awarding public procedures through open tenders in line with Chapter 26 of the Public Procurement Act:

- ✓ The notices include methodologies for setting complex evaluations, whereby the contracting authority has used the completeness and clarity of information as an indicator for the evaluation of bids and whereby conditions have been set, which expand the range of persons who are asked to prove the lack of grounds for their exclusion from the tender;
- ✓ The technical specifications indicate specific standards, without mentioning that "equivalent" ones would also be approved;
- ✓ The notices do not contain the minimum required information under the PP Act and include requirements, which unjustifiably restrict the participation of economic entities in public procurements (also identified in the 2020 audits);
- ✓ Failure to offer bidders extended deadlines to correct identified inaccuracies in their bids;
- ✓ Evaluation of bids which do not meet the announced requirements;
- ✓ Requirement to submit documents which could be downloaded directly and free of charge from national databases of EU member states and could be obtained officially by the contracting authority;
- ✓ Failure to publish on the buyer's profile the concluded public procurement contracts and their annexes;
- ✓ Suppliers of water, fuel, electricity and security services have been selected without public procurements and the principles of free competition, publicity and transparency have not been met (also identified in the 2017 – 2020 audits).

The following irregularities have been identified in the course of executing public procurement contracts:

- ✓ No notifications have been sent to the NRA and the Customs Agency before making payments under contracts (also identified in the 2020 audits);
- ✓ No compensations have been claimed by contracting authorities in case of failure to meet deadlines under concluded contracts;
- ✓ No deadlines have been envisaged for the release of performance guarantees under concluded public procurement contracts;
- ✓ Validity periods of bank guarantees and insurance policies do not cover the duration of contracts;
- ✓ Delayed release of guarantees for participation in tenders and guarantees for execution of public procurement contracts (also identified in the 2018 – 2020 audits);
- ✓ Contractors have not met the agreed deadlines and contracting authorities have not complied with the deadlines for making payments under contracts (also identified in the 2020 audits);
- ✓ Contract execution notices have not been sent to the Public Procurement Registry and have not been published on the buyer's profile (also identified in the 2020 audits);
- ✓ No officials have been appointed to monitor the implementation of contracts;
- ✓ Absence of protocols for receipt of the works done under the public procurement contract and inefficient control by the contracting authority (also identified in the 2018 – 2020 audits).



3.1.4. Estate

The following significant irregularities and discrepancies have been 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 (also identified during 2020 audits);
- ✓ The deeds of state owned estates are not updated after their entry into force of the Cadaster map (also identified during 2020 audits);
- ✓ 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 (also identified during 2020 audits);
- ✓ No effective control activities have been approved regarding the periodic collection of revenues from rented properties / parts of public state owned properties, which together with the poor communication between the various structural units in the administration has led to the accumulation of overdue rental receivables.

Public universities:

✓ Premises (separate parts of public state owned properties) are rented directly by concluding lease agreements with the dean of the faculty, without a tender, in violation of legal regulations, as well as concluded annexes to contracts in which the term is exceeded up to 10 years

3.1.4.2. Municipalities

✓ *The following ordinances, adopted by the Municipal Councils are not in line with the requirements of the legal framework:* Ordinances on the management and disposal with municipal estate (also identified during the 2017 - 2020 audits); ordinances for establishing housing needs and renting in municipal housing and on holding rights of the municipalities in commercial entities (also identified during the 2019 and 2020 audits) and strategies for management of the municipal property and the Annual programs for management and disposal of municipal owned estates (also identified during the 2020 audits)

✓ Strategies for the management of the municipal estate for the duration of the Municipal Council's term in office haven't been adopted (also identified during the 2017 - 2020 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 – 2020 audits);

Leasing of municipality owned estates established the following:

✓ the estates are not included in the Programs for management and disposal of municipal estates (also identified during the 2020 audit);

✓ the composition of the commissions for conducting the tenders does not include the mayors or their representatives, on whose territory the properties are located (also identified during the 2020 audit);

✓ the lease agreements have not been registered with the Registry Office (also identified during the 2020 audit);

✓ no delivery and acceptance protocols have been drawn up for the transfer of estates (also identified during the 2020 audit);

✓ no control has been exercised over the regularity of payments under contracts for rent of municipal owned property with overdue obligations of the tenants;

✓ No actions have been taken by the municipal administration to terminate the rental relations with incorrect tenants due to non-payment of the rental price for more than one month or due to systematic non-payment on time;

✓ Concluded contracts for renting private and public municipal owned estates are not entered in the main municipalities' registers;

✓ Agricultural lands have been illegally leased without decisions of the municipal councils;

- ✓ Lease agreements do not provide for an increase in the rental price with the official inflation index of consumer prices and it is not agreed on the payment of a fee for municipal waste by tenants;
- ✓ Orders of the mayor of the municipality for accommodation in municipal housing have not been communicated to the stakeholders;
- ✓ Concluding lease agreements before the date of the accommodation order;
- ✓ Payment of rents has been rescheduled, which has not been settled / agreed with the contracts by tenants, the terms for payment of rents have not been observed, and no interest has been accrued and paid for the delay of the payments;
- ✓ The lease have not been terminated due to non-payment of the rent in time and no actions in court have been taken for the unpaid rents in time;
- ✓ the municipality - owner didn't declare rented out properties, as a result of which no fee for household waste has been determined and paid;
- ✓ The tenants of municipal housing have not reimbursed the municipality with the fee paid for household waste.

During the tenders for disposal of municipal owned estates, the established violations are in relation to:

- ✓ Disposal transactions with municipal owned estates are not added in the acts of municipal property;
- ✓ The tender documentation has not been approved;
- ✓ the estates are not included in the Programs for management and disposal of municipal owned estates (also identified during the 2020 audits);
- ✓ the mayors or their representatives, on whose territory the properties are located, are not included in the commissions for conducting auctions (also identified during the 2020 audits);
- ✓ Overhead costs have been paid by property buyers, inconsistent with the requirements of the Local Development Act;
- ✓ No delivery and acceptance protocols have been drawn up for the actual handover of properties (also identified during audits in 2020);
- ✓ No orders have been issued for writing off properties from the deed books;
- ✓ Unlawfully defined remuneration to the members of the tender commissions for renting and disposing of municipal owned property;
- ✓ Announcements for conducting tenders are not published on the municipality website;
- ✓ Contracts for sale of real estates have been unlawfully concluded on the basis of expired market valuations;
- ✓ Contracts have been concluded with buyers with repaid right to purchase due to non-payment within the deadline set by the tender conditions and submission of applications for rescheduling without legal grounds, after the deadline for payment under the initial order of the mayor of the municipality;
- ✓ Contracts for sale of properties have been concluded before the determined price has been paid;

- ✓ For the municipal owned properties unlawfully are determined and overheads have been paid by the buyers, representing two per cent of the value of the estates;
- ✓ The actuation of properties and keeping of main registers for municipal property is carried out by officials who are not duly authorized and no acts for municipal ownership of restored lands and forests have been drawn up;
- ✓ 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 and in 2020);
- ✓ Orders of mayors of municipalities for closing tenders for rent and disposal of municipal property were not given to the participants, which violated their right to challenge the administrative act. Contracts for rent and sale of properties are concluded before the entry into force of the mayor's order for defining the winning participant – grounds for their cancelation in case of dispute in court;
- ✓ Mayors of municipalities have not issued orders for determining the winners of public tenders within seven days of receiving the minutes of the commissions for organizing and conducting tenders for renting agricultural land;



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 2021, BNAO endorsed **seventeen reports on the audits of municipalities that delved into the administration of revenues from local taxes and fees**, incl. RET, motor vehicles tax (MVT) and household waste collection fees (HWCF).

The projected revenues from local taxes and fees are not aligned with the size of the receivables for 2021 and the previous calendar years. In the revenue part of the municipal budgets is not planned the amount of overdue receivables from local taxes and household waste collection fees from previous years, which are expected to be collected during the budget year, inconsistent with the requirements of the Public Finance Act and in some of the municipalities adequate actions have not been taken to increase the collection of budget revenues. **As a result, unrealistic execution / overfulfillment** of revenues from local taxes and fees in the municipal budgets **was reported - over 90 %.**

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 reported once the cash revenues are received.

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

The Revenue Administration of some of the inspected municipalities has taken action to collect the amounts due from debtors in order to increase the collection of debts, using the legally regulated opportunities for voluntary and compulsory collection of receivables.

However, in the last two years, there has been a decline in the average level of collection of local taxes and fees for about 60 % and this trend continues. Municipalities report lower collection of local revenues and an increase in the amount of overdue receivables.

In reality, the actual collection rate of revenues from real estate taxes, motor vehicle taxes and waste household collection fees, which have the biggest relative share in the municipal budgets, is between 50 and 60 % 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 an increase in the outstanding receivables for previous years.**

In all municipalities, the total value of outstanding receivables from local taxes and waste household collection fees is significant.

In 2020 and 2021, due to the Covid-19 pandemic situation in the country, decisions of municipal councils amended the ordinances to determine the amount of local taxes and the ordinances to determine and administer local fees and prices of services - extended deadlines for the payment of local taxes and fees and a discount when paying them; consent has been given for exemption from payment of monthly fees for the use of sidewalks, squares, streets, terrains for markets, terrains for other purposes, as well as for all commercial sites, etc. The suspension of the enforcement proceedings under the TSSPC during the emergency situation also has an impact on the collection of revenues.

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 2020 and 2019 audits).*

✓ Certain municipalities (in their capacity of taxable entities) didn't declare all municipal owned estates and did not pay real estate taxes for the declared ones and also did not pay waste household collection fees for the private municipal owned estates and waste household collection fees for the public municipal owned estates (also identified during the 2020 and 2019 audits).

✓ In the process of planning of the revenues from RET and HWCF for the audited periods, no analysis was made of the shortage of reflected liabilities by accounts of the obligated persons, as well as of the actions taken for collection of overdue public receivables;

- ✓ The planned revenues under the budget of the Municipality from RET, MVT and HWCF are formed mainly from the current tax, as they are not in compliance with the total amount of the liabilities of the persons for previous years;
- ✓ The established order for planning the revenues from RET, MVT and HWCF cannot guarantee the presentation of accurate information for making correct management decisions regarding the revenue parameters of the budget of the Municipality;
- ✓ In some of the audited municipalities there is no procedure for deferral and rescheduling of obligations for local taxes and fees (also identified during the 2020 audits);
- ✓ 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 RET, MVT and HWCF than legally due (also identified during the 2020 audits);
- ✓ 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 (also identified during the 2020 audits);
- ✓ Extending motor vehicle tax relief for certain individuals without verifying the validity of the declared grounds thereof (also identified during the 2020 and 2019 audits);
- ✓ Significant amounts of uncollected public receivables, formed by legal entities and sole traders, declared in bankruptcy, individuals deleted in the Commercial Register or in liquidation, which are difficult to collect, as their repayment is within the competence of the respective court;
- ✓ The insolvency of the obligated persons, the lack of income or other property above the sequesterable minimum, the obligations by legal entities declared in liquidation, insolvency and deleted from the commercial register, incl. companies with a large number of registered vehicles, whose accounts cannot be closed and the accumulation of new liabilities cannot be stopped;
- ✓ Large number of motor vehicles with old registration numbers or non-existent registration numbers, for which the legislation does not provide for official correction of ownership (closure);
- ✓ The municipal administrations did not inspect the circumstances declared by the taxpayers for exemption from the fee for waste collection and disposal and illegally exempted persons from paying the fee for municipal waste (also identified during the 2020 and 2019 audits);
- ✓ The revenue authorities have not carried out inspections and audits to establish facts and circumstances relevant to the identification of tax liabilities and audits to determine the local tax liabilities for which the municipalities are competent;
- ✓ Failure on behalf of some municipal administrations to take 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. With the increase of uncollected receivables from previous years, there is a risk that they will become uncollectible and there is a tendency to reduce revenues in the municipal budget. There are ineffective and untimely measures by the revenue authorities for collection of overdue public receivables from local taxes and HWCF. The 10-year limitation period for some of the obligations for RET, MVT and HWCF has expired, due to which obligations for local taxes and fees in significant amounts have been repaid by statute of limitations (also found during the audits in 2020 and 2019);

✓ Lists of debtors, who have not paid their obligations within the legally established terms, have not been prepared and put on a visible place in the Municipality. No disclosure has been made through bulletins or mass media of the lists of debtors with outstanding public debts, when the total debt exceeds BGN 5,000;

✓ No control is exercised over the activity of the revenue authorities, which creates preconditions and may lead to violation of the principles of “Legality” and “Objectivity”, defined in the TSSPC, in connection with the Law on Local Taxes and Fees (LLTF), as well as to failure to achieve the objectives of administrative penalties and lost revenues for municipal budgets.

In 2021, the results of compliance audits of the public funds management and activities of the municipalities show that the bylaws, which regulate the collection of own revenues in the municipal budgets, have not been updated in connection with the changes in the normative acts, which confirms the established trend in the audits of municipalities in the period 2017 - 2020. In the period 2017 - 2021 was conducted an inspection of the current regulations governing the administration of revenues from local taxes and fees in 61 municipalities. In 11 municipalities was established compliance of the Ordinance on Local Taxes (OLT) and the Ordinance on the Determination and Administration of Local Fees and Prices of Services (ODATLFPS) with the LLTF and / or the identified discrepancies have been eliminated during the audit. In 50 municipalities (82 %) were established discrepancies between the OLT and / or ODATLFPS and the LLTF, as follows:

- In 40 out of 61 (66 %) municipalities discrepancies of the OLT with the LLTF were established.

- In 41 out of 61 (67 %) municipalities discrepancies of ODATLFPS with LLTF were established.

As a result of the findings and formed assessments and conclusions, recommendations were given by the National Audit Office to the mayors to submit proposals, and to the municipal councils to make decisions for updating the OLT and ODATLFPS, as follows:

- the mayors and municipal councils of 31 municipalities were given recommendations for updating the OLT and ODATLFPS;

- the mayors and municipal councils of 9 municipalities were given a recommendation for updating the OLT;

- the mayors and municipal councils of 10 municipalities were given a recommendation to update the ODATLFPS.

4. RESULTS 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.

In 2021, the BNAO endorsed **6 performance audits reports**, while 2 performance audits were terminated and 5 transitional audits have been implemented, which will be finalized in 2022.

The 6 performance audits were grouped in the following thematic areas:

Audit reports endorsed in 2021	Audits carried out in the reporting period, but still not completed as of 31.12.2021 ⁵
Education, Science and Culture	
1. Vocational education of adults	
Agriculture and Environment	
2. Plastic waste management	1. Effective and transparent use of public funds to overcome the consequences of the COVID-19 pandemic - measures to support farmers
Social Affairs and Employment	
	2. Effective and transparent use of public funds to overcome the effects of the COVID - 19 pandemic - social support and employment measures

⁵ Including at the quality control phase;

Healthcare	
3. Effectiveness of the system for psychiatric services	
Economy, energy and tourism	
	3. 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	
4. Effective organization and controls of the maintenance and storage of the Registry Agency databases	
Management of EU-funded Programs and Projects	
5. Effectiveness of the Operational Programme Science and Education for Smart Growth (OP SESG) 2014 – 2020 in the construction and modernization of research infrastructure for the period 2015 - 2019	4. Administration of irregularities
6. Monitoring and evaluation of the Community-led Local Development	5. 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. Education, science and culture

Vocational education of adults for the period 2017-2019

The audit is part of the parallel audit Workforce 2030 – Challenges and opportunities, led by the Office of the State Comptroller and Ombudsman of Israel and includes the following participating SAIs: National Audit Office of Bulgaria, European Court of Auditors -

ECA, National Audit Office of Finland, The Court of Audit of Italy, State Audit Office of the Republic of North Macedonia, and the Board of Audit and Inspection of the Republic of Korea.

The main audit question is: Does the government effectively respond to the growing need for gaining new knowledge and skills, retraining and lifelong learning?

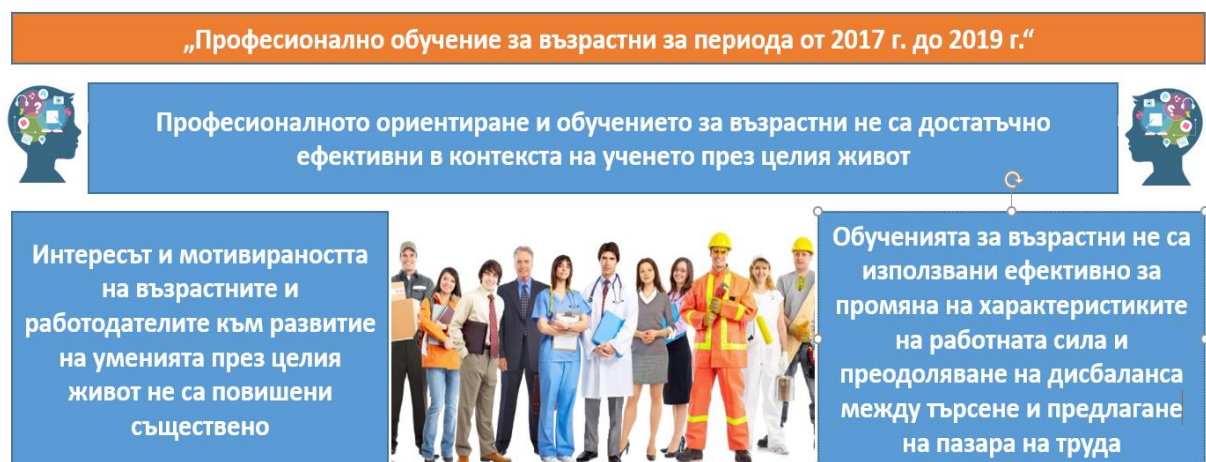
The audited entities are the Ministry of Education and Science (MES) and the Ministry of Labour and Social Policy (MLSP).

The audit concludes that the **actions of the MLSP and the MES aimed at adequately addressing the growing need for the acquisition of new knowledge and skills, retraining and lifelong learning are not effective enough** and should be continued, in order to successfully address the challenges that the workforce is facing, posed by information technology developments and demographic change, which are set to deepen in the medium and long term. **The effective addressing of the challenges depends not only on public authorities, but also on the attitudes, awareness and understandings of employers and citizens about the importance of the lifelong learning process.**

1. During the period 2017 - 2019 actions were taken to analyze the challenges of providing a workforce that meets the needs of the labour market in the long and short term, but there is no assurance that the scale of the need for retraining and further training of the workforce, which is forthcoming by 2030, is clear enough:

1.1. The MLSP and the Employment Agency (EA) have implemented measures to build and develop the system for analysis and forecasting of labour market developments and study of labor and training needs, and additional efforts are needed to overcome the existing weaknesses in the analytical, research and prognostic process.

1.2. Actions were taken to introduce and develop mechanisms aimed at overcoming the shortage of specialists in the labour market, but taking into account the principles of good governance there are opportunities for the improvement of the mechanisms.



After 1st of January, 2020, significant amendments were made to the Higher Education Act, and a change was made in the definition of a priority professional field. The adoption of a National Map of Higher Education in the Republic of Bulgaria is also envisaged, which should determine the profile and territorial structure of higher education in the country

by professional fields and specialties of regulated professions in accordance with socio-economic development and labour market needs. The deadline for its preparation is one year from the entry into force of the law. **There is also a possibility for exemption from tuition fees for students studying in professional fields and protected specialties with the highest expected future shortage on the labour market**, according to a list adopted by the Council of Ministers, proposed by the Minister of Education and Science.

1.3. The vision and goals of the country's development policies until 2030 adequately recognize the challenges and are focused on the quality of human resources and improving the quality characteristics of the workforce. The strategy documents emphasize the need for lifelong learning and training and retraining of the workforce, with a tangible emphasis on soft skills and digital competences, but **there is no assurance that the responsible institutions have clarity about the actual extent of the necessary changes and the scale of the need for retraining and further training of the workforce by 2030.** The focus of efforts to improve the skills of the working age population on the unemployed, young people, the economically inactive and vulnerable groups is understandable given the limitations in the available public financial resources, but **a clear strategy is required, as well, targeting improvement of the quality characteristics of the employed individuals**, who will also need timely updating of their knowledge, skills and competencies in order to remain competitive and help increase the productivity of the Bulgarian economy.

2. Career orientation and training of adults are not effective enough in the context of lifelong learning, as:

2.1. The interest and motivation of adults and employers to develop lifelong skills has not increased significantly, considering that:

- In Bulgaria, the training of employees conducted by employers is still not well developed and is a practice mainly in large enterprises, in contrast to small and medium enterprises. In this regard, it is necessary to provide additional incentives for employers in micro, small and medium-sized enterprises to involve their employees in training in order to improve their qualifications and skills;

- In order to achieve the strategic goals of the National Strategy for Lifelong Learning 2014-2020, it is necessary to make significant changes in the policy for lifelong learning, both in terms of improving public awareness of the benefits of vocational qualification and necessary activities for retraining, as well as by increasing the incentives for participation in education and training activities, improving the material base, preparedness of the personnel for the implementation of the trainings, amendments in the legal framework, etc.

2.2. The system for vocational orientation for adults in Bulgaria still does not effectively support individuals for their realization on the labor market. The provision of vocational orientation services is still a challenge for all participants in the process.

2.3. **Adult trainings are not used effectively enough** as a way to improve the quality of the workforce and to overcome the imbalance between supply and demand in the labor market.

3. **During the period 2017-2019, the necessary prerequisites for achieving the effectiveness of the system** for validation of professional knowledge, skills and competencies have not been fully provided.

4.1.2. Agriculture and environment

Plastic Waste Management for the period 2017-2019

The audit was carried out as part of a cooperative audit "Plastic Waste Management" of the Working Group on Environmental Audit of the European Organization of Supreme Audit Institutions (EUROSAI), together with the Supreme Audit Institutions (SAIs) of Albania, Malta, Moldova, Poland, Portugal, Romania, North Macedonia, Slovakia, Serbia, Turkey and Hungary.

The main audit question is: Have the relevant public authorities developed policies and implemented measures aimed at achieving goals (adopted in such policies) regarding generation and management of plastic waste?

The audited entities are the Ministry of Environment and Water (MoEW) and Ministry of Labor and Social Policy (MLSP)



The audit concludes that the policy implemented by national and local authorities is in line with the European waste legislation for the achievement of the goals set by 2020. But in order to achieve the long-term goals set by the EU for 2035, mainly related to plastic waste, the MoEW needs to take additional efforts. The implemented measures and activities are focused on the generated waste in the phase of its decommissioning and less

on the reduction and prevention of their generation, which reduces the effectiveness of the implemented policy.

1. **Regulations have been adopted in the national legislation, which include the basic requirements and standards of the European legislation regarding waste, which is a prerequisite for achieving effective waste management aimed at preventing or reducing their generation and their harmful effects on the environment and human health. As of 31st of December 2020, the process of introducing the requirements of the legislative package "Waste" from the package "Circular Economy" of the European Commission is not yet completed.**

National legislation, regulating public relations related to waste management is harmonized with European legislation, adopted by 2017. The lack of timely action to launch the new requirements of the directives relating to waste leads to **delays in transposing European legislation into the national one**. Specific omissions are identified, and described in the audit report.

2. **The implemented policy for ensuring proper waste management is aimed at achieving the goals set by 2020, in accordance with the European legislation in the field of waste. A regulatory framework has been developed for the implementation of measures related to waste treatment, in compliance with the hierarchy for waste management and care for human health and the environment. The implemented measures are in line with the hierarchy of waste management and as a result of their implementation, the data show positive results in terms of meeting the goals for widespread waste and the overall national goals for recycling and utilization of waste packaging and recycling goals of waste packaging by material. Specific omissions are identified, and respectively, described in the audit report.**

3. **In the area of monitoring the results and the achieved effect of the implemented measures for the treatment of plastic waste, omissions have been identified, including:**

- the National Waste Information System is not fully developed. Despite the postponement of its mandatory use from 2021, the system will be upgraded and put into operation;
- the results achieved are based on **activities that are focused on the generated waste in the phase of its decommissioning and less on the reduction and prevention of their generation and the waste management throughout the products life cycle.**



4.1.3. Healthcare

Effectiveness of the system for psychiatric services for the period 2017-2019

The main audit question is: Is the psychiatric services system effective?

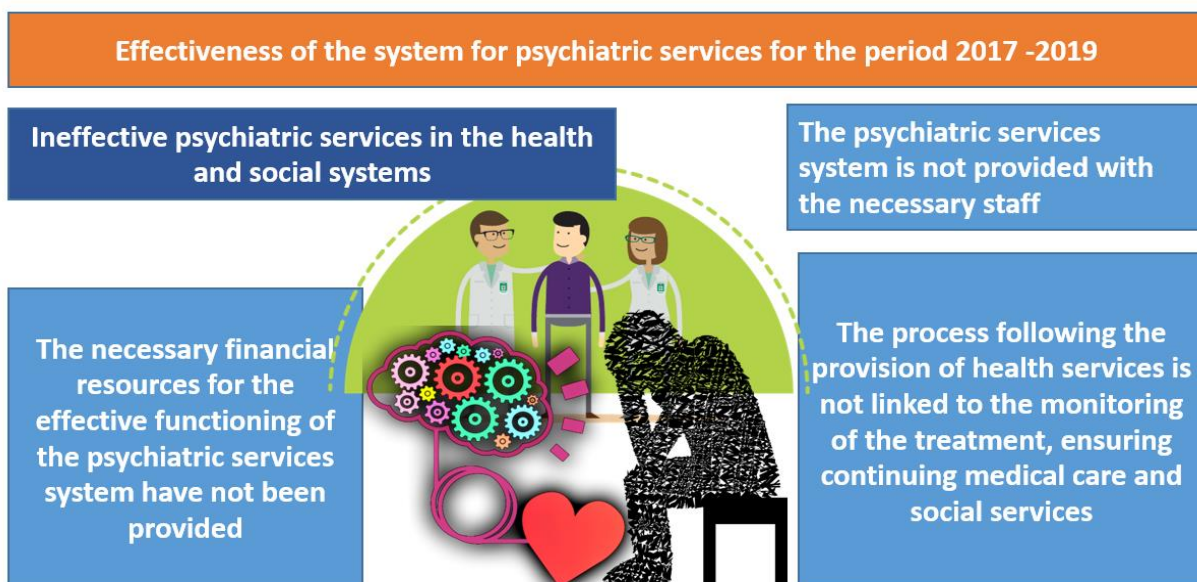
Audited entities are the Ministry of Health, the Ministry of Labor and Social Policy, the National Center for Public Health and Analysis, the Agency for Social Assistance, State Psychiatric Hospitals, municipalities, and medical institutions.

The conclusion of the audit is that the Ministry of Health took actions which resulted in significant increase of the budget for maintaining activities for the audited period but the resources remain insufficient yet.

No strategy for the development of psychiatric services has been adopted, which is a prerequisite for serious problems in the system:

- structure;
- provision of sufficient and qualified staff;
- adequate financing of the activities;
- system for assessment of the quality and results of the activity;
- effective coordination between the Ministry of Health, the Ministry of Labor and Social Policy and other institutions in the health and social services system.

The Ministry of Labor and Social Policy is making efforts to reduce the services in the institutions, but the services in the community are insufficient. **Regardless of the recognition of the problems in psychiatric services and the identified necessary measures, there are factors that lead to ineffective psychiatric care in the health and social systems.**



An effective system for psychiatric services, based on the principles of access to health services, coordination, continuity of care and efficiency, has not yet been developed.

1. The established institutional framework in the system of health care and social services at national, regional and municipal level by governing structures, medical institutions for hospital and non-hospital psychiatric care, supported by NGOs, and institutions providing social services in the community and specialized institutions, provides conditions for effective management and administration of the psychiatric services system.

The regulatory framework largely provides conditions for the management and administration of the psychiatric services system. The main problems in the system for psychiatric services for the population have been identified. They are highlighted in different analyzes, reports, strategies and programs of the Ministry of Health and the Ministry of Labor and Social Policy.

The financing of the state psychiatric hospitals is carried out through a budget determined on a historical principle, which is not directly related to the volume of the carried out activity.

The expenditures related to the medical activities, which are subsidized by the Ministry of Health, are determined on the basis of the data on the average cost of the health care institutions. **With these methods of financing, it is impossible to measure the efficiency and effectiveness of public spending.** Funding should be result-oriented.

Despite the increase of the funds provided to health care institutions in 2019, compared to 2017, **the necessary financial resources for the effective functioning of the psychiatric care system have not been provided.**

The psychiatric care system is not provided with the necessary staff.

The undeveloped information system makes the activities of prevention, active search and follow-up of mentally ill patients impossible and leads to a lack of objective information to ensure effective resource planning and limits opportunities for effective management intervention at the systemic and structural level. **Existing information systems and registers do not provide the necessary information for psychiatric services.**

2. Despite the provided access to psychiatric services, the effectiveness of the psychiatric care system is being questioned because:

- there is an uneven territorial distribution of the healthcare institutions for hospital psychiatric care and of the hospital beds according to levels of competence;
- the process following the provision of medical services in healthcare institutions is not legally bound to inform the GP about the epicrisis of each patient in order to monitor the results of the treatment, ensuring continued medical care and social services;
- the psychiatric services system does not provide the necessary integrated psychiatric care services;

No inspections of the quality of the provided psychiatric care in the health care system have been planned and carried out by the Executive Agency for Medical Supervision, which allows the control to be assessed as insufficient and ineffective. The planned inspections by the Inspectorate of the Social Assistance Agency for the quality of the offered social services, the proposals made to reduce the capacity of specialized institutions and social services of residential type and to suspend accommodation in institutions allow the control mechanisms to be assessed as effective.

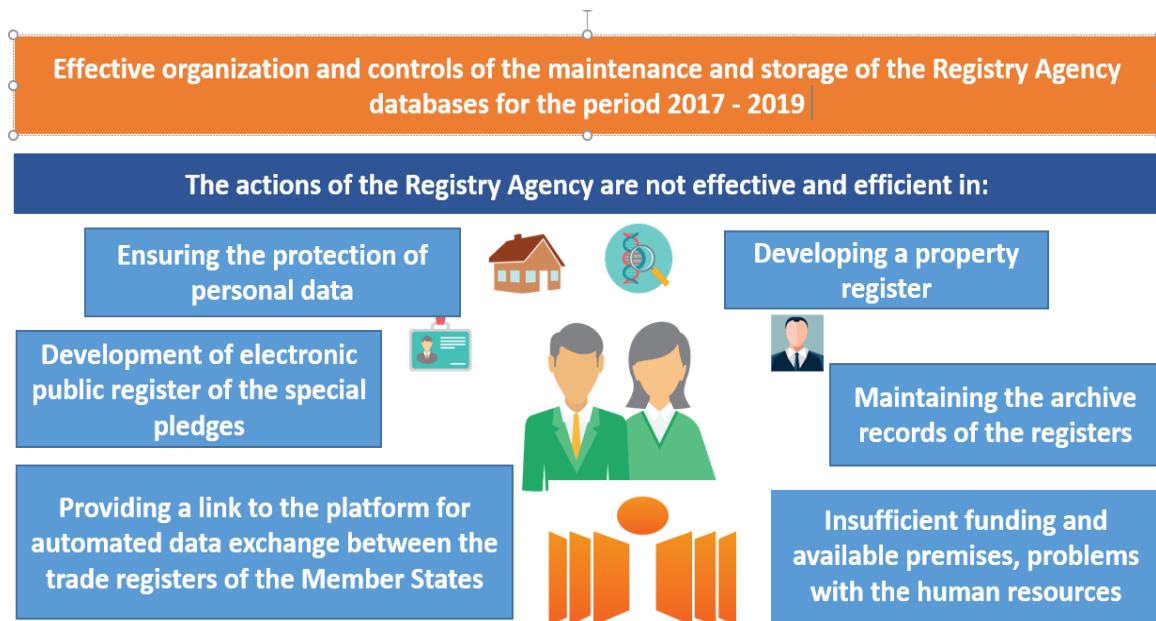


4.1.4. Justice and Home Affairs

Effective organization and controls of the maintenance and storage of the Registry Agency databases for the period 2017 - 2019

The main audit question is: Are the organization and control of the activities for keeping and storing the registers maintained by the Registry Agency effective?

The audited institutions are the Ministry of Justice and the Registry Agency (RA).



The conclusion of the audit is that the serious omissions in the legislation and in the management, the lack of timely and effective management decisions, as well as the systematic underfunding of the activities are the main reasons why the organization and control of the activities of keeping and storing the registers maintained by the Registry Agency are inefficient and inefficient regarding the:

- development of the property register;
- achieving the legal goals for the development of a public register of special pledges and the transfer of the activity for its maintaining from the Ministry of Justice to the RA;
- timely publication of the annual financial statements in the Commercial Register and the Register of Non-Profit Legal Entities (CRRNPLE);
- providing a link to the platform for automated data exchange between the trade registers of the Member states;
- design, maintain and use of the archive records of the registers;
- provision of necessary and appropriate premises meeting the requirements for public buildings, archives and strategic sites of importance for national security;
- risk management for the rights of persons whose personal data is processed while keeping the registers.

1. The powers and responsibilities regarding the management of the RA regarding the kept registers are clearly regulated in the normative acts. **Frequent changes of the persons appointed as executive director and heads of key directorates, along with the permanent absence of an appointed deputy executive director, create instability and do not ensure consistency and efficiency of its management.**

The expansion of the scope of the Agency's activities and the implementation of the register reform are not accompanied by a functional analysis of the administrative structure in order to create an effective organization for the implementation of regulatory functions, which reflects on the proper distribution of duties and responsibilities and the process of ensuring the appropriate resources and capacity for the effective implementation of activities.

The strategic and annual planning processes are not organized and implemented in accordance with the principles of good governance and **do not provide adequate planning of the necessary resources for the effective implementation of the assigned functions.** The risk management process has also not been used as an effective management tool, which combined with the **lack of clearly defined strategic development goals of the Agency leads to serious risks to its good governance.**

2. The principle of cost orientation and justification, enshrined in the State Fees Act, has not been applied consistently in determining the amount of fees that the RA collects in connection with the provision of public services. The amount of fees collected for services provided by the Agency in connection with the registers kept by it exceeds twice the amount of approved by the budget funds for expenditures of the Agency in the period 2017 - 2019.

The Ministry of Justice has not taken effective action to provide sufficient funding for the activities of keeping, maintaining and preserving the registers, which has a particularly adverse impact on the development of information and communication systems, which is a key priority given the Agency's work, and the development of the property register. In the period 2017 - 2019, the expenditures approved by the Ministry of Justice are from two and a half to three times lower than the expenditures from the proposed draft budget by the RA. **Necessary funds for the development of the property register, amounting to BGN 36 million, requested by the RA within the budget procedures for 2017, 2018 and 2019, have not been provided,** although the amount of revenues from services provided in connection with the maintenance of the property register, for each of the years, significantly exceeds the amount of funds requested. **The premises required by the Agency for the normal course of the activities for keeping and storing the registers are also not provided.**

3. The envisaged parallel processes for development of property register and cadastral maps and registers have not been realized. The Minister of Justice has not taken any action to initiate proceedings for the development of a property register, despite the fact that as of 31.12.2020 96.29 % of the territory of the country has approved cadastral maps and registers. **Significant omissions have been identified** and described in detail in the audit report.

A significant problem arises from the fact that the registry offices are part of the structure of the Agency, and the registry judges who develop the property register are under the authority of the chairman of the respective district court. This limits the ability of the Agency to effectively organize and control the work on the development, maintenance and archiving of the property register.

4. The necessary normative regulations and organization for conducting CRRNPLE have been created. **The RA has taken effective action to improve the organization of the work of registration officials.**

There are also ineffectively solved problems related to:

- Significant delay in the process of announcing the annual financial statements for the period 2017 - May 2020, despite the actions taken to reduce the administrative burden for traders and non-profit legal entities that do not operate and the established internal organization for processing the applications;
- there is no statutory deadline for the registration officials to rule on the applications for registration of the circumstances regarding the beneficial owners, which creates a risk of delays in the registration proceedings and violation of the principle of speed and procedural economy;
- in violation of the requirements of Directive 2012/17 /EU and the CRRNPLE Act, there is no connection of CRRNPLE with the BRIS system - the platform for automated data exchange between commercial registers of Member States.

5. **The delay in the issuance of the bylaw provided for in the Special Pledges Act completely hinders the process of transferring the activity of maintaining the Central Register of Special Pledges** from the Ministry of Justice to the RA and achieving the objectives of the law on establishing a public register of special pledges, responding to the modern requirements for the provision of electronic services to consumers and increasing the security and transparency of the environment for the conclusion and implementation of contracts related to lending and their provision.

6. **The RA has not taken effective action to protect personal data** regarding the process of keeping registers and for ensuring compliance with the principles and requirements of the General Data Protection Regulation. Adequate and appropriate management of the risks for the rights and freedoms of individuals arising from the processing of their personal data is not ensured.

In violation of the principles and requirements of the General Data Protection Regulation, adequate organizational and technical measures for the protection of personal data of individuals are not provided, especially when providing third parties with uncertified transcripts of registered acts and publishing data and documents in public registers.



4.1.5. Management of programs and projects funded by the European Union

Effectiveness of the Operational Programme Science and Education for Smart Growth (OP SESG) 2014 – 2020 in the construction and modernization of research infrastructure for the period 2015 - 2019

The main audit question is: Are the activities for contracting, execution of the contracts for granting financial aid and monitoring of priority axis 1 "Research and technological development" of OP SESG for the period 01.01.2015 - 31.12.2019 effective?

The audited entity is the Executive Agency Operational Programme Science and Education for Smart Growth.

The conclusion of the audit is that in the period 2015 - 2019 the activities related to the contracting, execution of grant agreements and the objectives, priorities and measures set in the national strategic documents, as well as the monitoring activities of priority axis 1 of the OP SESG 2014-2020 are not effective due to:

- significant delay in the process of agreeing of the funds intended for the construction of the sites of the scientific infrastructure, respectively delay in the implementation of the second stage of the National Roadmap for Scientific Infrastructure 2017-2023;
- non-fulfillment of the milestones for 2018, as a result of which the budget of the priority axis has been reduced;
- deviations from the requirements introduced by the normative and internal acts in the implementation of the procedures for evaluation of the project proposals, the activities for administration of signals for irregularities and development of the annual reports for implementation of the program.

1. The Managing Authority of OP SESG 2014-2020 strives to achieve effective negotiation of the financial resources defined under priority axis 1 such as:

- defines clear rules, procedures and responsibilities in the Management Manual of the OP SESG 2014-2020;
- provides additional support to the commissions for evaluation of project proposals under the grant procedures through competitive selection, awarding a public tender for selection of expert evaluators who evaluate the project proposals and the scientific potential of the applicants scientific organizations;
- carries out effective control before concluding the contracts for providing the grant.

Despite the efforts made, the negotiation of the funds was held up due to a delay in:

- development and publication of the conditions / guidelines for applying for the procedures for grants through competitive selection in view of the updating of the National Roadmap for Scientific Infrastructure 2017-2023 in 2017; and
- carrying out the evaluation of project proposals due to the return of the evaluation reports for review by the evaluation committees.

2. The delay in negotiating the funds under the priority axis leads to a delay in the implementation of the grant agreements and the projects financed with them.

As of 31st of December 2019, the amount of certified funds under Priority Axis 1 of OP SESG 2014-2020 is only 14 % of those agreed under the Priority Axis.

3. Until 2017, the monitoring procedures by the Monitoring Committee and the Managing authority were not implemented effectively. Following the changes in the organization of the management of OP SESG 2014-2020 at the end of 2017, corrective actions

were taken aimed at reducing the risks of loss of financial resources under Priority Axis 1 by amending the programme in the section of indicators for measuring and assessing progress and the milestones, and subsequently redirecting the performance reserve under the priority axis to another priority axis of the programme.

During the audit, the Manual for management of OP SESG 2014-2020 was updated, which eliminated the identified gaps in the procedures related to the activities of the Monitoring Committee and the procedures for preparing the annual activity reports.

4. The process of administration of internal signals for irregularities from the MA of OP SESG 2014-2020 in the period 2018 - 2019 allows deviations from good practices regarding the adequate distribution of responsibilities, but the introduced control procedures do not sufficiently ensure compliance with regulatory requirements in the area.

Monitoring and evaluation of the Community-led Local Development approach for the period 2015-2019

The main audit question is: Are the actions taken for monitoring and evaluation of the progress under the "Community-led local development" approach for the period 01.01.2015 - 31.12.2019 effective?

The audited entities are: the Ministry of Agriculture, Food and Forestry (MAFF)⁶ – Managing Authority (MA) of the Rural Development Program (RDP), the MLSP - MA of the Operational Programme Human Resources Development (OP HRD), MoEW - MA of the Operational Programme Environment (OPE), Ministry of Economy (MoE) - MA of the Operational Programme Innovation and Competitiveness (OPIC), Executive Agency Operational Programme Science and Education for Smart Growth (OP SESG) - MA and State Fund Agriculture (SFA).

The audit concludes that the implementation of the Community-Led Local Development (CLLD) approach through the implementation of CLLD strategies in multi-fund financing is a complex and multi-step process involving participants from different levels. The approach is implemented:

- in compliance with the rules and conditions of each of the funding programs;
- by insignificant number of employees in the responsible structural unit in the MA of the RDP, appointed for the implementation of the approach;
- through lack of a timely, accurate and reliable information for monitoring and evaluation.

All this slows down the implementation, does not provide reliable control and does not support the effective implementation of the monitoring and evaluation of the CLLD approach.

⁶ By decision of the National Assembly of 13.12.2021, promulgated. SG, no. 106 of 15.12.2021, the Ministry of Agriculture, Food and Forestry was transformed into the Ministry of Agriculture

As of 31st of December 2019, no satisfactory progress has been made and the absorption of the planned funds in the CLLD strategies, the implementation of the indicators and the achievement of the objectives set in the strategies, even under the n + 3 rule, remains a challenge. This is related to the following facts:

- the programming period 2014 - 2020 is the first during which the CLLD approach is implemented through multi-fund financing;
- the difficulties encountered and the efforts made by all participants;
- over 70 % of the number and value of concluded contracts are in the process of implementation.

It is necessary to mobilize the efforts of all participants in the approach in order to fulfil the commitments made to local communities, maximize the use of funds for underdeveloped rural areas and overcome economic and social disparities in the development of territories.

1. For the period 2015 - 2019, **the actions taken by the central and local authorities for management, coordination and control do not contribute to the maximum extent for effective monitoring of the progress of the CLLD approach, as:**

1.1. **The created conditions for monitoring and coordination at all levels of management of the implementation of the CLLD approach are not timely and sufficient,** because:

- Some of the indicators for overall implementation of the CLLD strategies are not linked to the indicators for measures to the respective strategy, which raises questions about their proper planning to measure the objectives of the strategy;
- the adoption of the normative act for determining rules for coordination between the managing authorities of the programs and Local Action Groups is untimely;
- the approved number of staff in the responsible structural unit for the implementation of the CLLD approach in the managing body of the RDP has been reduced by 41 %, which creates a risk for the effective implementation of its management functions;
- The CLLD strategies do not include all the funds originally envisaged under the CLLD approach.

In addition, the managing authorities of the operational programs have taken action to release the funds not included in the CLLD strategies and redirect them to other measures within the respective programme, in order to ensure good financial management of the resources under the operational programs as a result of which, the local community is deprived to use resources amounting to BGN 214 million.

1.2. **Timely and reliable information for effective monitoring of the implementation of local development strategies is not sufficiently provided due to the lack of functionalities** in the Information System for Management and Monitoring of European Structural and Investment Funds (UMIS) 2020 and poor organization of access to information in the system. The later integration of the RDP into UMIS 2020, including the CLLD approach, the interface which isn't developed with the Integrated Administration and Control System (IACS) and the monitoring information module, and not providing the CLLD staff with access to IACS are also among the factors for the above-mentioned weaknesses.

1.3. Conditions are provided for making timely, adequate and informed decisions for taking corrective action through:

- information to monitor the progress of the approach, which is regularly reported by the MA of the programs to the Monitoring Committees;
- the annual meetings of the CLLD Coordination Committee;
- the six-monthly reports on the implementation of the CLLD strategies prepared by the RDP MA and submitted to the Coordination Council for the Management of European Union Funds and to the Monitoring Committee of the Operational Programs involved in the financing of the strategies.

1.4. The provided conditions are not sufficient for effective monitoring by the local action groups and reporting the results from the implementation of CLLD strategies to the MA of the funding programs.

2. The evaluations carried out by the MA have not contributed to improving the implementation of the objectives of the approach, insofar as no corrective action has been taken and no decisions have been made, because:

2.1. An appropriate organization has not been set up to carry out evaluations of the CLLD approach and local development strategies, taking into account the:

- failure to take actions and clear decisions for planning and implementing horizontal evaluation of the approach for all programs;
- insufficient administrative capacity of the structural unit in the Rural Development Directorate in the Ministry of Agriculture, with responsibilities for conducting evaluations of the implementation of the RDP 2014-2020
 - lack of provisions in the national legislation for evaluations by the local action groups during the implementation of the strategies (ongoing evaluations);
 - unspecified by the MA of the RDP order and conditions for planning, conducting and reporting of the evaluations of the implementation of local development strategies by the local initiative groups, as well as not conducting trainings for the implementation of this activity.

2.2. **The evaluation of the programs, where the evaluation of the CLLD approach is envisaged, has been delayed** compared to the deadlines set in the evaluation plans, and **for the evaluations of the RDP 2014-2020 the delay is systematic.**

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 2021 audits identified deviations from the principles of good financial governance. Almost all weaknesses, negative practices and their root causes identified in the performed audits were also detected in the audits during the preceding 3 years.

Among the significant weaknesses are:



- omissions in the quality of the strategic and operational planning process related to: missing or incorrectly defined baseline and target values for performance indicators; missing or incorrectly defined financial parameters of the planned measures and activities;
- shortcomings in the information provision of management processes, including the processes related to monitoring and evaluation of the implementation of results;
- not achieved target values according to set indicators for measuring and assessing the degree of implementation of the objectives, including delayed implementation;
- non-compliance with the normative requirements related to the organization, maintaining and use of archives and documents;
- lack of and / or non-compliance with the normative requirements of the internal acts for the organization of the activity.

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



- inconsistency and lack of system approach in the management of key processes and activities;
- Ineffective organization and control over the implementation of processes and activities;
- ineffective internal control systems;
- omissions or insufficient synchronization in the settlement of public relations with normative acts;
- risk management is not used as a tool for effective management;
- insufficient resource provision of the activity for ensuring effective implementation of the functions, programs and measures, as a result of shortcomings in the medium-term and annual forecasting;
- Insufficient administrative capacity for effective implementation;
- omissions and breached efficiency of the interconnections and coordination of actions between the responsible institutions
- frequent structural and personnel changes, including on key management positions

5. RESULTS OF THE SPECIFIC AUDITS



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

In 2021, BNAO endorsed **11 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

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.

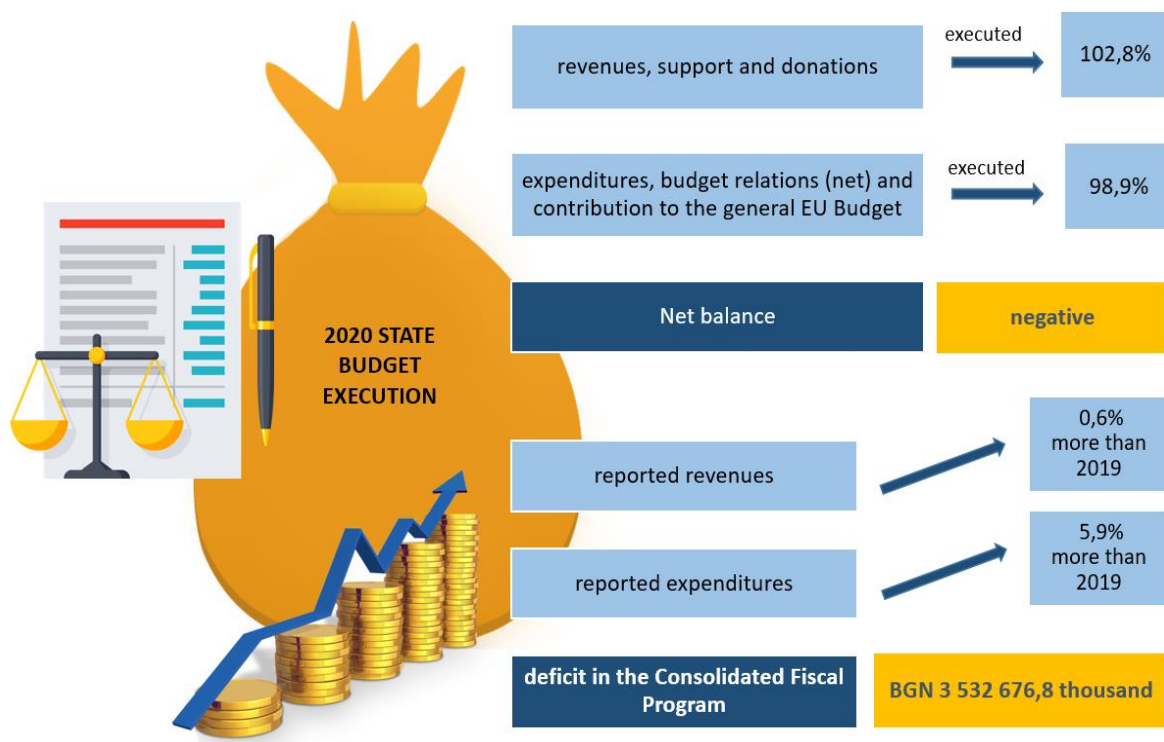
5.1. Conclusions of the specific audits conducted during the period

5.1.1. Audits on Budget Execution and Expenditure

Audit of the 2020 State Budget Execution Statement of the Republic of Bulgaria

The audit concluded that the 2020 Statement on the Execution of the State Budget is **compliant with the requirements** set out in the PFA, 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 2020 Budget Law of 102.8 %. 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 2020. The maximum amount of the new commitments for expenditures, accumulated in 2020 compared to the specified plan, was exceeded by one first-level budget spender that incurred more expenditure than planned in the State Budget, meaning that the requirement of Art. 88 of the PFA is not met and it is in violation with the budget discipline.

The expenditure, budget relations (net) and contribution to the general EU Budget reported in the 2020 State Budget Execution Statement show a 98.9 % execution of the projections laid down in the 2020 Budget Law.

The net balance regarding the 2020 State Budget is **negative**, it amounts to (BGN - 4 132 831,7) thousands, which is BGN 1 054 323,3 thousands lower than projected in the 2020 State Budget Law.

The operations in the part of financing (net) amount to BGN 4 132 831,7 thousands incl. external financing (net) in the amount of BGN 5 260 466,2 thousands internal financing (net) in the amount of BGN (-1 128 703,3) thousands and privatization in the amount of BGN 1 068,8 thousands.

The generated deficit in the 2020 Consolidated Fiscal Program amounted to (BGN - 3 532 676,8) thousands. There was an increase of the revenues by 0.6 % and increase of the expenditures by 5.9 % compared to the preceding year.

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.

Audit of the Statement on the execution of the 2020 Public Social Security Budget

The statement on the execution of the 2020 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 2020 Law on the Budget of the Public Social Security System (PSSS).

All **transfers received, expenditure and transfers provided** indicated in the statement and unforeseen in the 2020 Law on the Budget of the PSSS, **are in compliance with the legal requirements**.

The **actual proceeds to the system exceed the projected revenues by 3.4 %**, which is due to the received more revenues from insurance contributions.

The total expenditures of the Social Security Budget are higher than the projections by 1.8 %, which is due to the incurred more expenditures for social benefits and compensations.

In 2020, there is an **increase in the State's participation in the financing of some of the insurance expenditures**, which is at the expense of the State budget, compared to the previous two years. This is a result of increased funding for social assistance and benefits, given the implementation of measures for employment and protection of jobs in the sectors affected by the COVID-19 pandemic.

The Social Security Budget Execution Statement **disclosed a surplus of BGN 24 245,7 thousands**. No deficit (surplus) was planned in the 2020 Social Security Budget.

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

Audit of the 2020 Statement on the Execution of the National Health Insurance Fund (NHIF) Budget

The 2020 statement on the execution of the NHIF budget **was drafted in compliance with the structure and indicators laid down in the 2020 NHIF Budget Law**. All proceeds, expenditure and transfers disclosed in the statement are in line with the requirements of the Health Insurance Law (HIL).

The 2020 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 HIL regarding the submission of the annual statement through the Minister of Health to the National Parliament by 30 June 2021 was met.

The reported revenues and transfers were 0.2 % lower than the planned in the 2020 NHIF Budget Law.

The audit identified that the 2020 actual revenues from health insurance contributions are lower the planned proceeds by 1.82 %:

The reported revenues and transfers were 0.1 % lower than the planned in the 2020 NHIF Budget Law.

The reserve funds in the budget amounting to BGN 139 222 thousands were spent to cover health insurance payments in keeping with the statutory requirements.

The endorsed 2020 NHIF budget is with negative balance of BGN 4 798 thousands reported at year-end.

During the audited period the financial management and control systems were functioning well.

Audit of the 2020 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 (BNB) and management of the public procurement awarding processes, there was compliance in all material aspects.

The planning of the budget spending and the endorsement of the 2020 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 86.9 % execution of the planned operational costs, and 60 % execution of the planned investments.

The adjustments of the expenditure in the 2020 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 2020 is compliant with the law and backed with underlying documents. The spending was within the limits for the separate accounts set out in the 2020 BNB Budget law.

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

The internal control has achieved its objectives, the control procedures are effective and have been applied consistently during the audited period.

Audit of the accumulation of the annual excess of revenues over expenditures of the Bulgarian National Bank for 2019 due to the state budget

The audit examined the mechanism of accumulation of the annual excess, including revenues, expenditures, distribution in a special reserve according to Art. 36 of the Law on the Bulgarian National Bank (BNB), distribution from / to the Reserve Fund according to Art. 8 of the Law on the BNB and the control over the activities in the management of the Gross international reserves (GIR) exercised by the authorized persons and structural units in the BNB.

For 2019, no excess of revenues over expenditures were accumulated, no funds were transferred and there were not any funds due to the state budget revenue.

The Minister of Finance has been provided with forecasts, made under basic assumptions, for the expected amount of the due contribution in favour of the state budget, for the audited period. A low probability of accumulation of a financial result subject to distribution is forecasted, both during the audited period and for the three years after. Estimates based on the BNB's forecasts for the country's macro framework have been prepared in compliance with environmental conditions.

In order to analyse and assess the compliance with the mechanism of excess of revenues over BNB expenditures for 2019 and to assess the state of internal control, inspections were conducted and **compliance with the requirements of the legal framework was established regarding:**

- the data reflected in the reports, accounting records and the annual report for the audited period;
- the value of gold, gold instruments and other precious metals, reflected in the assets of the consolidated statement of financial state of the BNB for 2019 with the amounts of assets reflected in the accounting registers of the respective accounts;
- the reported stocks of gold reserves with the limits approved by a decision of the BNB Management Board;
- compliance with the approved procedures related to the revaluation of securities and the implementation of effective control over them by the designated structural units;
- the management of GIR.

During the audited period, an adequate control environment was created with regard to the audited processes and activities. The control activities were performed in accordance with the procedure regulated by the BNB, they were applied consistently and continuously and ensured the lawful implementation of the audited activities in accordance with the applicable legal framework and the BNB internal documents.

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

Compliance audit of the implementation of public procurement awarded to Avtomagistrali State Company for the period 2016 – 2020

The audit was assigned to the National Audit Office by a decision of the 44th National Assembly. The audit examined the implementation of public procurement contracts concluded by Avtomagistrali State Company (AM SC) in the period 01.01.2016 - 31.12.2020, and an analysis of the company's capacity for their implementation during the audited period was performed. The contracts are 14 (fourteen) with a total value of BGN 3 768 836 thousands without VAT, of which 12 (twelve) have been concluded with the Road Infrastructure Agency (RIA), and 2 (two) contracts with the Agency for Geodesy, Cartography and Cadastre.

Regarding the capacity of AM SC for the implementation of the public procurement contracts concluded during the audited period, **it was found that the company does not have sufficient own resources** (staff and construction machinery) for the overall implementation of its assigned road maintenance activities on highways, as well as for the implementation in overlapping periods of significant in volume and complexity infrastructure projects financed with funds from the state budget. Therefore, AM SC has concluded a number of contracts with external persons (third parties), where **significant part of the awarded contracts of the company has been reassigned** and the contractor (AM SC) has been replaced. The company has been selected as a contractor for 6 (six) of these contracts under one of the exceptions applicable to public contracting authorities (Art. 14, para. 1, item 6 of the PP Act), which does not require a procedure for awarding procurement. This simplified order of assignment is applicable only in case the contractor is a legal entity that cumulatively meets the conditions specified in Art. 14, para. 1, item 6, in connection with Art. 14, para. 1, item 5 of the PP Act, and which should be proven to have the necessary resources and capacity to perform the assigned activities. AM SC does not fall within the scope of public or sectoral contracting authorities under the Public Procurement Act, therefore **the external contractors of the company are selected without conducting public procurement, but following internal rules** that do not provide sufficient conditions for conducting public, transparent and based on clear criteria competitive selection.

Compliance audit of the implementation of public procurement awarded to Avtomagistralni State Company for the period 2016 – 2020



Given the **findings of the audit**, there is no assurance that the assignment of **significant volume and complexity of activities** to the AM SC, which does not have sufficient capacity for their implementation, achieves the necessary efficiency, competition and transparency in spending public funds.

As a result of the audit, **were found discrepancies with the requirements of the current legal framework and clauses in the 8 contracts** concluded with RIA during the

audited period for maintenance (preventive, current, winter and repair and restoration works in case of emergencies) of sections of Highways Hemus, Maritsa, Struma, Lyulin and Trakia, as follows:

- The company has not met the legal requirements of the PP Act for notifying the contracting authority RIA of the concluded subcontracts (including with third parties who have acquired the quality of subcontractors) of some of the activities under 5 of the contracts. After the security activity was dropped from the subject of one contract, the company continued to perform part of it, subcontracting it to a third party.
- Under 7 of the contracts, part of the monthly assignments were not submitted by the contracting authority within the agreed term, as a result some of the assigned activities were not performed, some of the not awarded activities were performed or implemented in quantities other than assigned. Under 3 of the contracts with additional assignments were allocated activities that are not part of the subject of the contracts.
- Under 3 of the contracts are allocated with extraordinary assignments activities that do not fall within the scope of unforeseen and / or exceptional circumstances within the meaning of the PP Act. At the same time, in order to certify the unforeseen circumstances that have arisen, inconsistent with the clauses of the contracts, no force majeure certificates issued by the Bulgarian Chamber of Commerce and Industry have been submitted.
- Under 2 of the contracts no documents were presented, which should have been prepared in connection with the implementation of winter maintenance activities or non approved ones were presented. In some of the contracts no documents have been submitted, which should be prepared according to their clauses, and in one of them the company has not kept copies or originals of documents in connection with the implementation of the winter maintenance of highways.

During the inspection of the implementation of **Contract RD-33-14 / 23.10.2019 with subject "Strengthening of sites of the national road network affected by geodynamic processes and phenomena"**, concluded on the basis of Art. 14, para. 1, item 6 of the PP Act (the so-called in-house assignment), it has been established that 129 contracts with 30 external persons (third parties) have been concluded by AM SC at a total value of BGN 411 666 thousands excluding VAT, which represents nearly 87 % of the price for execution of the main contract (BGN 474 656 thousands without VAT, BGN 569 587 thousands with VAT). Thus, **in practice, a part of the contract assigned to AM SC by RIA, under a simplified order under the PP Act has been reassigned, without the law providing for such a possibility.** As a result, the contractor (AM SC) has been replaced by third parties for whom it has not been established whether they meet the conditions of Art. 14, para. 1, item 6 of the Public Procurement Act and which have been selected without conducting public procurement procedures, applying internal arrangements and rules. **In this way, the observance of the main principles in spending of public funds** for equality and non-discrimination, free competition, publicity and transparency, set out in the PP Act, **is not guaranteed.**

The third parties with whom AM SC has concluded contracts for conducting of activities, rental of equipment and mechanization and delivery of materials and products

related to the performance of the main contract **have been paid in advance significant financial resources**, with total amount of BGN 180 790 372 with VAT. Advance financial resources have been provided even for sites for which at the end of the audited period no design assignments have been received from the contracting authority RIA. In this way, **third parties are given the opportunity to have a large public financial resource for an indefinite period of time, without any counter-execution of construction and installation works** (except for the intermediate execution of one site).

The company does not have written rules in connection with the overall implementation of the contracts for maintenance of highways, which contain systematic control activities carried out by certain responsible officials, order, manner and deadline for their implementation and documentation. **During the audited period, the state of the financial management and control system was not good and the controls introduced were not effective** as they did not prevent the identified inconsistencies with the legal framework.

Audit of the activity of the Minister of Economy in exercising the rights of the state in the companies with state participation in the capital for the period from 2018 to 2019

The main audit question is: Is the activity of the Minister of Economy in exercising the rights of the state in commercial companies (CC) with state participation in the capital effective? ”

As a result of the audit it was concluded that **during the audited period the activity of the Minister of Economy in exercising the rights of the state in CC with state participation in capital is not effective enough**, mainly due to fragmented, non comprehensive, unclear legal framework, weaknesses in the planning documents of the MoE and the gaps in the internal rules, which do not correspond to the normatively determined principles and requirements, with the established standards and good practices for corporate governance in the public sector.

The audit identified that additional efforts are needed to:

„ Audit of the activity of the Minister of Economy in exercising the rights of the state in the companies with state participation in the capital for the period from 2018 to 2019”



A strategy is needed for the participation of the state in the capital of public enterprises with the Minister of Economy as the principle



Monitoring the implementation of non-financial goals and indicators and analysis and assessment of the public benefit effect of the activities of individual companies

Initiation of amendments to the Law on the Bulgarian Development Bank regarding lending to large enterprises

Control of the management of the subsidiaries by the holding companies

Timely completion of liquidation procedures

- defining a strategy for the state's participation in the capital of the state enterprise, of which the Minister of Economy is the principal;
- improving the processes for planning and monitoring the implementation, in order to determine the objectives of the MoE, meeting the requirements of the SMART concept and ensuring the completeness, accuracy and reliability of the data for their implementation;
- approval and application of internal rules and criteria for restructuring commercial companies (CCs) and the economic system (incl. transformations, capital increase/decrease, inclusion of their shares or stakes in the capital of holding commercial companies.
- monitoring and control in the MoE of the management of the subsidiaries by the holding companies;
- introduction of order, conditions and criteria for election of members of management and control bodies and liquidators of commercial companies (CCs) from the economic system and their subsidiaries;
- introduction and application of internal rules to ensure reasonable duration and timely completion of the liquidation procedures;
- initiating amendments to the Law on the Bulgarian Development Bank (BDB), which will unambiguously and clearly determine whether and for what purpose BDB can lend money to large enterprises, to ensure transparency, as well as obligations for monitoring by the principal regarding the fulfilment of the goals and priorities of the bank;
- amending the internal rules for strategic and business planning, evaluation and control over the results of the activity by comprising all CCs with more than 50 % state participation in their capital (not only sole CCs) from the economic system (incl. BDB), and in their subsidiaries;
- defining a mechanism for periodic (annual) monitoring of the implementation of the non-financial goals and indicators, and analysis and assessment of the public benefit effect of the activity of the individual CCs of the economic system;
- initiating changes in the regulatory requirements for determining the remuneration of the members of the executive and control bodies of public enterprises to sufficiently reflect the specifics of the companies and the efforts of their management to achieve results and benefits for the society, etc.

As a result of the audit, 11 recommendations, with sub-recommendations to them, were given to the Minister of Economy to improve the audited activity.

Audit of the control over the conclusion and implementation of concession contracts in the Ministry of Tourism for the period from 2018 to 2019.

The key audit question was: Is the control over the conclusion and implementation of concession contracts in the Ministry of Tourism (MT) for the period from 01.01.2018 to 31.12.2019 effective?

As a result of the audit, it was concluded that **the control exercised by the MT over the conclusion and implementation of the concession contracts is not sufficiently effective.**

Additional efforts are needed to create conditions for effective control over the conclusion and implementation of the concession contracts in the MT, since:

- The strategic documents of the MT do not contain annual objectives, related to the management and control of the concession activity, which hinders the monitoring and the evaluation for the effectiveness of the exercised control.
- The frequent changes in the regulations during the audited period did not create prerequisites for effective control over the conclusion and implementation of concession contracts, and the internal rules for control were not updated in a timely manner. The lack of written requirements in the rules regarding the specific control actions to be performed during the various types of inspections, as well as the lack of procedure for reporting on the implementation of the concession agreements, creates conditions for formal implementation of control actions and for inadequate control over the conclusion and implementation of the concession contracts.
- The performed control is not differentiated according to the division of sea beaches - rented and under concessions, as a result of which according to the planned calculations for the respective year the reported expenses are related to activities for sea beaches for rent, as well as expenses indirectly related to the concession activity. More than 73 % of the inspections of the sea beaches identified that the deadline planned in the schedules was not met.
- Analyzes have not been developed for the need of human resources and their workload, and therefore the approved number of employees performing control is not sufficient to correspond to the significant number of sea beaches, type and volume of regulatory activities that need to be performed.
- The existing internal control rules do not comprise the whole process of planning and the inclusion of the concession projects in the Action Plan for state concessions.
- The termination of concession procedures has created a risk of failure of the activities for the summer season in 2019 and has negatively affected the interests of the grantor, since a lot of time, human and financial resources have been used for the organization and conduct of the procedures.

The control performed during the conclusion of the concession agreements is not effective enough during the audited period, due to:

- The documentation of the procedures for awarding concessions for sea beaches sets conditions that allow for subjective assessment by the tender commission whether to assess a specific criterion and include it in the calculation of the overall assessment. These conditions are not in line with the decisions of the Minister of Councils for opening the procedures and for approving minimum criteria for overall evaluation of the offers.
- Lack of timely actions by the MT have led to a delay of more than a year in concluding the concession contract for the sea beach "Albena".
- No information has been sent to the National Concession Register for the concession contracts concluded during the audited period within the set deadlines, which does not ensure publicity and transparency of the concession activity. For the period from 01.01.2018 to 07.01.2019, the Minister of Tourism has not appointed officials in charge of providing information about the concession contracts in the register.

- The files of the conducted procedures for granting concessions for services on the sea beaches are incomplete, which does not provide an adequate audit trail and hinders the implementation of the follow-up control. There are no electronic files.

The control over the implementation of the concession contracts is not effective enough due to the following reasons:

- The results of the on-site inspections are written in control reports, which contain information on the fulfilment of part of the obligations of the concessionaires, but they do not present an overall assessment and recommendations.
- No systematic control has been exercised over: insurance of sea beach accessories by the concessionaires; the presentation, the formation of the amount and the period of coverage of the bank guarantees and the investments made by the concessionaires to guarantee the activities related to the management and maintenance of the concession site.
- No reports have been prepared to the Minister of Tourism with the results of the inspection or proposals for: elimination of the identified non-compliances; performing a re-inspection on the spot; referral to competent authorities in case of established non-compliance with regulatory requirements. The results of the control are reported to the Minister of Tourism via annual reports following the end of the summer season, which does not provide for timely actions to be undertaken against identified non-implementation of concession contracts and jeopardizes the achievement of the control objectives.
- For the audited period, there is a low collection rate under the issued penal decisions, which reduces the effect of the control activity, as the sanctions imposed by the competent authorities are not implemented.

As a result of the audit, 11 recommendations were given to the Minister of Tourism for improving the audited activity.

Audit of Irrigation Systems Joint Stock Company (IS EAD) for the period from 2018 to 2019.

The audit examined the organization and financial condition of the IS EAD, the planning, public procurement awarding and the implementation of the concluded contracts, the management and disposal of real estate.

With regard to the **organization and financial condition of the company, it was found that the control activities were not effective during the audited period, which led to non-compliance with the requirements of the legal framework and contracts, including:**

- During the audited period, the members of the Board of Directors (BD) did not fulfil their obligation to provide management guarantees.
- Contradictory provisions have been written in the internal rules regulating the powers of the BD to organize and authorize public procurement procedures within certain thresholds, as well as the lack of rules for selection and appointment of staff and functional characteristics of the company's units.
- The targets set in the Business Program of IS EAD for the period have not been achieved.

- The objectives set in the IS EAD Business Programme 2017 – 2021: reduction of trade losses of water by improving the operational characteristics of hydro-ameliorative facilities and investments in modern measuring instruments; optimizing the number and costs of staff by restructuring the company.

- Delays in payments occurred and default interest have not been calculated for a significant part of the contracts for the supply of irrigation water by measuring the quantities of water masses for customers (through water meters and irrigation rate).

„Audit of Irrigation Systems EAD” for the period 2018 - 2019

The set business goals have not been achieved: reduction of commercial losses of water by improving the characteristics of the facilities and investments in modern measuring instruments; optimizing staff costs by restructuring the company

The public procurement control is not effective

The company is in poor financial condition, low liquidity and financial stability

For 29 % of the real estate (897 lands and buildings) and for 60 % of the dams (88) the company does not have ownership documents

Delays in payments and non – calculated interests on arrears in most of the contracts for the supply of irrigation water

During the audited period the company is not in a good financial condition, with a very low liquidity degree and financial stability, and one of the reasons is the delay (by 2 years during the audited period) in the payment of public service activities performed by IS EAD for protection of sites against the harmful effects of water. At the end of the audited period, the amount of liabilities of IS EAD exceeded almost twice the amount of receivables.

In the area of **planning, public procurement awarding and implementation of concluded contracts,** it was identified that **during the audited period, the control activities set in the internal rules were not applied, which led to a partial non-compliance with the current legal framework and contracts,** as follows:

- The planning of the public procurements is not in line with the internal rules regarding the deadlines for submission of the planned schedules for the public procurements awarding and for their approval by the respective management bodies of IS EAD.

- When awarding a public procurement contract by collecting tenders with an announcement, the commission did not propose for removal from further participation in the procedure a participant who does not meet the requirements of the contracting authority.

- When awarding public procurements by sending an invitation to certain persons, the assignor has applied the procedure for sending invitations to certain persons without having

legal grounds for this, and in one procurement, no commission has been appointed to review and evaluate the received offers.

- The direct agreement procedures were conducted in non-compliance with the Public Procurement Act and the Regulations on its implementation, regarding the decisions on their opening and selection of a contractor, failure to issue an order appointing a commission, concluding contracts in violation of the legal requirements and etc.

The implementation of the contracts is partially compliant with their clauses, as it was admitted:

- Concluding contracts without a decision of the Board of Directors;
- Failure to prepare documents during their implementation;
- Provision of services and supplies for sites that have not been included in the subject of the contracts, whereby it has been amended illegally;
- Failure to perform preliminary control for legality before undertaking an obligation and lack of a double signature when incurring the costs of some of the contracts.

With regard to the **management and disposal of the company's real estate**, it was identified that **the control activities did not prevent the following significant inconsistencies with the legal framework:**

- During the audited period, no internal rules for management and disposal of the company's real estate were adopted and approved.
- During the procedures for renting real estate - public state property and during the procedures for selling real estate, violations were committed in connection with the announcement of the terms of the tenders.
- In 44 % of the inspected lease agreements, non-compliance with the agreed contractual term for payment of the rental price was identified; non-accrual of the penalties for delay provided for in the contracts, which does not protect the financial interests of the company.

As of December 31, 2019, the company does not have ownership documents for 29 % of the real estate (land and buildings) and for 60 % of the dams owned by IS EAD. The process of issuing property deeds of the company's estates continues after the audited period.

[Audit of the activity of the Minister of Agriculture, Food and Forestry in exercising the rights of the state in state-owned enterprises and companies with state participation in their capital for the period from 2018 to 2019.](#)

As a result of the audit it was concluded that there is full compliance in all material aspects in the studied field: **"Created conditions for exercising the state rights in state enterprises and companies with state participation in their capital"**.

For the studied field: **"Exercising the state rights in state-owned enterprises and companies with state participation in their capital" a non-compliance was identified in more than one essential aspect of the audited activity**, as follows:

- For the audited period, the companies from the system of the Ministry of Agriculture, Food and Forestry (MAFF) function under unapproved business programmes for the entire

term of management, and one state enterprise functions without approved annual financial plans and annual development programmes.

- In non –compliance with the regulatory requirements, two liquidation contracts have been concluded with a company that has declared bankrupt.
- No deadlines have been set for finalizing the liquidation and no liquidators have been appointed for four companies with open liquidation proceedings.
- When concluding some of the liquidation contracts, the restrictive conditions, under which the liquidators should be appointed, have not been identified.
- The liquidation procedures of the companies from the MAFF system last between 14 and 23 years, which makes the process ineffective.
- The orders of the Minister of Agriculture, Food and Forestry for opening tenders for renting properties that are not forest territories, as well as to open procedures for the sale of properties - private state property, do not contain all the statutory details.
- The announcement of the composition of the commissions for conducting competitions for the provision and management of the game and for carrying out joint activities under Art. 9 of the Law for Hunting and Protection of the Game, was carried out prior to the day for consideration and evaluation of the proposals of the candidates, which is not in compliance with the normative requirements.

The status of the financial management and control systems is good, but they have not been functioning effectively during the audited period, since the control activities did not prevent the identified discrepancies with the legal framework and the contracts.

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

Audit of the financial activity and management of the property provided to political parties for 2019

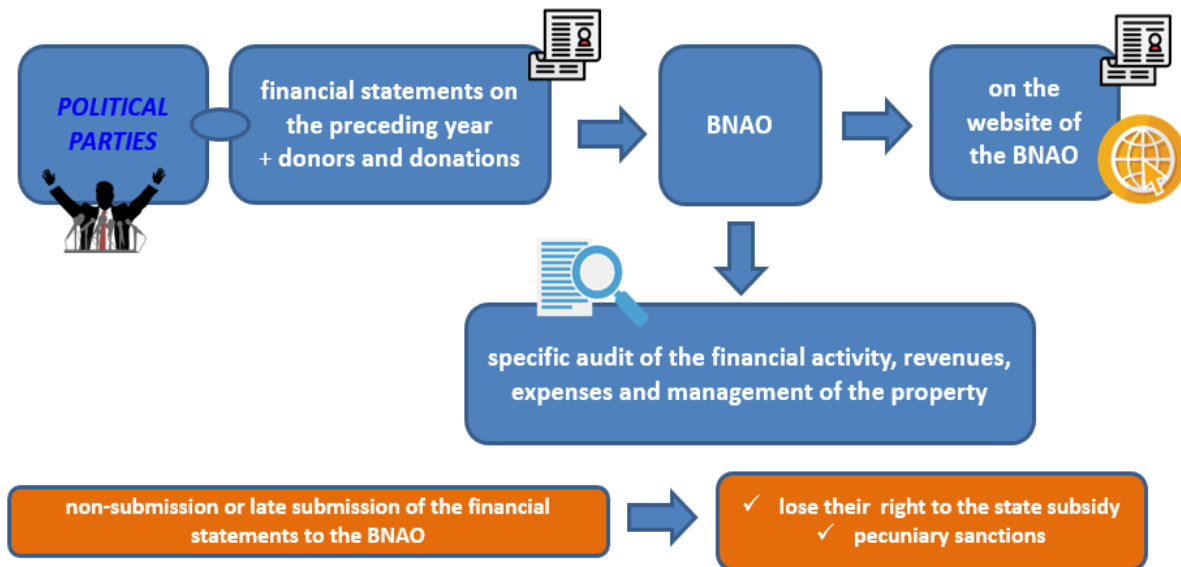
The Annual Financial Statements (AFS) for 2019 of the political parties, with the relevant annexes to them, **are presented to the National Audit Office within the statutory period** and contain the information required under the Accountancy Act (AC) and applicable accounting standards. The form, structure and approach of presentation of the annual financial statements are in compliance with the requirements of Art. 34 of the Political Parties Act (PPA). Revenue from the sale of a license for provision of an audio-visual media service and from the transfer of rights to a combined trademark (business income) was reported by one political party in its statement of revenue and expenditure, but it should have been included in the party's statement of income and expenses from business activities. **All audited parties have observed the requirements of the Accountancy Act in the organization and operation of their accounting systems.**

The formation of revenues and expenditures by political parties is in line with the requirements of the current legal framework.

The state subsidy written in the parties' annual financial statements corresponds to the amount transferred by the Ministry of Finances (MF). Pursuant to Art.5, para 1 and para 2 of the Transitional and Final Provisions of the Law on Amendments to the Political Parties Act⁷, the MF recalculated the amount of the state subsidy, granted to the political parties and

⁷ Promulgated, State Newspaper, Issue 50 dated 25.06.2019 г., in force from 25.06.2019 г.

coalitions for the period from 26.05.2021 till the entering into force of the Law. As of January 31, 2021, the difference between the granted state subsidy and the recalculated amount has been paid in full amount by ten of the audited political parties. Two of the audited parties have not reimbursed a total amount of BGN 42,458 overspent by them.



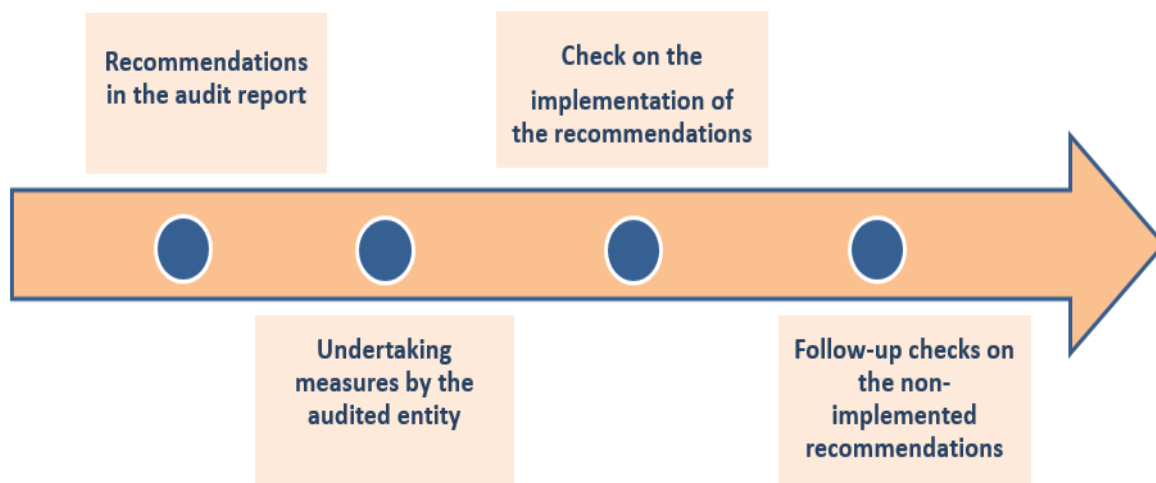
It was identified that one party reported revenues from the sale of fixed tangible and intangible assets. The concluded contracts for the sale of the assets, as well as the actions related to their conclusion and implementation, **cannot justify in a clear and unambiguous way the obvious benefit of the concluded deals for the political party**, as a result of which no assurance can be expressed under the provision of art. 41, para. 4 of the Non-profit Legal Entities Act.

The activity of management of the property provided by the state and / or the municipalities was carried out in accordance with the current legal framework and the contracts, with the exception of certain discrepancies identified in essential aspects of the activity:

- non-payment of the rental price within 194 contracts for state and municipal premises used by 11 parties;
- for 137 properties - private municipal property and 7 properties - private state property, granted to 7 parties according to concluded annexes, additional agreements, orders and letters, the gratuitous right of use has not been established by the conclusion of new contracts, according to the legal requirements.

As it concerns the maintaining and updating of the information in the public register of political parties, compliance with the requirements of the current legal framework has been identified.

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



In 2021, the National Audit Office endorsed 46 final audit reports on compliance audits, performance audits and specific audits, including 35 of them containing constructive and result-oriented recommendations. BNAO, by using one of its main tools - to issue recommendations, successfully fulfils its mission for improving the management and accountability of public funds, which is citizens' money, aimed at improving the quality of life of each member of our society. Recommendations were not given in the other 11 audits to the heads of the audited entities, since five of the performed audits (audit on: the budget expenditures of the Bulgarian National Bank; the state budget; the budget of the public social security scheme; the budget of the National Health Insurance Fund) have identified compliance with the legal framework. During the implementation of four audit tasks (audit of: the National Social Security Institute, the Patent Office, Bulgarian Small and Medium Size Enterprises Promotion Agency, Ministry of Energy) discrepancies were identified and timely corrective actions were undertaken; No significant deviations from the applicable regulatory legal framework were identified in the other two audits (audit of: the Constitutional Court and political parties)

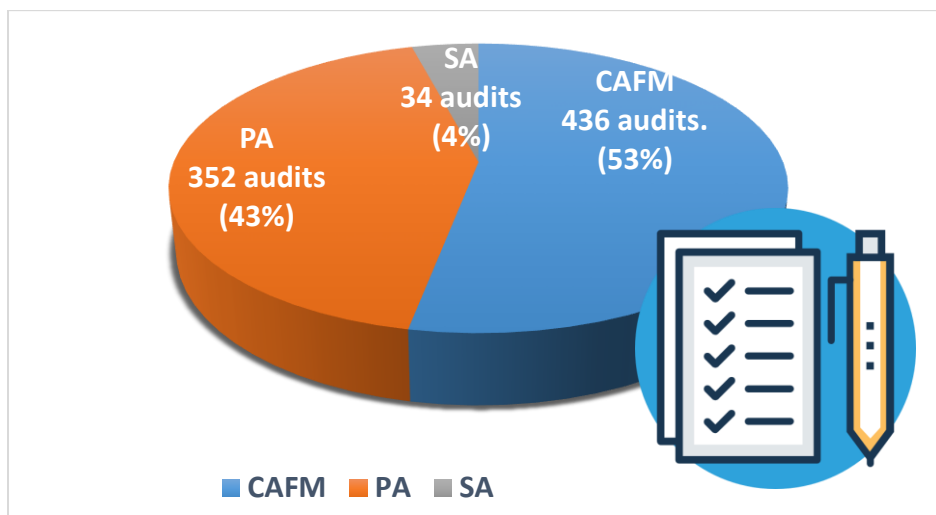
In 2021, on the basis of orders issued by the BNAO Vice – Presidents, 61 independent checks were carried out to control the implementation of the recommendations, including: 48, carried out for the first time; 11 repeated (in the municipalities of: Blagoevgrad, Dimitrovgrad, Kazanlak, Karlovo, Kuklen, Ruen, Sandanski, Sopot, Straldzha, Troyan, Tvarditsa), and two checks - performed for the third time (in BDZ-Tovarni Prevozi EOOD and Enterprise for Management of Environmental Protection Activities). The performed 61 checks monitor the level of implementation of the recommendations given on 55 final audit reports, as within the calendar year on six audit reports, both the first and the second check, for the implementation of the recommendations were performed (in the municipalities of:

Blagoevgrad, Kuklen, Ruen , Sandanski, Sopot, Troyan). **The purpose of the performed checks is to identify the correspondence among the recommendations given in the audit reports, the information received from the audited entities and the measures and actions actually undertaken for their implementation.**

The greatest number of checks – 42 checks, were for the implementation of the recommendations given in compliance audits of financial management, including 11 repeated checks. Fifteen follow-up checks were carried out by Performance Audits Directorate. The Specific Audits Directorate conducted four checks, including two of them - for the third time.

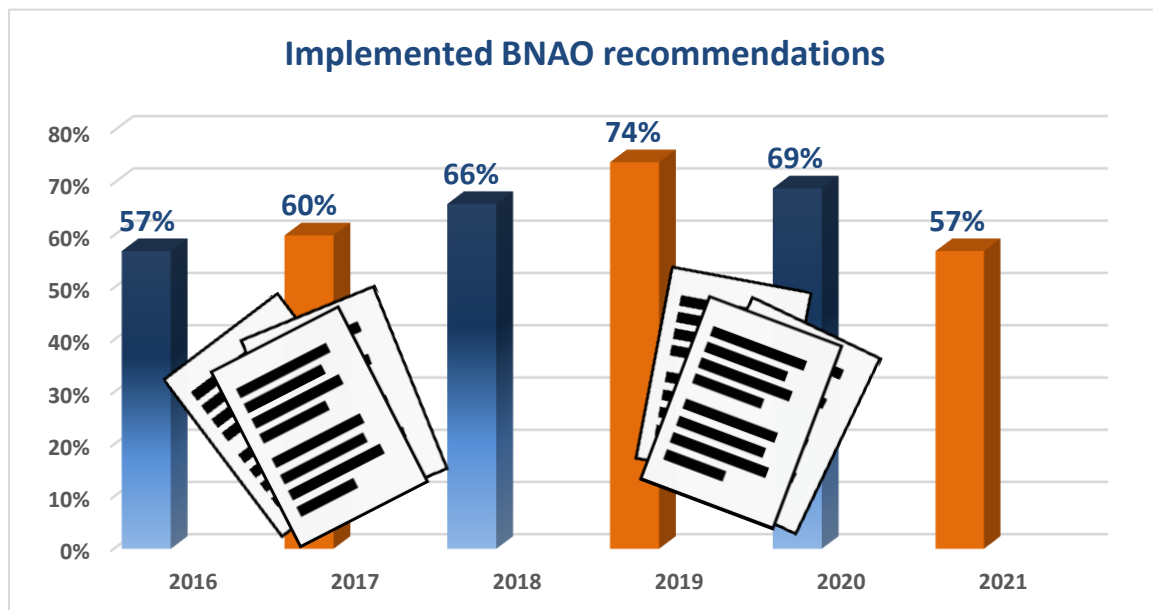
The implementation of 637 recommendations and 185 sub-recommendations was checked. For the purposes of the analysis, the total number of recommendations and sub-recommendations was used (822), since each sub-recommendation requires independent action of its addressee and the audit reports contain independent assessment of the degree of its implementation.

The distribution of the reviewed recommendations by types of audits is presented in the following graph:



The increase in the total number of recommendations and sub-recommendations given in 2021 (822 recommendations) compared to 2020 (447 recommendations) is a result of the fact that in 2021 a larger number of checks were performed (61 checks in 2021 against 43 checks - for 2020), and that 13 of the checks follow the results of the implementation of the recommendations given in horizontal audits, within whose scope the actions of more than one audited public sector organization are analyzed and assessed (61 independent checks carried out in 2021 comprising 81 audited public sector organizations). Horizontal audits bring higher added value. They are planned and conducted in cases when significant issues on processes related to more than one public entity need to be covered and analyzed.

The number of checks and respectively recommendations depend of the nature of conducted audits, the deadlines for the implementation of the recommendations given, and of the administrative capacity of the audit directorates.



The analysis of the performed checks shows that the highest relative share of the **implemented recommendations - 56.6 % (against 68.9 % in 2020)** is in 2021. The largest share (68% or 314 recommendations) of the total number of implemented recommendations (465) are those given during compliance audits of financial management. The implementation of the recommendations given in the implementation of this type of audit ensures the lawful management of public funds and activities in the audited public sector entities.

The implementation of the recommendations given within the framework of the performance audits aims at achieving efficient, effective and economic management of public funds and activities.

The relative share of the recommendations that are partially implemented **in 2021 is 10.3% (2020 - 7.6%), and the recommendations that are in a process of implementation - 6.1% - 10.0%**. In the first case, the responsible officials have undertaken the specifically recommended actions, but there is no evidence of improvement or elimination of the problem identified during the audit, and in the second case - the process of their implementation is not completed. These levels of implementation of the recommendations shows that there is a proactive behaviour from the audited entities in relation to the discrepancies found during the audits. The actions undertaken to implement the recommendations are an expression of confidence in BNAO and conviction of the audited entities that the implementation of the recommendations will lead to improvement in their performance.

The share of cases in which actions have not been undertaken by the responsible officials and the recommendations in 2021 have been reported **as not implemented is 23.6%** or 194 recommendations (2020 - 12.3 % or 55 recommendations).

The largest number of non-implemented recommendations and sub-recommendations (93 recommendations) was identified during the follow – up check of the implementation of the recommendations given during the audit "Optimization of Transport Connectivity of the Districts in the North-West Region" for the period from 01.01.2014 to 31.12 .2016. The Minister of Transport, Information Technology and Communications has not

implemented two recommendations and 15 sub-recommendations. The Executive Director of the Executive Agency "Automotive Administration" was given three recommendations, two of which have not been implemented. The mayors of 19 municipalities (Apriltsi, Belene, Belogradchik, Berkovitsa, Vratsa, Varshets, Georgi Damyanovo, Gulyantsi, Kneja, Kula, Lom, Mezdra, Montana, Nikopol, Pleven, Roman, Troyan, Chiprovtsi and Chuprene) were given three recommendations, one of which contains four sub-recommendations. The total number of all non-implemented recommendations and sub-recommendations by the mayors of 19 municipalities is 74 recommendations. The non-implemented recommendations relate to: improvement of the regulatory framework, improvement and unification of various practices in financing, reimbursing, awarding and reporting public transportation, introduction of appropriate control activities, creation of a single public electronic platform with transport connections for the individual settlements on the basis of the three types of transport schemes. As part of the control exercised over the implementation of the recommendations, it was identified that as of 31.07.2021 five recommendations and six sub-recommendations are not relevant, since some of the addressees of the recommendations no longer subsidize city and intercity bus lines.

The National Audit Office informs the National Assembly, the Council of Ministers or the respective municipal council for the recommendations that have been partially implemented are in a process of implementation or not implemented, so that these institutions can take the necessary actions. In line with that, in 2021 the reports of 39 checks were sent to: the National Assembly, the Council of Ministers, the Municipal Council of: Antonovo, Apriltsi, Balchik, Belogradchik, Berkovitsa, Blagoevgrad, Byala, Varna Region, Vidin, Vratsa, Varshets, Georgi Damyanovo, Dimitrovgrad, Dalgopol, Kneja, Kostenets, Kuklen, Kula, Lom, Lukovit, Mezdra, Montana, Nikopol, Pirdop, Pleven, Razgrad, Ruen, Ruse, Samuil, Sandanski, Slivo Pole, Sopot, Tvarditsa, Troyan, Hayredin, Chiprovtsi, Chuprene, Shumen.

The relative share of recommendations that are **not to be implemented is 1.9% (16 recommendations)**. It has been found that significant changes have occurred after they have been given and further action is needed.

The audited entities are obliged to take measures for the implementation of the recommendations and to inform in writing the BNAO President about the actions undertaken. During the inspections for the implementation of the recommendations in 2021, it was found out that within the deadline set by BNAO, 59 notifications were sent to the BNAO President out of 118 in total, i.e. there were **59 (50%)** notifications that were not sent.

During the past year, **22 decisions were made for repeated checks for the implementation of the recommendations, five decisions for a third check and one decision for a fourth check.** The third check of BDZ-CARGO Ltd ascertained that the company's manager has not undertaken actions for reduction of the capital of BDZ-CARGO Ltd with the value of the properties - public state property, under the Commercial Law and a decision was made for a fourth inspection.

7. ADMINISTRATIVE SANCTIONS

In 2021, the National Audit Office performed functions related to administrative sanctions in line with the following legal acts:

- Electoral Code;
- Political Parties Act;
- Public Procurement Act;
- Law on Concessions.

Following the audits on public procurement contracts and in implementing the functions related to administrative sanctioning vested in the National Audit Office under the **Public Procurement Act**, for the period 01.01.2021 – 31.12.2021 BNAO issued 50 protocols for administrative violations.

As of 31.12.2021 the relevant body responsible for administrative sanctioning passed decisions on 40 of these protocols, issued penal orders on 9 cases, 28 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 2021.

In 2021, 3 penal orders were issued, 10 resolutions for suspension of proceedings and 10 warnings under Art. 28 of the Administrative Violations and Sanctions Act (AVSA) in relation to 23 administrative proceedings initiated in 2020.

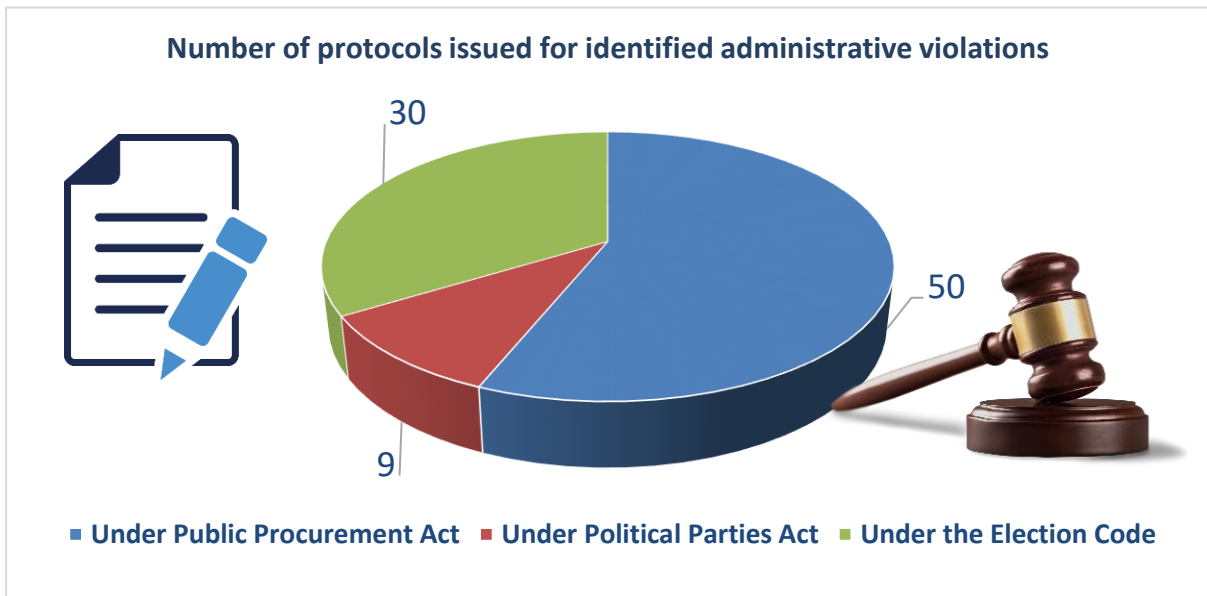
In implementing its functions related to administrative sanctioning in line with the **Political Parties Act**, for the period 01.01.2021 to 31.12.2021 BNAO issued 9 protocols for identified administrative violations.

The relevant institutions mandated to impose administrative sanctions passed their decisions on 18 of these protocols through 31 December 2021 and issued 6 penal orders, 10 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 2021.

In 2021, 1 administrative sanction was issued, 1 warning under the Administrative Violations and Sanctions Act, 1 resolution for suspension of the proceedings in relation to 3 administrative proceedings initiated in 2020.

In implementing its functions related to administrative sanctioning in line with the **Election Code**, for the period 01.01.2021 to 31.12.2021 BNAO issued 30 protocols for identified administrative violations.

As of 31 December 2021, the relevant institutions mandated to impose administrative sanctions passed their decisions on 18 of these protocols issuing 9 penal orders, 10 warnings under Art. 28 of the Administrative Violations and Sanctions Act and 2 resolutions for suspension of the proceedings. In the remaining cases, the sanctioning institutions passed their decisions within the statutory deadlines but later than 31 December 2021.



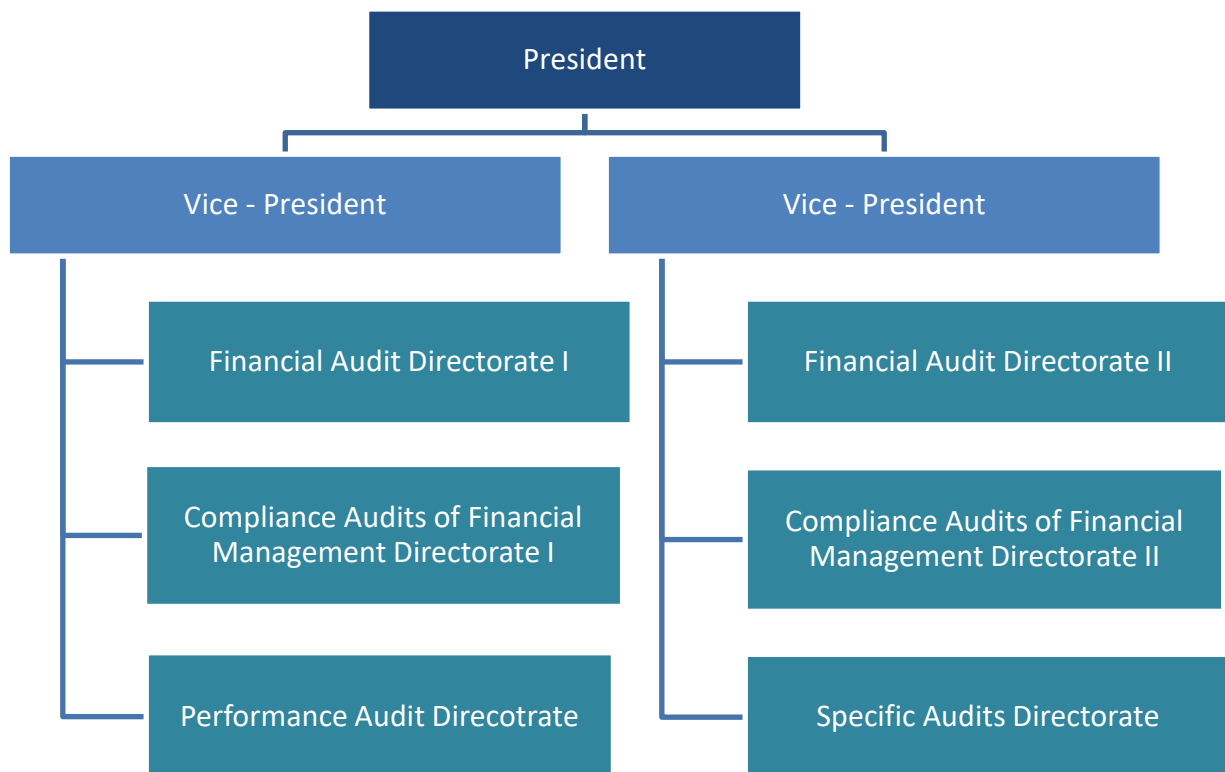
**MANAGEMENT AND
ORGANISATIONAL
STRUCTURE
OF THE NAO**

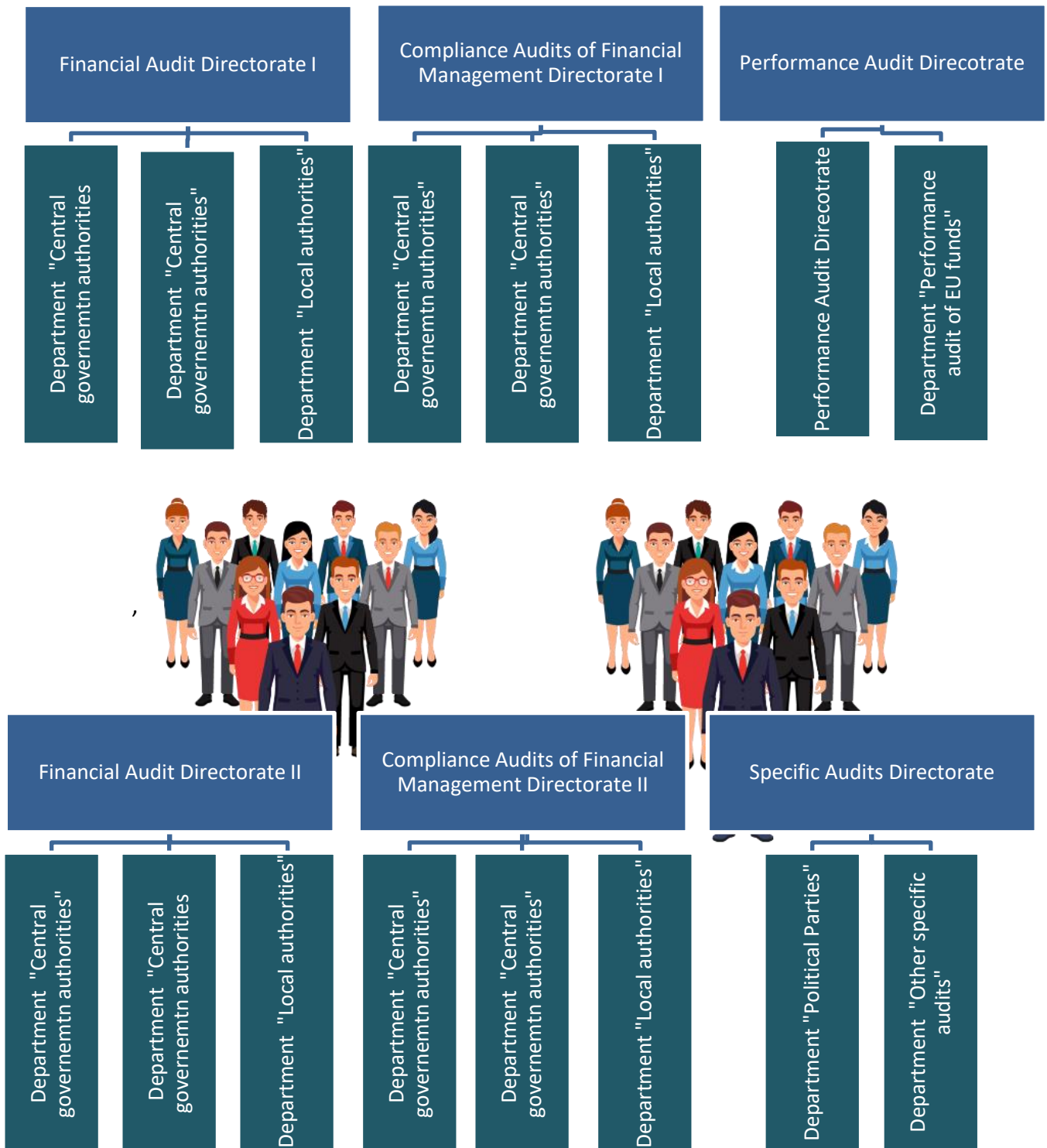
**20
21**

II. MANAGEMENT AND ORGANISATIONAL STRUCTURE OF THE NATIONAL AUDIT OFFICE

1. STRUCTURE

In 2021, the audit activity is performed in six audit directorates of the National Audit Office, organized on functional principles by types of audit conducted: two financial audits directorates; two directorates auditing compliance of financial management; one performance audits directorate; and one specific audits Directorate - conducts audits, mandated by the National Audit Office Act, by special legislation, as well as audits of commercial companies with 50 % and more than 50 % stake holding of the state and/or municipalities. The audit directorates have a number of central departments and regional units throughout the country.





In its operations, the National Audit Office is assisted by an administration organized in the Office of the President, six directorates and departments attached to them, as well as by the Internal Audit Unit.

2. INSTITUTIONAL AND ADMINISTRATIVE CAPACITY

In line with the BNAO staffing schedule, as of 31 December 2021, there are **417 employees at the National Audit Office**.

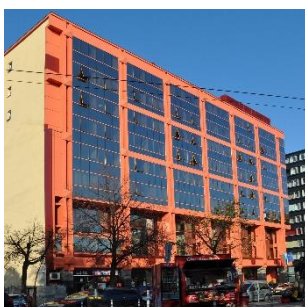
Between 01.01.2021 and 31.12.2021 **the employment relationships with 39 employees were terminated** due to the following reasons:

- ✓ Eligibility for retirement based on length of service – 11 cases;
- ✓ Upon request by the employee – 4 cases;
- ✓ Mutual consent of the two parties – 4 cases;
- ✓ Taking up government office – 6 cases;
- ✓ Termination during the trial period– 8 cases;
- ✓ Return to work of the contracted employee - 1
- ✓ The employment relationship incurred after the employee has acquired and exercised his right for retirement based on length of service and age - 1;
- ✓ Education on a full –time basis at university or starts a full-time doctoral degree programme - 1;
- ✓ Death of an employee - 1

In 2021, 53 employees were appointed at the following positions: senior auditor, first degree – 1; auditor – 5; trainee auditor – 32; technical auditing staff – 1, managerial administrative staff – 1, expert staff – 6, technical administrative staff -8.

As of 31 December 2021, **the audit directorates of the National Audit Office had in total 318 employees**, holding the following positions: director of audit directorate – 6; head of department in the audit directorate – 16; chief auditor – 107; senior auditor, second degree – 36; senior auditor, first degree – 38; auditor – 41; trainee auditor – 63; experts reporting to the directors of the audit directorates – 11. A total of 285 positions for auditors and trainee auditors in BNAO are occupied; 132 of them are positions in the regional offices.

All members of BNAO auditing staff hold master's degrees, four of them have PhD. The majority of employees have economic background (270 employees) and legal background (34 employees), and the rest have technical (14 employees) or other background.



Staff Turnover
9,49 %



96 employees work in the administration of the National Audit Office, 78 of them have higher education, 65 of which have a master's degree and two - PhD.

3. TRAINING AND QUALIFICATION

The training of the BNAO staff aims at acquiring, expanding or improving the professional knowledge and skills of the employees, taking into account the set structural and / or individual goals, based on the Annual Training Plan adopted by the National Audit Office.

In 2021, there were 101 professional training courses in total involving 1269 participants, under the following training programmes:

1. **Specialized vocational training programmes** - the topics are related to areas that are specific to the functions of the respective directorates or administrative unit. There were 71 trainings conducted on the following main topics:

- Implementation of ISSAIs and the Manual on the application of internationally recognized audit standards and BNAO audit functions
- Topical issues related to budget organizations financial reporting;
- Electronic document and its usage as evidence
- Topical issues related to the application of the Public Procurement Act and the regulations for Implementation of the Public Procurement Act;
- Protection of personal data; basics of e-government; changes in the Labour Code; 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, 9 trainings were conducted 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 BNAO;
- Operating with the Centralized Automated Information System “Electronic Public Procurements” (CAIS EPP);
- Working with electronic signature and electronically signed documents;
- Acquiring skills for working with word processing programs, Excel, PowerPoint, Windows Server 2016; etc.

3. **Programmes with organizational and managerial focus** – these aim at providing leadership skills and specific personal qualities. In total, there were 10 trainings on:

- Amendments in BNAO administrative acts and policies. Improving the administrative processes, communication and working relationships among the structural units;
- The interview as a method of evaluation in the selection of employees;
- Communication and personal effectiveness. Emotional intelligence. Dealing with conflicts and teamwork;
- Leadership, motivation, team effectiveness.

4. Courses in foreign languages – aimed at provision and/or improvement of the language skill of employees to their professional needs. One training course was attended by 5 employees.

4. AUDIT METHODOLOGY

The National Audit Office Act and the internationally accepted auditing standards regulate the BNAO audit function. 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 national conditions and traditions, to adopt and apply the best auditing practices.

In 2021, 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:

- updating templates of working documents for ongoing control and financial audit of the annual financial statements of budget organizations, including the adoption of a methodology for performing checks in an entity that is going concern, according to ISSAI 1570;
- supplementing and specifying the procedure for submitting the draft audit report to the former managers of the audited entities during the audited period;
- updating the templates of working documents for collection and summarization of the information provided for annual submission to the PPA by the Bulgarian National Audit Office;
- further development of the methodology regarding the reporting of indicators in public procurement violations.

The successful practical application of the new methodologies and the introduction of new audit techniques, including through the use of specialized audit software, is performed by the audit directorates with the support of the Audit Development Directorate, which is responsible for overall improvement of the BNAO audit methodology. Lecturers from the directorate conduct specialized internal trainings and periodically answer to questions and specific cases.

5. INFORMATION AND COMMUNICATION ENVIRONMENT

The control audit of the Information Security Management System was successfully conducted in 2021, which continued the certification of the National Audit Office under the international standard ISO27001: 2013. The ISO 27001: 2013 standard (formerly known as ISO / IEC 27001: 2005) provides framework for information security management system (ISMS) 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 continuation of ISO 27001 was the

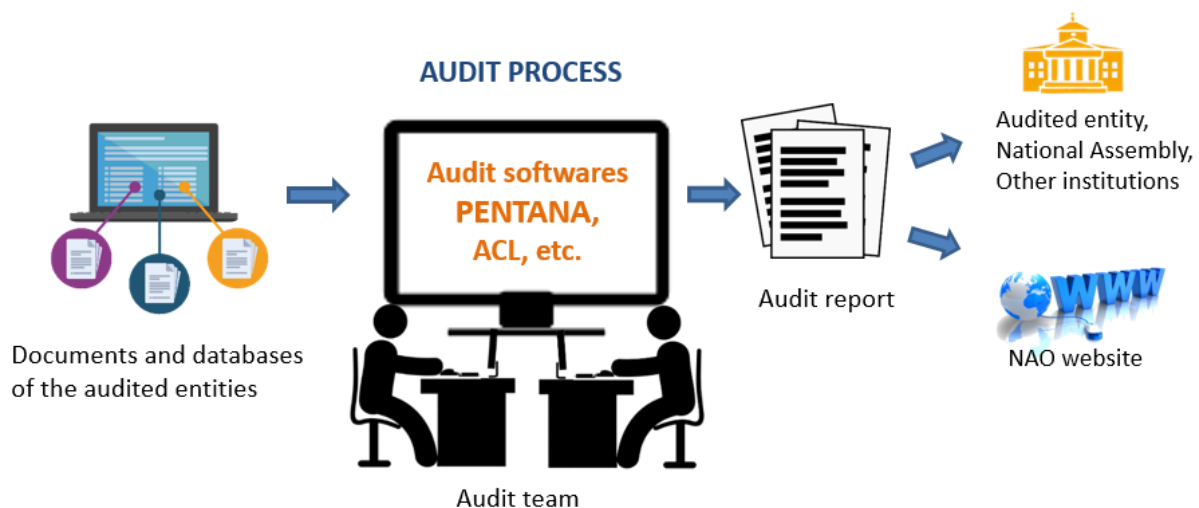
proper response to potential security threats, such as computer crimes, personal data breaches, vandalism, theft, virus attacks, as well as various regulatory requirements.

The information security is ensured through real time monitoring of all critical information assets through a monitoring system. The monitoring system covers a predetermined number of IT assets, of high importance for the National Audit Office, which provides continuous monitoring and control of the status to ensure undertaking of measures in the event of an accident.

The construction of a Centre for Disaster Recovery in the BNAO Regional Office- Lovech was launched. The idea of this centre is to keep electronic archives of the BNAO databases, which can be used for their recovery, if necessary. The increased security of the information infrastructure of the National Audit Office is of particular importance in the conditions of remote work of a large part of the BNAO employees during the emergency epidemiological situation. Therefore, new VPN connections were successfully configured to enable the remote work process of the BNAO employees, thus providing the whole institution with the opportunity for remote work.

In 2021, activities of transferring existing databases to new servers or disk arrays with new operating systems were carried out. A complete transfer of all information systems located on old disk arrays to new ones is carried out.

In 2021, the current Information System for the Audit Activity of the National Audit Office (ISAA) was upgraded, and a database of the performed checks for the implementation of the recommendations has been introduced. Appropriate criteria are to be identified to enable searches to be done on the implementation of the recommendations.

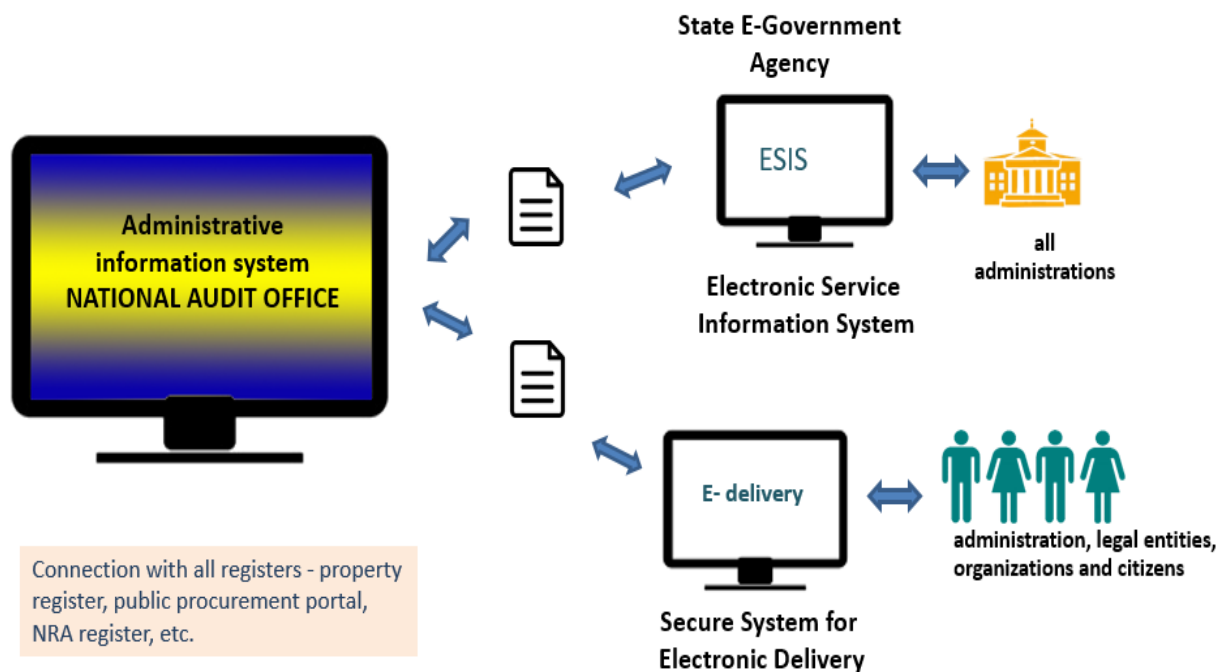


The general information environment for conducting audits is provided by the Pentana audit software as 315 employees having an installed software product, which they use in the audit process. A specialized software for analysis of ACL databases is also used in the BNAO audit activity. An organization 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.

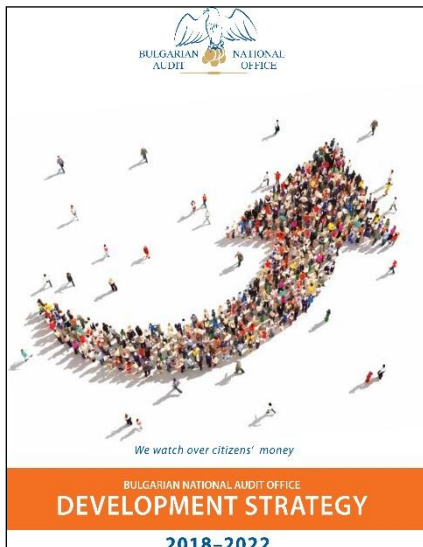
Through the integrated information system, including the office system and the intranet portal, all employees have immediate access to decisions, internal documents, working and external information, including from the media. The experience gained during joint meetings, seminars and other forums of auditors from the National Audit Office with representatives of other SAIs (held mostly online in 2021) 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 NAO'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 plans outlined a tendency to reduce the level of implementation of activities to achieve the strategic goals of the institution, as the main reasons for this are insufficient administrative capacity (lack of sufficient staff with appropriate qualifications) and external factors.

In order to overcome the difficulties that have arisen, BNAO implemented the adopted 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 included 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 and its activities. In this way, 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. A final decision on the prioritization of the strategic goals would have a long-term effect on the BNAO activities, therefore it is more relevant to be taken by the next management team of the National Audit Office.

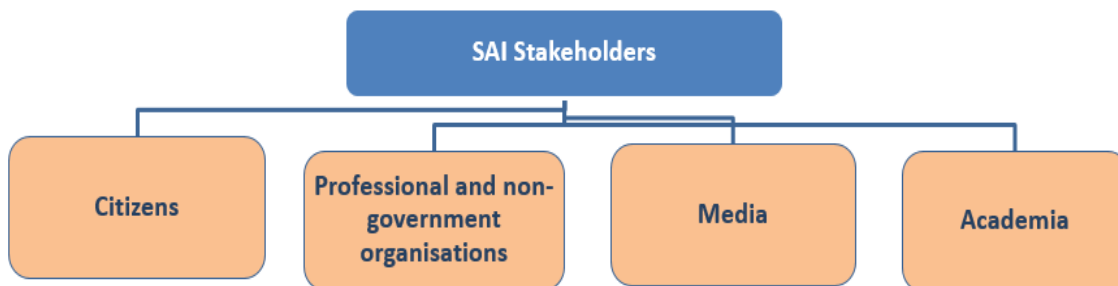
The Bulgarian National Audit Office annually updates its Strategic Audit Plan and applies a flexible approach towards strategic management that allows the institution to remain adequate to emerging risks and to increase the topicality of its audits thus adding value to the main stakeholders and citizens.

COOPERATION

20
21

III. COOPERATION

In 2021, despite the difficult environment and conditions caused by the COVID-19 pandemic, BNAO continued to develop its cooperation with all stakeholders - citizens, professional and non-governmental organizations, academia, media and citizens.



1. STATE INSTITUTIONS, PROFESSIONAL AND NON-GOVERMENTAL ORGANISATIONS

The President of the Bulgarian National Audit Office Tzvetan Tzvetkov and the Minister of Finance Valeri Belchev signed a cooperation agreement, to foster and develop the interaction, coordination and awareness among the Ministry of Finance, the Executive Agency "Audit of European Union Funds", the Public Financial Inspection Agency, and the National Audit Office. The aim is to cooperate more actively at operational level and to reduce the burden on the audited entities and units by minimizing the overlapping in the scope and time of the agencies' checks and BNAO's audits. The document also provides for discussions on emerging issues related to the checked public procurement procedures and creation and maintenance of database.



In 2021, the National Audit Office actively participated in the work of the Expert Council established under Art. 246 of the Public Procurement Act as a permanent body for cooperation among the audit institution, the Public Procurement Agency and the State Financial Inspection Agency. The purpose is unification of the approach of all control institutions at national level on the application of the PPA, as well as strengthening the control at all levels to achieve effective, legal and correct spending of public resources. The National Audit Office approved the Rules of Procedure of the Expert Council, which provide that guidelines with expert opinion on the application of the PPA will be adopted in case of contradictory control practices of the institutions, submission of summarized information on PPA's violations identified by the three institutions every six months.

The BNAO President, Tzvetan Tzvetkov and the BNAO Vice – President, Toshko Todorov, took part in the discussions of the **Consultative Council for Control and Audit in the Public Sector**.



The National Audit Office raised the issue of the need a unified database to be introduced in the municipalities. This database should contain all accounting records on an accrual basis in an appropriate electronic format compatible with the specialized BNAO audit software to allow processing of data and making the necessary analyses. Currently, BNAO reviewed 353 systems of first level budget spenders and found out that 111 systems use different software and 36 do not use any. Data on the realized property and administrative penal responsibility on audit reports sent by the National Audit Office for performed audits in the municipalities, the observance by the municipalities of the financial indicators regulated in the Public Finance Act and most of all - for assuming obligations above the statutory maximum amount were also discussed. Emphasis was put on the audits results in the municipalities, as low collection of local taxes and fees was identified, ranging from 30 to 60%, and in some municipalities - even about 2%.

The President of the National Audit Office **participated in the work** of the Coordination Council for Concessions, which ensures constant coordination and sustainability in the definition and implementation of state policy in the field of concessions. BNAO carries out the follow-up external control of this activity.



Representatives of the **Office of the Organization for Security and Co-operation in Europe (OSCE)**, as part of a temporary mission to monitor compliance with international standards for democratic elections, met with the BNAO's management and representatives of the Specific Audits Directorate to discuss the main points in the legal framework for the financing of the election campaigns of the participants in the elections in 2021, their reporting to the National Audit Office, as well as the overall financial control exercised by the audit institution over the process. At three meetings in connection with the election campaigns for the 2021 National Assembly elections, the representatives of the National Audit Office explained the possibilities of the Unified Register under the Election Code, the deadlines for submitting information by election participants, the BNAO's audit obligations, checks for the correspondences of the donations over 1000 BGN with the amount of the incomes, based on the data presented to the National Revenue Agency and to other competent bodies. The amendments in the Election Code were also discussed, according to which legal entities and sole traders can no longer be donors in the election process. The National Audit Office sent its opinion on the said amendments to the Constitutional Court.

As part of BNAO's cooperation with the non-governmental sector, **the Institute of Market Economics conducted a review of the BNAO audit reports, seventh edition, as part of the study "Successes and Failures of Bulgarian Governments"** and analyzed the work of the central administration. This edition adds up to previous editions by reviewing and grouping new 69 audit reports. Thus, the study comprises all published audit reports on the activities of the central administration until June 30, 2021. The reports included are 1035 in total, cover a period of 23 years of the administration's work and include expenditures amounting nearly to BGN 156 billion of public funds.

Effective cooperation with academia continued. **In a special online meeting on March 1, the President Tzvetan Tzvetkov and the BNAO management presented to students and teachers from 4 universities the activities of the audit institution, as well as the career development opportunities after graduation.** The meeting was attended by representatives



of the University of National and World Economy, the Academy of Economics - Svishtov, the University of Economics - Varna, and the Higher School of Insurance and Finance. The students got acquainted with interesting facts about the history of the National Audit Office over the years, as well as what determines the character of the modern audit institution today - to focus on the problems of citizens and society, to respond quickly

and adequately to challenges and to be fully digitalized. The BNAO President pointed out the advantages of working in an audit institution - a comprehensive picture of government agencies, in-depth knowledge of specific topics and areas, skills for summarizing and analyzing information, continuous professional development, and career opportunities not only within the institution but also within the whole public sector.

The National Audit Office was awarded as a partner of the Academy of Economics "D. A. Tsenov" - Svishtov for effective cooperation, which contributed to the promotion and development of the specialty "Economic and Financial Control", established 30 years ago. The prize was handed over during the International Scientific and Practical Conference "Digital transformation in control and analysis – risk and opportunities". The conference was



organized on the occasion of the 85th anniversary of the Academy and the jubilee of the specialty. During the conference were presented the ways of working in the digital environment of the National Audit Office, which allows the public to receive more and better information about the process of accountability and management of public funds through electronic data processing and analysis.

Within the 10th edition of the national competition "Young Auditor", the BNAO President

Tzvetan Tzvetkov gave a special award to a student from the University of Economics Varna - internship at the National Audit Office. More than 80 students from 9 universities in Bulgaria took part in the competition, and 40 students reached the final stage of the competition. The President of the National Audit Office Tzvetan Tzvetkov was awarded the honorary plaque of the Institute of Certified Public Accountants – ICPA for his contribution to the development of the financial and accounting sphere in the country and for the development of the auditing profession. The award was handed over during the celebrations of the 25th ICPA anniversary, 30 years since the restoration of the auditing profession and 90 years of independent financial audit in Bulgaria. There is a fruitful cooperation established between the National Audit Office and ICPA, aimed at raising the professional qualification and the quality of audit reports

2. INTERNATIONAL ACTIVITY

During the reporting period, the BNAO international activity focused towards achieving the priorities set out in the BNAO Strategic Audit Plan and the strategic goals. The implementation of strategic goal 1.9 – “More active participation in initiatives of the international auditing community that contribute to enhancing BNAO’s institutional and administrative capacity” was achieved through participation of BNAO auditors and employees in 1 Task force (TF), 1 Project group (PG), 3 Working groups (WGs) as well as the EUROSAI Task Force on Audit and Ethics and 6 INTOSAI Working groups.



Globally, the international activity has undergone through a number of changes and adaptations due to the COVID-19 pandemic. That in turn also affected the BNAO international activity. **Almost all international events scheduled for 2021 were held online through virtual platforms and electronic communication.**

Online participation during the reporting period under the EUROSAI Working groups:

- Working meeting and online seminar of the EUROSAI IT Working group;
- Spring session as well as 19th annual meeting of the of EUROSAI WGEA;
- 7th annual meeting of the EUROSAI Working Group on Audit of Funds Allocated to Disasters and Catastrophes;
- 5th annual meeting of the EUROSAI Task Force on Municipality Audit;
- 11th meeting of the EUROSAI Task Force on Audit and Ethics.

BNAO representatives took part in online events under the INTOSAI Working groups:

- 2nd online meeting of the INTOSAI Working Group on SDGs and Key Sustainable Development Indicators;
- 20th annual meeting of the INTOSAI Working Group on Environmental Auditing;
- Annual meeting of the Working Group on Public Debt;
- FIPP web-meetings;
- 30th Annual meeting of the INTOSAI Working Group on IT Audit and virtual seminar;
- 6th Annual meeting of the Working Group on Big Data;
- Webinars under Project 5 “Quarterly Webinars on IT Audit Topic” of the INTOSAI Working Group on IT Audit;
- Two webinars and the 9th International Training Programme organized by the iCED⁸ and the INTOSAI WGEA.

BNAO representatives took part in conferences, seminars, trainings and webinars for knowledge sharing on the topic of integrity; the role of SAIs in improving strategic planning in the government, to the benefit of the citizens; follow-up on the implementation of audit recommendations; management, control and accountability of European funds; innovations in SAIs; innovative SAIs that are flexible, agile and resilient; effective, innovative and relevant audits by promoting and brokering professional cooperation; public debt audit, etc. During the reporting period, the cooperation with the IDI’s Strategy, Performance Measurement and Reporting Initiative (SPMR) continued with BNAO representatives taking part in e-learning courses. BNAO representatives also took part in the IBAN⁹ online meeting with the Competent National Audit Bodies, the meeting of the liaison officers of the SAIs of the EU, two meetings regarding development of a Practical Guide on enhancing the collaboration between SAIs and ACAs, organized by the UNODC, two online events related to the COP 26¹⁰.

⁸ International Centre for Environment Audit & Sustainable Development (iCED), Jaipur (INDIA)

⁹ International Board of Auditors for NATO

¹⁰ UN Climate Change Conference in 2021

The BNAO President took part in a number of high-level events, including:

- conference on SAI independence organised at the initiative of the Polish Supreme Audit Institution. Heads of 12 European SAIs expressed their solidarity with the SAI of Poland and emphasized on the key role of the SAIs independence for effectively carrying out their duties.
- online conference organised by the SAI of Kazakhstan on the occasion of its 25th anniversary. During the event, the BNAO President presented the role of the Bulgarian National Audit Office in auditing the emergency measures related to COVID-19.
- 25th UN/INTOSAI Symposium that was held online and during which the BNAO President presented the challenges faced by the BNAO and the decisions undertaken towards achieving efficient and effective continuation of the activities of the institution during COVID-19 pandemic.
- IDI Masterclass for SAI leaders on the topic of SAI Independence. The initiative aims to enable selected SAI leaders to actively exercise their power and influence on maximizing the degree of independence of their SAI towards having an impact for society.
- annual meeting of the Contact Committee of the Heads of Supreme Audit Institutions of the European Union and the European Court of Auditors. The audit on COVID-19 spending, the new audit approaches and challenges, the funds allocated to the Member States through Next Generation EU were among the main topics discussed during the meeting.



The European Court of Auditors Strategy was presented, while the Heads of the EU SAIs shared their views on key aspects of the upcoming audits of the funds, and more specifically – the funds under the Recovery and Resilience Facility and the National Recovery and Resilience Plans.

In terms of bilateral cooperation, the BNAO continued to actively collaborate with and support the Supreme Audit Institutions of the Balkan countries. The BNAO management took part in official visits to the SAIs of Albania, Montenegro, Croatia and Romania. The main topics discussed during those visits included the role of the SAIs in the financial control over the funds allocated for overcoming the COVID-19 pandemic, as well as the measures undertaken by the SAIs for ensuring continuation and effectiveness of their activities in the context of the pandemic.



Experience on SAI quality management system was exchanged under the bilateral cooperation with the SAI of Netherlands.

Meetings with Ms. Iliana Ivanova, Member of the European Court of Auditors, were held, related to the presentation of the annual report on the implementation of the EU budget for 2019.

The BNAO continued to participate in international coordinated audits related to management of plastic waste, effectiveness of poverty alleviation measures and vocational training of adults.

The BNAO, in collaboration with the State Audit Office of Croatia, carried out an online audit of the of EUROSAI's 2020 statements and related documents through active cooperation and communication with colleagues from the EUROSAI Secretariat.

During the XI EUROSAI Congress, the BNAO was elected Auditor of EUROSAI for a second time.

In terms of operational cooperation, information on different aspects of the audit practices at national level was exchanged as a response to SAIs various surveys and questionnaires. BNAO publications were published in the Task Force on Municipality Audit Newsletter.

The Bulgarian National Audit Office (as junior partner), in consortium with the State Audit Office of Croatia (as lead partner), implements a second twinning project MK 18 IPA FI 03 20 “Improvement of external audit and Parliamentary oversight“. Beneficiary of the project is the State Audit Office Republic of North Macedonia. The project started in February 2021 while the opening ceremony took place in Skopje in July 2021. Under the Twinning Contract, in 2021 BNAO experts took part in working missions in Skopje while representatives



of the State Audit Office Republic of North Macedonia visited the Bulgarian National Audit Office within two study visits and one internship related to pilot audits.

The BNAO representative to the Forum for INTOSAI Professional Pronouncements (FIPP) continued his work in 2021. The role of this permanent INTOSAI body is to provide generally applicable auditing standards for the SAIs. The projects that were implemented in 2021 included overall review of the INTOSAI Standards, ISSAI 150 and its guidelines for auditor competence, updating ISSAI 140 Quality Control for SAIs in relation to the amendments in the International Standard on Quality Management 1 and International Standard on Quality Management 2, GUID 5320 Performance Audit on Privatisation, GUID 5280 Guidance for Audits of Public Procurement and others.

**PUBLICITY
AND TRANSPERANCY**

**20
21**

IV. PUBLICITY AND TRANSPARENCY

In 2021, the BNAO efforts focused on providing good level of public and stakeholders awareness in fulfilling the institution's strategic goals and raising the level of understanding of its activity.

In implementing the National Audit Office Act and by respecting the strategic principle of publicity and transparency, the institution provides complete visibility to the public on the results of its activity by using its webpage as main informational platform for informing the citizens and the society. In 2021, a new webpage was developed with modern and advanced vision, with more effective organization of the users' information and with easier and more user-friendly administration. All of the endorsed audit reports, reports on the follow-up control over the implementation of recommendations, given by the BNAO, information about the handed draft audit reports, protocols and abstracts from the BNAO Board meetings concerning the voting process, information on the international and stakeholders cooperation, information on the career development opportunities etc. are published on the webpage.

The BNAO publishes on its webpage information, templates of documents and instructions



for the election participants in the National Assembly elections on 4 April, 11 July and 14 November 2021, the Presidential Elections on 14 November 2021 and the runoff Presidential elections on 21 November 2021, and for the annual financial reports of the political parties. With the support of the Bulgarian Institute for Legal Initiatives Foundation, under the international project „Combat Against Corruption”, a brochure was issued and sent to the elections participants to assist them to comply with the requirements of the Election Code for providing publicity and transparency regarding the financing of the election campaigns. The reports on revenues, expenditures and commitments assumed in relation to the election campaigns, the donors and the donations were also published. Through its webpage, the BNAO ensured once again transparency of the financial statements of political parties and their donors under the Political Parties Act.

In 2021, the webpage of the Bulgarian National Audit Office was visited 102 671 times which is with around 4500 visits more compared to the previous year. The visitors are 44 357 in total, which is 9000 more compared to 2020.



An increase in the percentage of new visitors is registered – almost 80,7%, which can be explained, on the one hand, with audit reports that provoked high public interest, and on the other hand – with changes in the range of the stakeholders, as well as due to interest shown by young people on the carrier and job opportunities in the BNAO. The share of visitors in active age between 35 and 54 is the highest - 42,74 %. The share of visitors in the age between 25 and 34 also represents a high value - 17,2 %, which indicates that there is an interest from the young people on the carrier and job opportunities in the institution. The highest number of visitors per geographical region on the website of the National Audit Office is from Bulgaria, followed by the United States (853), China (413), United Kingdom (329), Germany, Turkey, North Macedonia, France, Belgium and others are among the number of visitors.

Fifty-two press releases on audits reports as well as on the results of audit and other activity have been prepared. There are 12 interviews in the electronic and printed media. The BNAO also uses Facebook and YouTube to promote the results of its activity and to reach different types of audience by publishing therein information on audit reports, short videos for better understanding, and information on the cooperation with institutions, other SAIs and international organizations.

Under the Access to Public information Act, the BNAO provided access to public information for journalists, citizens and NGOs. The BNAO Annual report under the Access to Public information Act for 2021 is also published on the webpage.

The Book “The National Audit Office and the Progress of Bulgaria” was published on the occasion of the 140th anniversary of the start of operations of the Supreme Chamber of Control. It includes eight interviews with current and former heads of the BNAO since its restoration until now and was presented to employees and media. The interviews that aired on Darik Radio “Sedmitsata” broadcast are with the BNAO Presidents from 1995 until now - Assoc. Prof. Dr. Georgi Nikolov, Prof. Valeriy Dimitrov, Lidia Roumenova, Tzvetan Tzvetkov, the BNAO Vice-Presidents Goritsa Grancharova-Kozhareva and Toshko Todorov, Iliana Ivanova, Member of the European Court of Auditors, and Prof. Daniel Vachkov, Director of the Bulgarian Academy of Sciences Institute for Historical Studies. In the interviews, they share important and little known facts of the history and development of the institution, as well as results related to its audit activities.

Once again, in 2021, on the occasion of its professional day, the BNAO awarded its annual prizes to the best auditors and to a partner institution. **The award for Auditor of the Year 2021 went to Detelina Hadjieva, chief auditor in the Performance Audit Directorate, for her proven**



professional competence, integrity, team leadership skills, creativity, analytic and communication skills, participation in cooperative audits with other SAIs and international twinning projects. During the year, she is a team leader of two performance audits – “Irregularities administration” and “Audit of the Management and Monitoring Information System (UMIS)”.

The 2021 Audit Team of the Year Prize was awarded to the audit team that conducted the audit of Avtomagistrali State Company – Biserka Georgieva, chief auditor and team leader, Virджinia Radulova, chief auditor; Petar Karapaunov, senior auditor second degree; Petya Yordanova, senior auditor-first degree; Tsvetomira Tsvetanova, senior auditor-first degree; Daniela Hadjiyska, trainee auditor; Milena Raykova, chief expert to the Specific Audits Directorate. The prize is awarded for the performed qualitatively and in a short time audit that was assigned by the National Assembly and which results received intensive media coverage.

The 2021 Leader of the Year Prize was awarded to Ekaterina Percheva-Antova, director of the Specific Audits Directorate, for her overall effective work throughout the year on the organisation of the audit process within the Directorate and for conducting compliance audits on the declared revenues and the expenditures incurred in relation to the election campaign for the 3 National Assembly elections and Presidential elections in 2021.

The Public Financial Inspection Agency was awarded “Partner of the Bulgarian National Audit Office for 2021”. The prize is awarded for the effective cooperation in the field of control over public procurements.











In 2021, 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 new conditions caused by the COVID-19 pandemic were a challenge but also an opportunity for the Bulgarian National Audit Office to modernize and introduce internal reforms which would make the SAI resilient to future crises. In 2021, the Bulgarian National Audit Office was increasingly using electronic communication technologies, including for acquiring audit evidence thus upgrading the long-term usage of auditing software in its audit activity.

The Bulgarian National Audit Office continued to add value for the society and to contribute towards achieving the ultimate goal of its work - improving the life of the citizens.

Annex 1

RESULTS OF THE ACTIVITIES OF THE BULGARIAN NATIONAL AUDIT OFFICE AS A COLLEGIAL BODY				
Activities	Measure	2021	2020	Change
I. Board Meetings held	Number	49	49	
1. Decisions		<u>514</u>	<u>497</u>	
1.1 Adopted audit reports - assigned with a decision of the National Assembly		<u>322</u>	<u>308</u>	
1.2 terminated audit tasks		1	-	
1.3 Amendments in the annual audit programme	Number	2	-	
1.4 Reports on the results of the performed checks for implementation of recommendations		7	7	
1.5 concerning internal acts		61	43	
1.6 others		23	17	
2. Adopted audit reports and opinions		<u>98</u>	<u>122</u>	
2.1 CAFM		<u>332</u>	<u>315</u>	
2.1.1 CAFM I		<u>29</u>	<u>35</u>	
2.1.2 CAFM II		<u>19</u>	<u>24</u>	
		<u>10</u>	<u>11</u>	
2.2 PA		6	7	
2.3 SA (including 1 report on audit assigned with a Decision of the National Assembly)	Number	11	9	
2.4 AFS				
2.4.1 FA I		<u>286</u>	<u>264</u>	
- unmodified opinion		155	137	
- modified opinion		147	125	


RESULTS OF THE ACTIVITIES OF THE BULGARIAN NATIONAL AUDIT OFFICE AS A COLLEGIAL BODY				
Activities	Measure	2021	2020	Change
-adverse opinion		6	10	
2.4.2 FA II		2	2	
- unmodified opinion		131	127	
- modified opinion		96	107	
- adverse opinion		30	19	
- disclaimer of opinion		4	-	
		1	1	
3. Disclosed information from BNAO Board Meetings				
3.1 audit reports and opinions		332	315	↑
3.2 protocols		49	49	
II. Notified Bodies				
1. Reports forwarded to the National Assembly:		<u>21</u>	<u>19¹¹</u>	↑
1.1 President		<u>16</u>	<u>7</u>	
- audit reports		10	7	
- reports on the results of the conducted checks on the implementation of recommendations		2	-	
- other reports		4	-	
1.2 Committee on Culture and Media to the 44 th National Assembly (report for recommendations)	Number	1	-	
1.3 Committee on Culture and Media to the 46 th National Assembly (audit report)		1	-	

¹¹ The Reports are forwarded to the Parliamentary Committees of the 44th National Assembly

RESULTS OF THE ACTIVITIES OF THE BULGARIAN NATIONAL AUDIT OFFICE AS A COLLEGIAL BODY				
Activities	Measure	2021	2020	Change
1.4 Committee on Budget and Finance – report on the outcomes of the FA		1	3	
1.5 Committee on Personal Data Protection to the 46 th National Assembly (audit report)		1	-	
1.6 Committee on Environment to the 46 th National Assembly (audit report)		1	1	
1.7 Committee on the EU Affairs and Control over the EU funds		-	4	
1.8 Committee on the Revenue Agencies and Combating the Parallel Economy and Smuggling		-	1	
1.9 Committee on Regional Policy and Local Self-Government		-	1	
1.10 Committee on Labour, Social and Demographic Policy		-	2	
2. Reports forwarded to the Council of Ministers:		146	96	↑
2.1 Prime Minister		18	4	
- audit reports		2	2	
- reports on the results of the conducted checks on the implementation of recommendations	Number	16	2	
2.2 Deputy Prime Minister for EU funds (audit reports)		3	3	

RESULTS OF THE ACTIVITIES OF THE BULGARIAN NATIONAL AUDIT OFFICE AS A COLLEGIAL BODY				
Activities	Measure	2021	2020	Change
2.3 MRDPW		<u>5</u>	<u>4</u>	
-audit reports		2	2	
- reports on the results of the conducted checks on the implementation of recommendations		3	2	
2.4 MC		<u>5</u>	<u>2</u>	
-audit reports		3	2	
- reports on the results of the conducted checks on the implementation of recommendations		2	-	
2.5 MLSP		<u>10</u>	<u>3</u>	
-audit reports		7	3	
- reports on the results of the conducted checks on the implementation of recommendations		3	-	
2.6 MYS		<u>2</u>	<u>1</u>	
- audit reports		1	1	
- reports on the results of the conducted checks on the implementation of recommendations		1	-	
2.7 MES		<u>46</u>	<u>40</u>	
- audit reports		45	40	
- reports on the results of the conducted checks on the implementation of recommendations		1	-	
2.8 MFA		<u>1</u>	<u>2</u>	
- audit reports		1	1	
- reports on the results of the conducted checks on the implementation of recommendations		-	1	

RESULTS OF THE ACTIVITIES OF THE BULGARIAN NATIONAL AUDIT OFFICE AS A COLLEGIAL BODY				
Activities	Measure	2021	2020	Change
2.9 MF		<u>9</u>	<u>5</u>	
- audit reports		8	5	
- reports on the results of the conducted checks on the implementation of recommendations		1	-	
2.10 MTITC		<u>6</u>	<u>2</u>	
- audit reports		2	1	
- reports on the results of the conducted checks on the implementation of recommendations		4	1	
2.11 ME		<u>6</u>	<u>7</u>	
- audit reports		6	5	
- reports on the results of the conducted checks on the implementation of recommendations		-	2	
2.12 MEn		<u>4</u>	<u>3</u>	
- audit reports		2	3	
- reports on the results of the conducted checks on the implementation of recommendations		2	-	
2.13 MJ		<u>2</u>	<u>2</u>	
- audit reports		2	2	
- reports on the results of the conducted checks on the implementation of recommendations		-	-	
2.14 MAFF		<u>9</u>	<u>2</u>	
- audit reports		4	2	
- reports on the results of the conducted checks on the implementation of recommendations		5	-	

RESULTS OF THE ACTIVITIES OF THE BULGARIAN NATIONAL AUDIT OFFICE AS A COLLEGIAL BODY				
Activities	Measure	2021	2020	Change
2.15 MoEW		<u>9</u>	<u>6</u>	
- audit reports		<u>3</u>	<u>3</u>	
- reports on the results of the conducted checks on the implementation of recommendations		<u>6</u>	<u>3</u>	
2.16 MH		<u>4</u>	<u>4</u>	
- audit reports		<u>3</u>	<u>2</u>	
- reports on the results of the conducted checks on the implementation of recommendations		<u>1</u>	<u>2</u>	
2.17 MI		<u>1</u>	<u>2</u>	
- audit reports		<u>1</u>	<u>2</u>	
- reports on the results of the conducted checks on the implementation of recommendations		-	-	
2.18 MD		<u>6</u>	<u>4</u>	
- audit reports		<u>6</u>	<u>3</u>	
- reports on the results of the conducted checks on the implementation of recommendations		-	<u>1</u>	
III. Reports forwarded to local authorities		<u>363</u>	<u>213</u>	
1. Mayors		<u>296</u>	<u>175</u>	
- audit reports		<u>224</u>	<u>153</u>	
- reports on the results of the conducted checks on the implementation of recommendations	Number	<u>72</u>	<u>22</u>	
2. Chairmen of the Municipal Councils		<u>67</u>	<u>38</u>	
- audit reports		<u>22</u>	<u>16</u>	

RESULTS OF THE ACTIVITIES OF THE BULGARIAN NATIONAL AUDIT OFFICE AS A COLLEGIAL BODY				
Activities	Measure	2021	2020	Change
- reports on the results of the conducted checks on the implementation of recommendations		45	22	
IV. Notified government institutions (number of reports)		<u>113</u>	<u>86</u>	↑
1. Reports forwarded to the Prosecutor's office		<u>3</u>	<u>6</u>	↓
- SA	Number	1	-	
- FA 2		2	3	
- CAFM 1		-	2	
- CAFM 2		-	1	
2. Reports forwarded to the PFIA		<u>108</u>	<u>78</u>	↑
- CAFM 1	Number	22	16	
- CAFM 2		5	7	
- FA 2		81	55	
3. Reports forwarded to the NRA		<u>2</u>	<u>2</u>	
- PA, reports on the results of the conducted checks on the implementation of recommendations	Number	1	1	
- FA 2, audit reports		1	1	
V. Replies from the notified authorities on actions undertaken		<u>129</u>	<u>70</u>	↑
- Prosecutor's Office	Number	2	5	
- PFIA		127	65	
- NRA		-	-	



10329

31518

84

www.bulnao.government.bg