

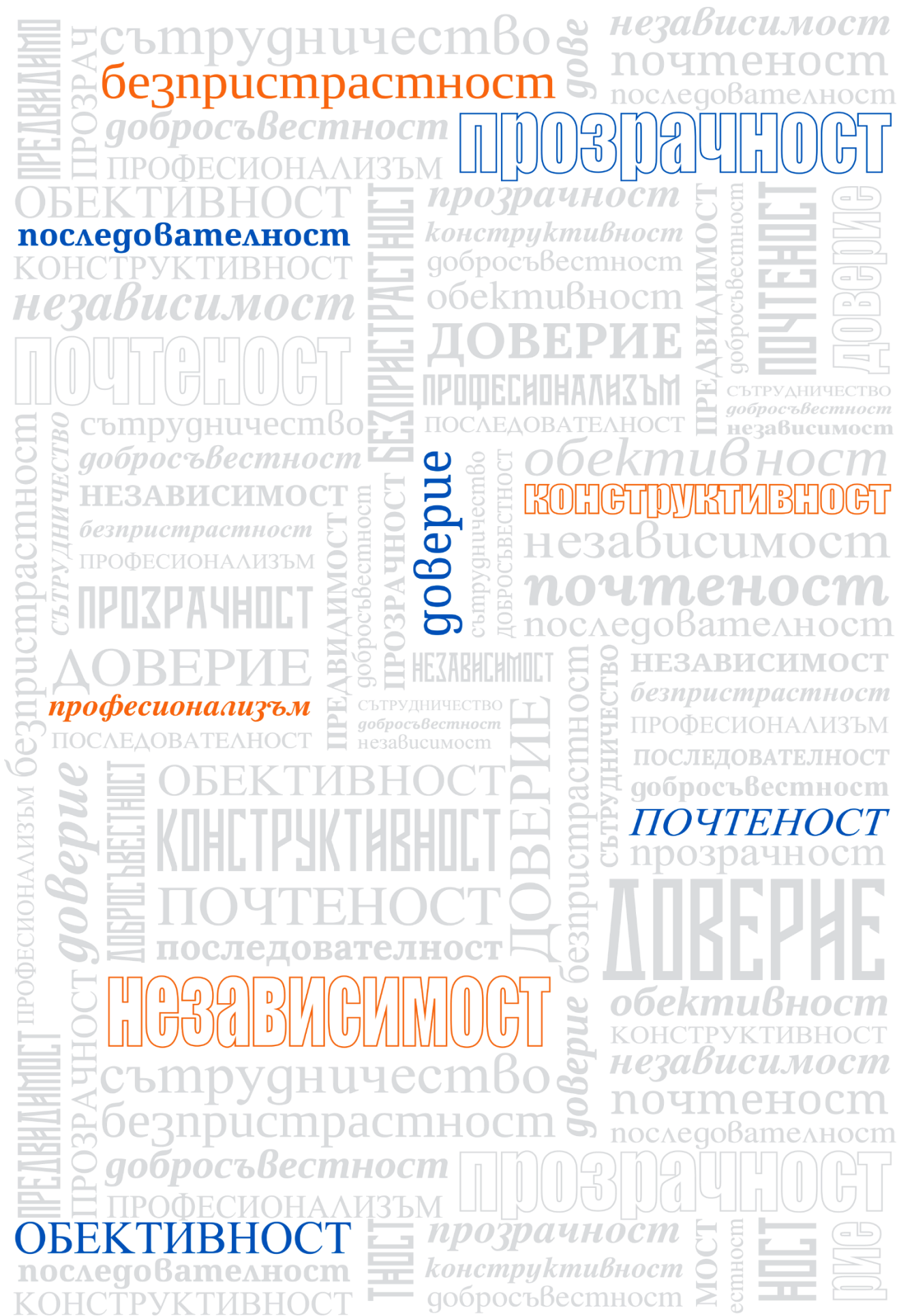


# ANNUAL REPORT

of the Bulgarian National  
Audit Office

2022

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# **2022 Annual Report**

## **of the Bulgarian National Audit Office**



*Esteemed Members of Parliament,*

*I hereby submit the 2022 Annual Report of the Bulgarian National Audit.*

During the reporting year, the Board of the Supreme Audit Institution endorsed 309 audit reports – an outcome of the efforts and professionalism of its auditors through which the SAI continuously contributes to improving accountability, compliant, effective, efficient and economic management of public resources. BNAO continued to provide reliable information to Parliament, other supervisory bodies and the executive power aiming to achieve its ultimate goal - improving the standard of living of Bulgarian citizens.

As of the end of 2022, there was a delay in the implementation of 57 audit engagements, which was overcome through September 2023 thanks to the introduction of adequate organizational interventions.

This report contains information on the most important deficiencies in the functioning of audited entities. It identifies groups of errors and irregularities in the financial statements and provides information regarding the misstatements, which were corrected in the course of BNAO's audits accounting for roughly 2.75 billion BGN. All this contributed to the significant increase in the number of financial statements providing true and fair representation of the financial position, financial performance, and cash flows of public sector entities. The report also contains analytical information deriving from the performance and specific audit engagements with references to the relevant reports published on our web page.

The Bulgarian National Audit Office engages in active cooperation with other Bulgarian institutions and with its partners from the international audit community. It continued its collaboration with the European Court of Auditors during ECA's audits in Bulgaria. In discharging BNAO's obligation as EUROSAI auditor, our representatives participated in an on-site audit of the EUROSAI 2021 reports and related documents.

The added value of BNAO's audits is achieved primarily thanks to the implementation of our recommendations. In 2022, the share

of recommendations implemented by the audited entities increased to reached 73% - an indication of the audited entities' trust in the professionalism and objectivity of our audit professionals.

Together with the positive outcomes, the complex macro-economic situation in 2022 revealed some risks to BNAO's capacity to ensure long term broad audit coverage and add value for the public sector entities and the Bulgarian citizens. The inflation pressure on our budget added to the negative trend observed in recent years towards a reduction of our auditing staff, while a large number of BNAO's resigning employees seek career development in other public entities. We expect this negative trend to be discontinued thanks to the 2023 Budget Law passed by Parliament providing for additional financial allocations for the development of BNAO's administrative capacity.

On behalf of the BNAO's management I assure you that the Supreme Audit Institution of the Republic of Bulgaria has been and will remain an independent and reliable source of information to Parliament regarding the financial accountability of public sector entities, and the compliant, effective, efficient and economic management of public funds and conduct of public business.

I hereby submit the 2022 BNAO report to Parliament in line with article 64, paragraph 1 of the Bulgarian National Audit Office Act.

*Sincerely,*  
*Dimitar Glavchev*  
*President of BNAO*

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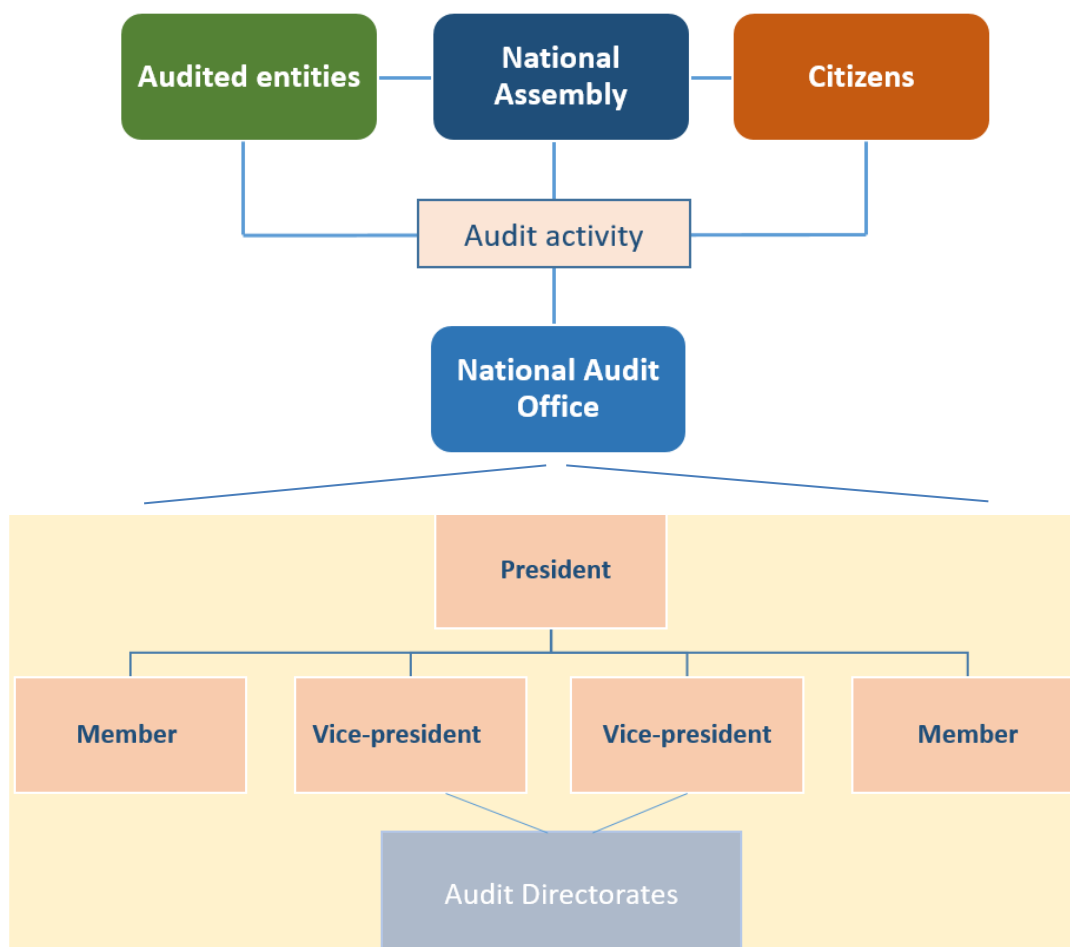
**OPERATIONS  
OF THE NATIONAL  
AUDIT OFFICE**

## I. OPERATIONS OF THE NATIONAL AUDIT OFFICE

### 1. BACKGROUND

The Bulgarian National Audit Office (BNAO) is an independent institution, exercising control over the reliability and validity of the financial statements of public sector entities and the compliant, effective, efficient and economic management of public funds and conduct of public business. It reports thereof to the National Assembly providing it with reliable information.

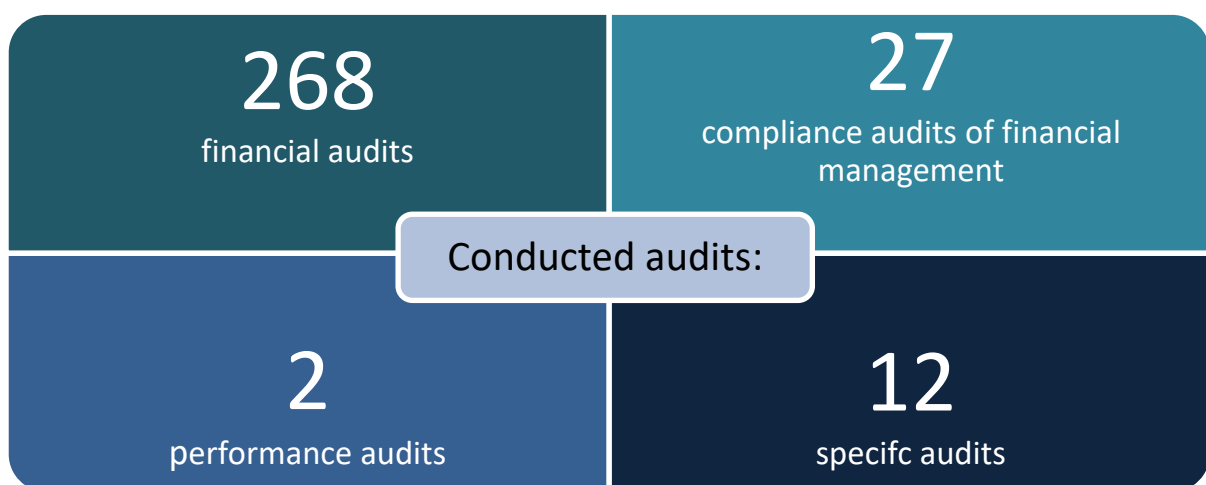
The collegial body of the National Audit Office consists of a President, two Vice-Presidents and two Members nominated by Parliament. The President manages and organizes the conduct of BNAO's operations, while the Vice-Presidents are responsible for organizing the audit function and for quality assurance. The Members are representatives of professional organizations – the Institute of Chartered Accountants and the Institute of Internal Auditors in Bulgaria. They participate in BNAO's Board meetings and in the endorsement of the audit reports. The National Audit Office adopts its decisions through open vote where a majority of four votes is required.





In 2022, BNAO continued to perform successfully its audit function, albeit in the conditions of the COVID-19 pandemic, thanks to the extensive use of e-communication tools, incl. for evidence gathering. Until the end of the lock-down period, BNAO applied a hybrid working model, while after the month of April it resumed its regular office work.

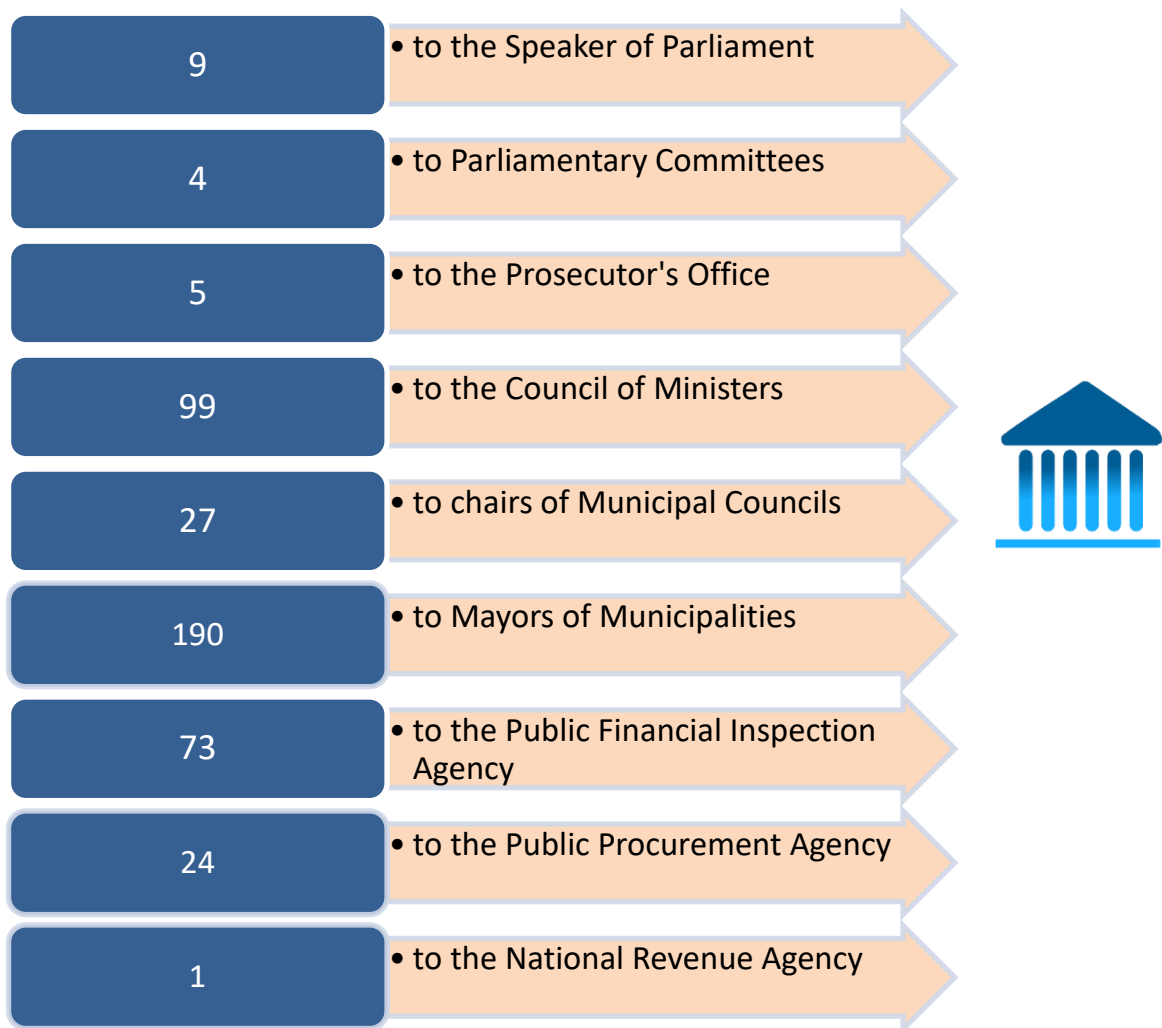
Between 01/01/2022 and 31/12/2022, BNAO's Board held 48 sessions passing in total 460 decisions, endorsing 27 compliance audit reports, 2 performance audit reports, and 12 specific audit reports. Based on the audits of annual financial statements of the public sector entities, the Board endorsed a total of 268 financial audit reports.



Nine audit reports were referred to the Speaker of Parliament, and another four to relevant Parliamentary Committees as follows:

- Budget and Finance Committee - 1 report;
- Labor, Social and Demographic Policy Committee - 1 report;
- Regional Policy, Public Works and Local Government Committee - 1 report;
- Internal Security and Public Order Committee - 1 report.

Through this process BNAO provided the National Parliament with reliable information for the purposes of parliamentary control.



Five audit reports were submitted to the Prosecutor's Office because they contain information of suspected criminal offences. Ninety-nine reports were submitted to the Council of Ministers, another 27 to chairs of municipal councils, and 190 to municipal mayors. Due to information regarding infringements, 73 reports were referred to the Public Financial Inspection Agency, 24 reports to the Public Procurement Agency, and 1 report to the National Revenue Agency.

The above numbers are excluding the reporting on the follow up of recommendations.

## 2. OUTCOMES OF THE FINANCIAL AUDITS

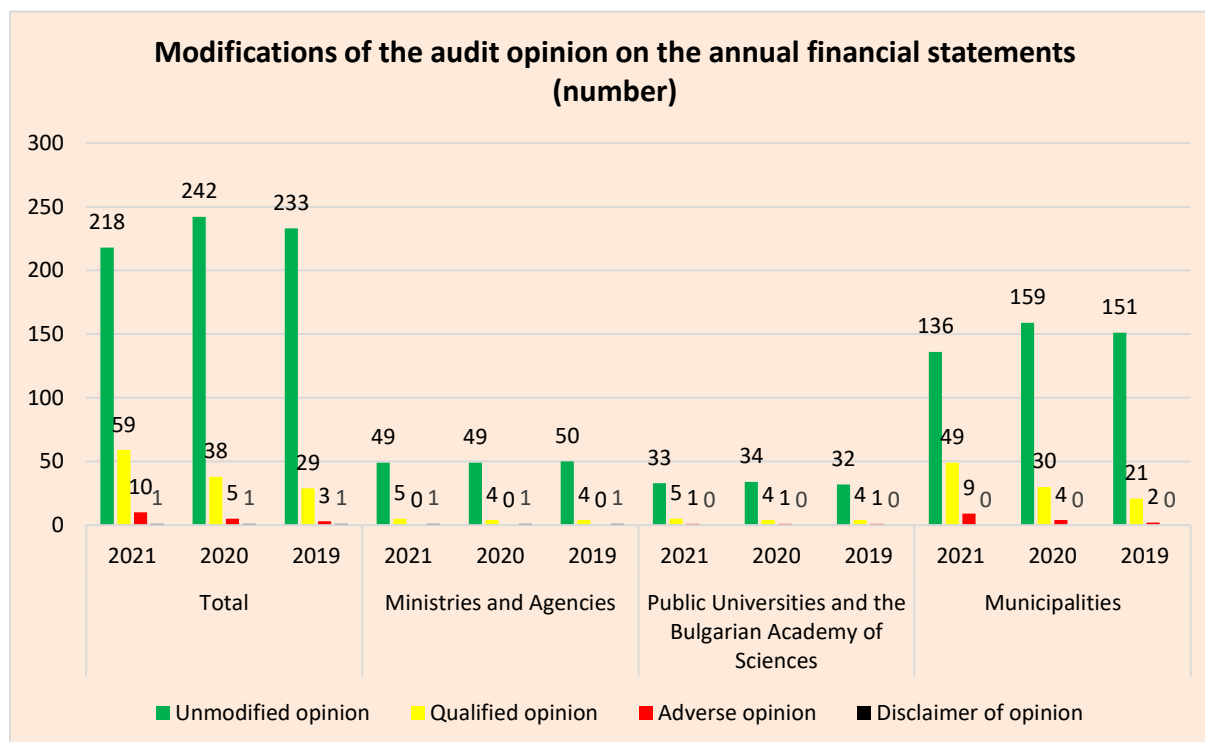
In 2022, BNAO conducted audits of the 2021 annual financial statements of public sector entities. Financial auditing is **an expression of an independent audit opinion with a reasonable degree of assurance** on whether the annual financial statements of public sector entities are in line, in all material aspects, with the generally applicable financial reporting framework. Therefore, the audit opinion on them does not express certainty about the future viability of the entity, nor about how efficiently or effectively the public sector organization manages the conduct of its business. It rather **helps increase the users' confidence** in the information contained in the financial statements.

In line with the Internationally accepted standard of auditing, the auditors are required to express an opinion, once they have obtained **reasonable assurance** whether the financial statements as a whole contain any material misstatements, regardless of whether they are due to fraud or error. The audit opinion may be unmodified, modified or adverse. **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 to the users. A financial statement on which the National Audit Office has expressed an unmodified opinion **provides a true and fair representation** of the financial position, financial performance and cash flows of the public sector entities. **A modified audit opinion** is expressed when the **audited financial statements contain material misstatements** or omission of important non-financial information, **whose impact is not pervasive**. Financial statements on which the National Audit Office has issued a qualified opinion **provide true and fair presentation** of the financial position, financial performance, and cash flows of the public entities, **except to the effect of the misstatements or omissions**. **An adverse opinion** is issued when **the audited financial statements contain material misstatements or omissions** of important non-financial information that have a **pervasive effect**. A financial statement on which the National Audit Office has expressed an adverse opinion **does not provide true and fair representation** of the financial position, financial performance, and cash flows of the public sector entity. In rare occasions, when the **circumstances<sup>1</sup>, prevent the auditor from performing the necessary audit procedures**, the National Audit Office issues a **disclaimer of opinion**. When the National Audit Office has issued a disclaimer of opinion on a set of financial statements, it is **impossible to conclude whether those statements provide a true and fair representation** on the financial position, financial performance and cash flows of the respective public sector entity.

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<sup>1</sup> 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.

Figure 1



BNAO's Board endorsed a total of 288 reports<sup>2</sup> on the audits of the 2021 financial statements of public sector entities. The largest portion of audit opinions are unmodified accounting for 76% of all issued opinions<sup>3</sup> on the annual financial statements (see Fig. 1). This high percentage is partially due to the possibility offered to the audited entities **to correct** in the course of the financial audits **the misstatements identified by the auditors**. The purpose of these corrections is to ensure **that the annual financial statements provide a true and fair representation of the financial position, financial performance and cash flows** of the public sector entities, and hence serve as a **reliable basis informing the managerial 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 reporting, which depends to a large extent on the nature of the financial reporting framework**.

<sup>2</sup> These reports on the financial audits were endorsed in 2022 and 2023.

<sup>3</sup> Compared to other EU SAIs, BNAO issues a relatively high percentage of unmodified opinions.

There has been an increase in recent years in the number of modified audit opinions concerning the audit of financial statements of municipalities (from 13 % in 2019, through 18% in 2020, to 30% in 2021), which results in a significant rise in the total number of modified opinions. A contributor to this reported trend are the audits on the financial statements of municipalities whose budget is below 10 million BGN, where the probability of misstatements is high due to the fact that these audits are not performed annually but rather over longer periods and/ or based on risk assessment.

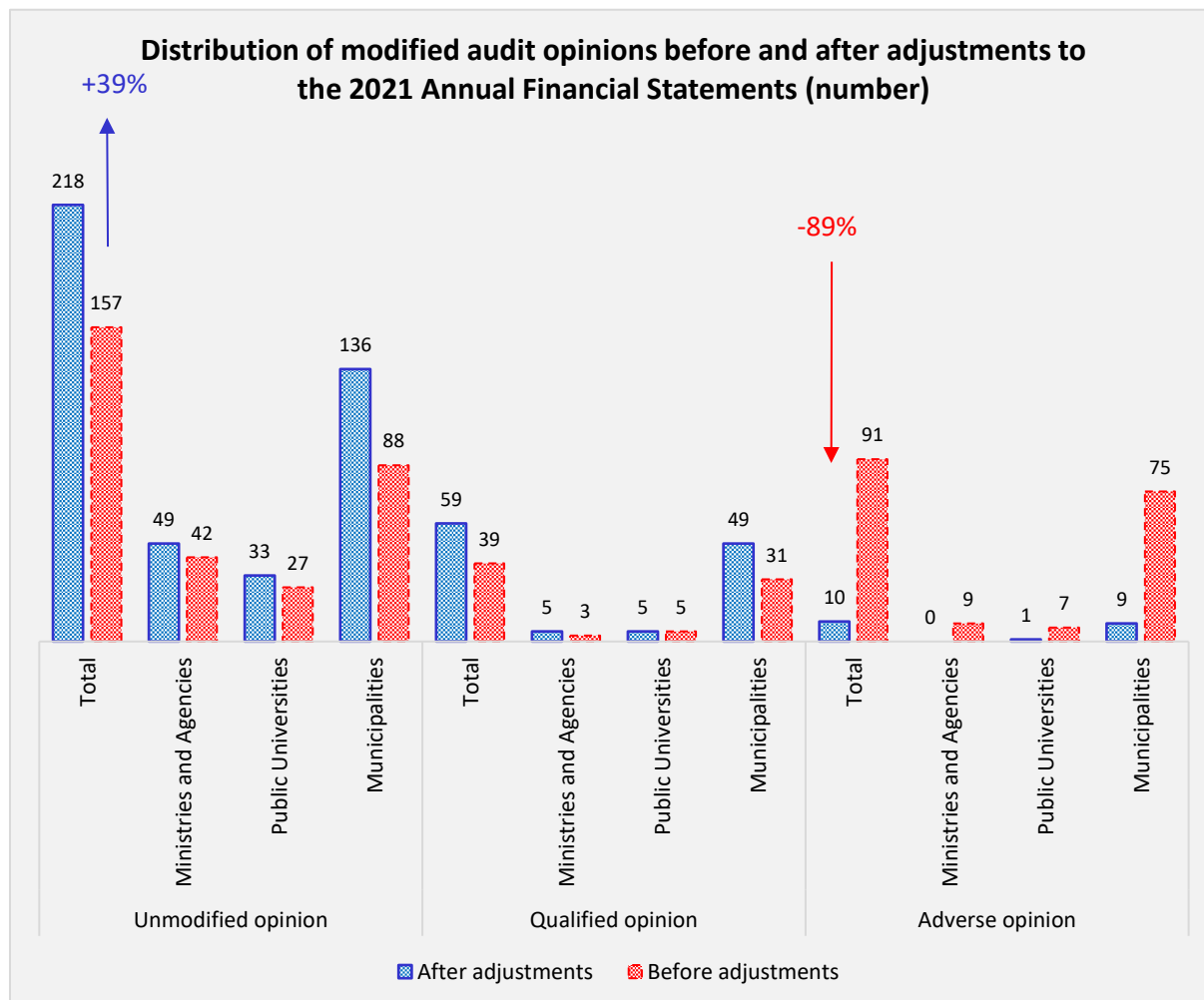
Figure 2 shows the **positive impact of corrections<sup>4</sup>** of misstatements introduced in the course of the financial audits on the reliability of information contained in the annual financial

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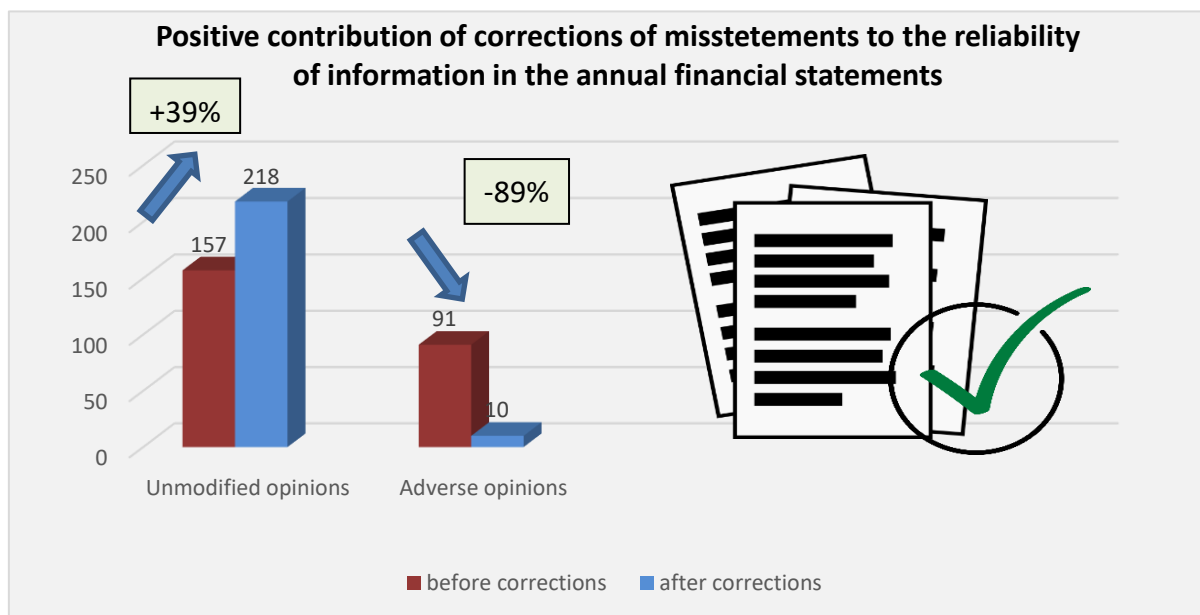
<sup>4</sup> The number of modified opinions before corrections is calculated based on the assumption that the only factor informing the type of audit opinion modification is the number of identified misstatements relative to a certain materiality level for the said financial statements. There are several important limitations to this approach: first, it does not account for the possible different materiality levels for the separate classes of transactions and operations; second – it does not consider the material misstatements; and third, it does not enable factoring in of the potential disclaimers of opinion. Each of these factors may serve as additional grounds for modification to the audit opinion, and, 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.

statements and on the number of modifications of the audit opinions expressed in 2021.

Figure 2



Without these corrections, BNAO would have expressed **adverse opinions** on the financial statement of 91 public sector entities and **modified opinions** regarding the financial statement of 39 public sector entities. **The corrections led to a reduction in the number of adverse opinions by 89%, while the number unmodified opinions increased by 39%.** In other words, **the corrections of the misstatements identified by the BNAO resulted in a significant increase in the number of financial statements that provide a true and fair representation of the financial position, financial performance 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 48, i.e. 55%.



In forming its opinion, the Audit Office determines the impact of each accounting error based on its effect on the audited annual financial statement. In turn, the occurrence of errors is highly dependent on the effective accounting principles. The amount of the error is not a determining factor in itself. Some errors do not affect the sums reported in the financial statements. They have a zero effect and are not taken into consideration in forming the audit opinion. Other errors affect the amounts in the financial statements and result in misstatements. **One error may affect several positions in the annual financial statement, i.e. it may result in several misstatements.** The effect of the errors on the financial statement is determined based on a set of rules, such as:

- Reporting an amount in the wrong class – one misstatement in one out of two accounting classes;
- Parallel errors in the cash and accrual basis reporting – as many misstatements as the number of affected positions in the annual financial statement;
- An error affecting both the Income and Balance Sheet statements – identification of misstatements both in the Income Statement and the Balance Sheet.

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

The following classes of errors and irregularities were identified in the financial statements, and have remained **uncorrected**:

- **Wrong application of accounting principles**, incl. the accrual basis principle. E.g. the wrong accrual of the interest on receivables and payables at the time of their payment, and not at the time they became due.
- **Inaccurate calculation of amortization costs** after the occurrence of events resulting in changes to the amortization schedule (overhaul, impairment, etc). This affects both the amortization costs and the carrying value of non-financial non-current assets (also

identified during the audits of the 2020, 2019, 2018 and 2017 annual financial statements).

- ***Incorrect classification of assets, liabilities, revenues, expenses and transfers*** within the Public Sector Chart of Accounts and the Uniform Budget Classification (also identified during the, 2020, 2019, 2018, 2017 and 2016 annual financial statements audits) resulting in misstatements in the balance sheet, income statement and budget execution statement.
- ***Incorrect reporting of bank guarantees and commitments*** (also identified in the course of the audits of 2020, 2019, 2018, 2017 and 2016 annual financial statements), resulting in under or overstatement of off-balance sheet assets and liabilities.
- ***Failure to disclose the changes in the holdings of public sector entities*** (also identified during the audits of the, 2020, 2019, 2018, 2017 and 2016 annual financial statements). This results in misstatements of equity and related revenues in the annual financial statements.
  - ***Incorrect recognition of advance payments*** as current-period expenditure (also identified during the audits of the, 2020 and 2018 annual financial statements), which results in understating of the public entity's receivables for the respective period and overstating its expenditure.
  - ***Failure to capitalize or recognize timely the costs for overhauls*** in the value of assets resulting in non-compliance with the requirements for the onset of depreciations;
  - ***Failure to provision the receivables*** on loans, advance payments sales and other estimates that are subject to provisioning for possible non-performance resulting in understating the provisioning costs.

In the course of audits of the financial statements part of the errors and irregularities in the financial statements of ministries, agencies, and public universities were corrected, such as:

- ✓ Correction of amortization expenses to ensure fair representation of the carrying amount of depreciable assets (also corrected in the course of the audits of the, 2020, 2019 and 2018 annual financial statements);
- ✓ Recognition of undisclosed assets, liabilities, revenues, and expenses (also corrected in the course of the audits of the, 2020, 2019, 2018, 2017 and 2016 annual financial statements). These corrections ensured fair representation and full disclosure in the financial statements.
- ✓ Correction of errors (mainly technical) in the templates provided by the Ministry of Finance to ensure fair representation (also corrected in the course of the audits of the, 2020, 2019, 2018 and 2017 annual financial statements).
- ✓ Revising the classification of assets, liabilities, revenues, expenses and transfers in the Public Sector Chart of Accounts and the Uniform Budget Classification (also adjusted in the course of the audits of the 2020, 2019, 2018, 2017 and 2016 annual financial statements), thus ensuring adequate disclosures in the Balance Sheet, Income and Budget Execution Statements. In 2021, around 91% (294,975 thousand BGN) of the reported revaluations and other events in the Income Statements were due to misstatements made by five central



agencies and one public university.

Concerning the identified instances of non-compliance with the laws and regulations, BNAO applied article 57, paragraph 1 of the National Audit Office Act and referred the cases to the relevant competent authorities for taking the necessary measures (Public Financial Inspection Agency – concerning six ministries and agencies and one public university, and the Prosecutor’s Office – concerning one central agency).

In applying article 49, paragraph 3 of the National Audit Office Act, in 2022 BNAO submitted some of its audit reports to other competent authorities for information or taking the necessary measures (to the Ministry of Finance – concerning two central agencies and to the National Revenue Agency - concerning one central agency).

## 2.2. Systemic weaknesses identified during the financial audits of municipalities

The following classes of errors and irregularities were identified in the financial statements and have remained **uncorrected**:

- Miscalculation of depreciation costs following events resulting in a revision of the depreciation schedule (overhaul, impairment, etc.). Failure to perform depreciation of depreciable noncurrent non-financial assets, and failure to write off the accumulated depreciation of assets that have been sold or written off. Incorrect depreciation of noncurrent non-financial assets resulting from the inadequate calculations of their useful life (not taking into consideration the year of acquisition, the physical wear and tear, and obsolescence), and failure to calculate the assets’ residual value. Incorrect identification of parameters in the depreciation schedule and/ or non-approved approaches to selecting measures within the approved depreciation policy. This affects both the depreciation expenses and carrying values of noncurrent non-financial assets (also identified during the audits of the, 2020, 2019, 2018 and 2017 annual financial statements).
- Incorrect classification of assets, liabilities, revenues, expenses and transfers in the Public Sector Chart of Accounts and the Uniform Budget Classification (also identified during the audits of the, 2020, 2019, 2018, 2017 and 2016 annual financial statements), which results in misstatements in the Balance Sheet, Income Statement and Budget Execution Statement;
  - Misstatements of municipal holdings in commercial entities and failure to disclose the changes therein (also identified during the audits of the, 2020, 2019, 2018, 2017 and 2016 annual financial statements) resulting in unfair representation of such investments and the related revenue.
  - Absence of stock-taking of assets and liabilities, incl. costs for assets whose acquisition was pending during previous reporting periods (also identified during the audits of the, 2020 and 2019 annual financial statements), indicating the inability of internal controls to verify the information contained in the financial statements.
  - Non-disclosed or misstated commitments (undertaken or implemented) and new liabilities, which usually results in understating of expenditure and balance-sheet and off-balance sheet liabilities (also identified during the audits of the, 2020 and 2019 annual financial statements).
  - Incomplete disclosure of the current positions and changes regarding the assets, liabilities, revenues, and expenditure thus preventing the financial statement users from

making well informed decisions (also identified during the audits of the, 2020 and 2019 annual financial statements).

- Incorrect reporting of changes to the purpose of municipal-owned estate recognized during earlier reporting periods. Incomplete reporting in the accounting registers and the Balance Sheet Statement of all estate and assets. Recognizing municipal-owned estate at tax value rather than at fair value, oftentimes disclosing significantly lower values, and thus understating the assets (also identified during the audits of the 2020 annual financial statements).

- Misrepresentation of funds received and spent under EU-funded programs – advance payments and off-balance sheet statistical reporting at the expense of the beneficiaries, the EU and other donor organizations. Delayed relocation of acquired assets from the “*EU Funds*” reporting group into “*Budget or Other Accounts and Operations*” reporting group. This results in misstatements in the Balance Sheet, Income and Budget Execution Statements.

- Capital expenditure for construction works and overhauls of long-term tangible assets have not been recognized in the relevant accounts in accordance with the degree of works completion (respectively as assets and/ or construction in progress, production or overhaul). Some statements contain positions for long-term assets in the process of acquisition in the absence of reliable data for their disclosure in the balance-sheet statement. Misstated expenditures for overhaul of long-term assets reported on accrual or cash basis. Failure to capitalize infrastructure sites under the “*Other Accounts and Operations*” reporting group. All that results in understatement or overstatement of assets in the Balance Sheet and the depreciation costs (also identified during the audits of the , 2020, and 2019 annual financial statements).

- Missing or superficial reviews for impairment or revaluation of long-term assets. Inadequate approaches applied to the impairment reviews using the carrying value of the long-term assets for comparison purposes rather than their carrying value. Lack of adequate approach for follow-up revaluations of long-term assets in the accounting policies.

- Failure to apply the linear method in recognizing revenues generated from the rights of use of assets provided under the agreements with the Water Supply Operators under article 198o, paragraph 1 of the Waters Act. This results in misstatements of positions in the Balance Sheet and Income Statements.

- Absence of analyses of the advance payments to contractors for the purposes of drawing up estimates of the acquisition costs. Absence of accounting estimates for construction works in progress which usually results in understating the assets and overstating the liabilities.

- Failure to write off expired bank guarantees.

- Failure to classify loans and debt based on remaining time to maturity – short-term and long term, as well as the present share of long-term loans.

- Missing underlying documents for the economic transactions resulting in disclosure in the annual financial statement of non-corroborated amounts (also identified during the audits of the, 2020, 2019 and 2018 annual financial statements).

- Non-compliance with the requirements contained in the approved and applied policies for provisioning of receivables on direct loans, advance payments, sales and other estimates made by the public sector entities and subject to provisioning for non-performance.

▪ Errors in consolidating the annual financial statements in the system of first-line budget entities and in transferring the data into the templates of the Ministry of Finance.

Without prejudice to the audit opinion, the reports on the annual financial statement audits of some municipalities contain emphasis of matter regarding the use of short-term interest-free loans out of third-party accounts contrary to the legal provisions.<sup>5</sup>

When the audits identified some instances of non-compliance with the legal framework, the BNAO initiated procedures in line with article 57, paragraph 1 of the National Audit Office Act (*Figure 3*), and referred the cases to the relevant competent authorities (Public Financial Inspection Agency – regarding 53 municipalities for taking action (also identified during the 2020 and 2019 audits of annual financial statements). Some examples:

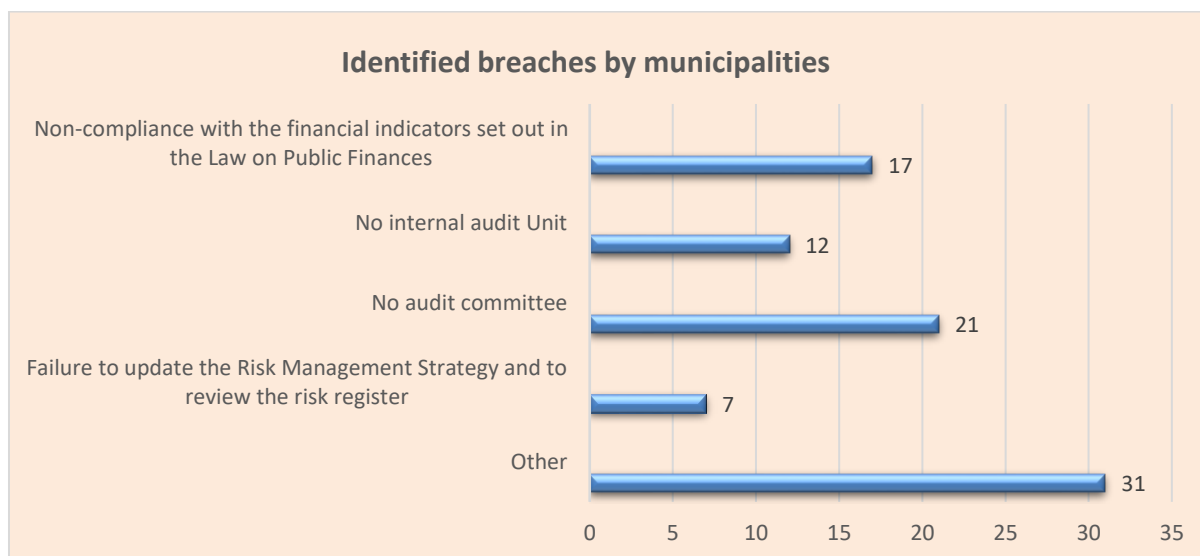
- Non-compliance with the financial indicators set out in the Public Finance Act – regarding expenses, commitments for expenses and payments in arrears under the Public Finance Act, which is considered a breach of the financial discipline in line with § 2 of the Additional Provisions of the Public Finance Act.

- Absence of internal control units under article 12, paragraph. 2, item 3 of the Law on Public Sector Internal Auditing.

- Absence of audit committee under article 18, paragraph 1 of the Law on Public Sector Internal Auditing;

- Failure to ensure timely update of the Risk Management Strategy endorsed by the municipal mayor, which constitutes an infringement of article 12 of the Law on the Public Sector Financial Management and Control. Failure to apply timely reviews of the risk register to identify risks of potential events and circumstances that might have a negative impact on the attainment of municipal goals.

*Figure 3*



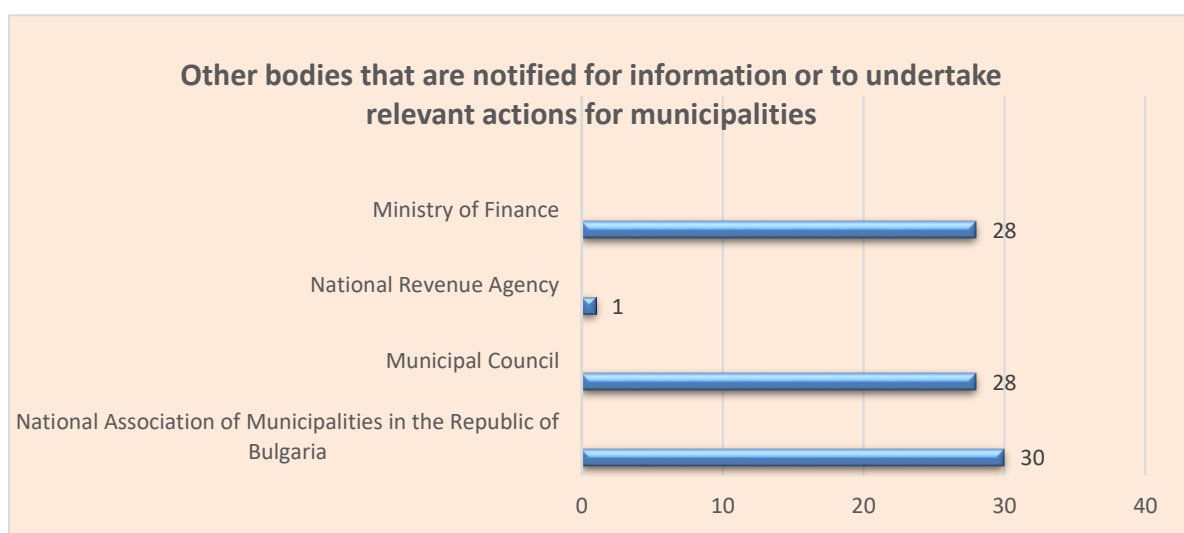
<sup>5</sup> Art. 147 of the Law on Public Finances prohibits the use of third-party accounts to perform or report any activities other than the administration of third-party funds and enforcement or asset recovery actions taken by the respective government authorities and the subsequent asset management and allocation in line with the relevant legislation.

In conjunction with article 57, paragraph 1 of the National Audit Office Act, the Public Financial Inspection Agency keeps BNAO regularly informed of its ongoing financial inspections and outcomes thereof.

In line with article 49, paragraph 3 of the National Audit Office Act, in 2022 BNAO referred some of its audit reports to other competent authorities (*Figure 4*) for information or for taking competent action (Ministry of Finance – concerning 28 municipalities, the National Revenue Agency – concerning one municipality, Municipal Councils – concerning 28 municipalities, the National Association of Municipalities – concerning 30 municipalities).

In cases of findings pointing to crimes, BNAO's auditors applied the provisions of article 58, paragraph 1 of the National Audit Office Act referring the matter to the Prosecutor's Office (concerning 5 municipalities).

*Figure 4*



Some misstatements and irregularities in the Financial Statements of the municipalities **were corrected** in the course of the audit engagements as follows:

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

- ✓ Corrections in the disclosure of the changes in the municipal shareholdings in commercial entities (also adjusted in the course of audits of the 2020, 2019, 2018, 2017 and 2016 annual financial statements) to achieve fair representation of the investments and the related revenue.

- ✓ Disclosure of commitments (taken and implemented) under contracts and bank guarantees (also adjusted in the course of the audits of the 2020, 2019, 2018, 2017 and 2016 annual financial statements). These corrections helped achieve fair representation and complete disclosure in the financial statements of off-balance sheet assets and liabilities.

- ✓ Recognition of non-disclosed assets, liabilities, revenues, and expenses (also adjusted in the course of the audits of the 2020, 2019, 2018, 2017 and 2016 annual financial statements). These corrections ensured fair representation and complete disclosure in the financial statements, and helped achieve fair representation and completeness of the information reported in the financial statements.

✓ Correction of errors (mainly technical) made during the consolidation of the financial statements in the system of first-line budget entities, the aim being to ensure fair representation (also adjusted in the course of the audits of 2020, 2019 and 2018 annual financial statements). In 2021, some 83% (accounting for 21,276 thousand BGN) of the misstated revenues were due to technical errors made by three municipalities in compiling their Budget Execution Statement.

✓ Adjusting the classification of assets, liabilities, revenues, expenses and transfers in the Public Sector Chart of Accounts and the Uniform Budget Classification (also corrected in the course of the audits of the 2020, 2019, 2018, 2017 and 2016 annual financial statements) resulting in correct representation in the Balance Sheet, Income Statement, and the Budget Execution Statement. In 2021, roughly 89% (333,194 thousand BGN) of misstated revenues in the Income Statements were attributable to misstatements and incorrectly recognized revenues of one municipality.

### 2.3. Main conclusions from the audits of the 2021 Financial Statements

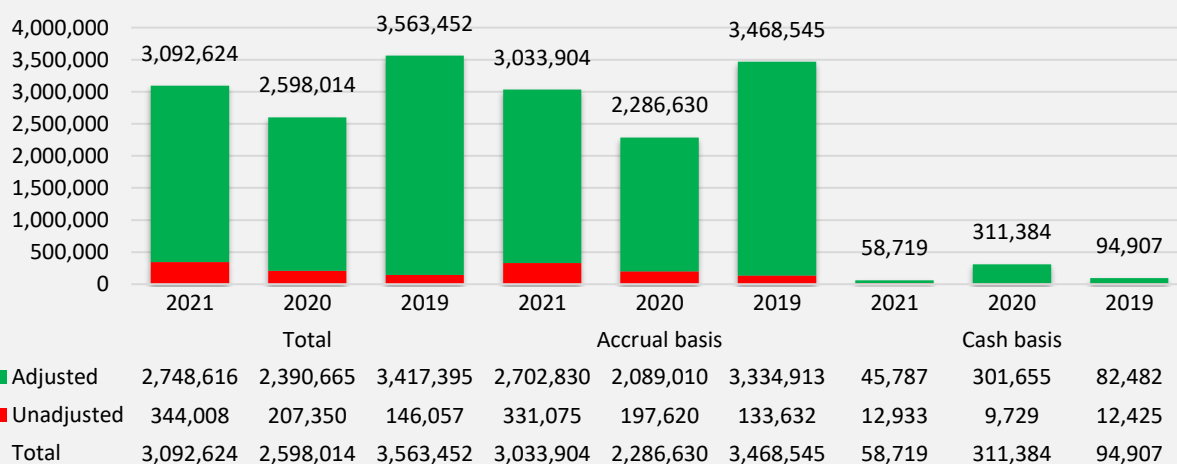


As a result of the audits of the 2021 annual financial statements, corrections were introduced in the financial statement of public entities accounting for 2,75 billion BGN (compared to 2,39 billion BGN in the 2020 financial statements).

Some of the reasons for misstatements that remained uncorrected were:

- Differences of opinion between the auditors and the management of public sector entities regarding the accounting treatment and reporting of specific events, transactions, and operations.
- Inability to introduce corrections of errors from previous periods that continue to affect the financial statements of the current reporting period.
- The cumulative sum of misstatements is not significant and does not impact the audit opinion.

**Misststatements in the Annual Financial Statements of Public Sector Entities (BGN thousand)**



### 2.3.1. Weaknesses in drawing up of financial statements



- All three groups of audited public sector entities (central government bodies, public universities, and municipalities) make similar misstatements due to **wrong classification of revenues and expenses, assets and liabilities in the accounts of the Public Sector Chart of Accounts, and respectively in the relevant paragraphs and subparagraphs of the Uniform Budget Classification**. The main reason for this issue are the frequent amendments to the financial reporting framework, incl. insufficient and incomplete guidance on its implementation issued by the Ministry of Finance (e.g. the definition land adjacent to premises and facilities, classification of certain groups of non-current assets, etc.). Some individual additional instructions issued by the MF may also have a negative impact, since very often they introduce exceptions to the general rules.
  - Non-compliance with the MF guidance regarding the obligation to **perform reviews for impairment of non-current assets**.
  - Failure to follow the MF guidance regarding **off-balance sheet disclosure** of the undertaken or implemented commitments and/ or new commitments for expenses, contingent claims and liabilities.
  - Difficulties in identifying and applying the relevant principles of the Accountancy Law.

The above weaknesses in the financial reporting were also identified in auditing the 2020, 2019, 2018 and 2017 annual financial statements.

### 2.3.2. Weaknesses regarding the organization of the accounting process



- The highest relative share of modified opinions (modified and adverse) were issued in relation to audit reports on the municipal annual financial statements. This is an indication of the **insufficient administrative capacity** in these entities.
  - **The audited public sector entities** are not required to set up an **adequate uniform electronic database** of all accounting records (both accrual and cash basis) in the system of the **first-line budget entities**. The introduction of an Integrated financial information system for the municipalities and such system for the ministries and other public sector entities will be a lengthy process. However, using uniform databases when drafting the financial statements will reduce the risk of technical error while summarizing the information for these statements; it will provide an **audit trail**, and **will remove the limitations regarding the scope of the computer-based audits**.
  - **Inefficient internal controls** of the first-line budget entities concerning the accounting and budget discipline of their subordinate entities.

- With regard to the obligation of the first-line budget entities to draw up consolidated financial statements and ensure fair representation in them, the management of public sector entities **has failed to implement effective controls** of the completeness and validity of the information included in the financial statements of their subordinate lower-level public entities. **The possibility for conducting internal audits** on the compliance with the applicable financial reporting framework **is underused**, incl. in the cases when modified opinions have been expressed, while fully relying on the audits of the National Audit Office.

All weaknesses in the organization of the accounting process listed above were also identified in auditing the 2020, 2019 and 2018 annual financial statements, while the first two of them were identified in the 2017, 2016 and 2015 annual financial statements.

### 3. OUTCOMES OF THE COMPLIANCE AUDITS

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



**In 2022, the BNAO Board endorsed 27 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 conduct of business in the audited entities, and issued recommendations for improvements thereof.

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

##### ➤➤ 3.1.1. Financial management and control systems

The audits identified significant deficiencies and irregularities with regards to the financial management and control systems in the audited entities, such as:

### 3.1.1.1. Ministries, agencies and public universities

#### **Control environment:**

✓ *Failure to ensure timely update of the Internal Rules to align them with the legal framework* regulating the operations and of the administrative structure of public entities (also identified during the 2021 and 2020 audits). Therefore, the internal rules do not provide a clear and detailed regulation of the operations and do not reflect the specificity of public entities; they do not ensure adequate allocation of functions and do not introduce arrangements for timely and compliant implementation of activities, for monitoring and ex-post controls of performance; and they do not provide for effective controls (also identified during the 2021 audits);

✓ *Failure to update the internal rules and procedures concerning financial management and control*, in line with the 2019 amendments of the Law on the Public Sector Financial Management and Control and the 2020 amendments to the Methodology on financial management and control adopted by the Minister of Finance (also identified during the 2021 and 2020 audits);

✓ *Failure to update the internal rules on administering the state fees revenues to ensure alignment with the current legislation;*

✓ *Failure to update the internal rules regulating the arrangements for initiating and incurring expenditure following the amendments to the legal framework and the introduction of structural changes;*

#### **Risk Management:**

✓ *Absence of periodic reviews and assessments of the risks to the entities' goals* (also identified during the 2021, 2020 and 2019 audits);

#### **Control activities:**

➤ *Failure to ensure consistency of the control activities.* The ex-ante compliance controls and the controls applied following the conclusion of contracts do not achieve their preventive goal (also identified during the 2021 and 2020 audits);

➤ *Ex ante compliance controls are not thorough, continuous and consistent* (also identified during the 2021, 2020 and 2019 audits); *Absence of ex-ante compliance controls prior to the receipt of revenues* due to the absence of arrangements for the implementation and documentation of such controls; ex-ante compliance controls are not applied in all cases prior to *taking up liabilities or incurring expenditure* (also identified during the 2021 and 2020 audits);

➤ *The regulated controls on the preparation, tendering, contracting and implementation of public procurement contracts* were implemented as prescribed, however, *they did not prevent omissions, infringements, and non-compliance with the applicable legislation;*

➤ *Failure to apply the double signature principle consistently and continuously* for the signing of contracts throughout the audited period.

➤ *Absence of adequate procedures for documenting the processes and controls*, thus precluding transparency and audit trail (also identified during the 2021 and 2020 audits). *Functions and their allocation among the employees are not clearly detailed; no adequate documentation of the actions required by the process participants;* no audit trail of current and ex-post controls (also identified during the 2021, 2020 and 2018 audits);



**Monitoring:**

- ✓ *Absence of monitoring of the audited activities* (also identified during the 2021 audits),
- ✓ *The financial management and control systems failed to ensure efficient identification, prevention, and correction of non-compliance with the legal framework* (also identified during the 2021 audits).

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

- The Internal Rules of certain municipalities *were not aligned with* the updated financial management and control methodology endorsed by the Minister of Finance in March 2020.
- *Absence of arrangements* concerning the administration and conduct of checks, and the collection of local taxes and fees; no arrangements in place on the management of municipal estate.

**Risk management:**

- *Failure to identify and assess* all significant risks at municipal level that might affect the attainment of municipal goals; (also identified during the 2017 through 2021 audits);
- *Failure to update* risk management strategies in case of significant changes (also identified during the 2021 and 2020 audits);

**Control activities:**

- *Absence of adequate effective controls* to prevent, identify and rectify infringements/non-compliance with the legal framework and contracts (also identified during the 2018 through 2021 audits);
- *Failure to ensure continuous and consistent application of controls; while the controls in place are inadequate or inefficient, and have not been revised* (also identified during the 2017 through 2021 audits);
- *Absence of ex-ante compliance controls* prior to concluding contracts and incurring expenditure and payments (also identified during the 2021 and 2020 audits);

**Monitoring:**

- *Absence of monitoring of the financial management and control activities* to assess their adequacy and timely revision in case of changes in the environment (also identified during the 2017 through 2021 audits);
- *Absence of internal control units* and internal auditors in certain municipalities contrary to the legal requirements.

## ➤➤ 3.1.2. Budget

**3.1.2.1. Ministries and agencies**

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

**Ministries and agencies:**

- *Incomplete internal rules concerning the budgeting process* (not covering all activities; not designating responsible persons; not ensuring documentation of the processes);

absence of arrangements for document flow and storage); no audit trail; absence of arrangements for managing the risk of poor planning and no timely revisions of the budgets (also identified during the 2021 audits);

➤ *Absence of internal rules/procedures concerning the arrangements and responsible persons for the administration of revenues*; the existing written arrangements for revenue identification and collection are not backed with adequate controls, which poses a significant risk to the correct identification and collection of revenues (also identified in the course of 2021 audits);

➤ Budget planning based on the *historic principle resulting in failure to take into consideration the current needs of budget entities* and posing a risk to good financial management and to progress;

➤ *The procedures in place for budget planning and review do not ensure adequate funding of operations* and discharging of the statutory functions and activities;

➤ *Incomplete application of program-based budgeting* – failure to set relevant goals, performance indicators and target values by budget programs;

➤ *Failure to ensure clear and detailed regulation of expenditure planning, initiation, authorization and disbursement processes*, while the procedures in place are not applied continuously and consistently (also identified during the 2021, 2020 and 2019 audits);

➤ *The audits identified a permanent trend towards lack of planning and/or non-execution of planned capital expenses*, which poses significant risks to the effective maintenance of the utilized estate, to the storage and stewardship of assets.

➤ *Absence of procedures to restrict cash payments* in violation of the legal requirements;

➤ *Instances of advance payments of the full contracts price*; expired advance payment guarantees. Allocation of budget resources amounting to over 5 million BGN without adequate guarantees and safeguarding of the public interest.

➤ *Personnel structure that does not ensure the necessary administrative capacity*. Subcontracting the implementation of key administrative functions due to the absence of specific positions in the administrative structure and/ or insufficient funding, which precludes the effective discharge of functions and protection of interests in case of low quality and/ or delayed performance.

### **3.1.2.2. Municipalities**

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

➤ *Some municipal ordinances* on the triannual local budget forecasts and on compiling, endorsement, execution and reporting of municipal budgets *have not been updated* to reflect the amendments to the Public Finance Act; certain Ordinances on defining and administering local taxes, fees and tariffs for services *are partially or fully non-compliant with the relevant primary legislation* (also identified during the 2021, 2020 and 2019 audits);

➤ *Concerning costs for non-payroll staff*: absence of written justification of the need to subcontract activities to persons outside the municipal administration by force of signing civil contracts; contracts do not contain provisions on the reporting and acceptance of the work done and deadlines for payment; lack of acceptance protocols concerning the work done;

➤ *Some negative practices have been identified in relation to expenditure for subcontracted services and repairs*, such as: failure to notify the National Revenue Agency and the Customs Agency in case of expenditure equal to or higher than 30,000 BGN; disbursing payments without a notification to the information system “RMS – Payments” of the Ministry of Finance for the purposes of verifying that contractors do not have public payments in arrears (also identified during the 2021 and 2020 audits); delayed works under the contracts; failure to claim default payments to the contractors for delayed implementation (also identified during the 2021 and 2020 audits); incomplete protocols of findings, administrative acts and acceptance protocols for services; failure to maintain a register of the transport passes of war veterans and disabled veterans; reporting and acceptance of public transport services for war veterans, disabled war veterans and pensioners not adequately documented as required by law – through monthly lists of the issued transport passes and covered mileage;

➤ *Significant infringements in relation to expenditure for food and capital expenditure* (also identified during the 2021 and 2020 audits);

➤ *Some negative practices have been identified in relation to overhaul expenditure and expenditure for purchasing long-term tangible assets*, such as: presentation of guarantees for advance payment and contract implementation the validity of which is non-compliant with the deadlines; failure to discharge the guarantees for good performance in line with the contractual provisions; delay of construction works; failure to meet payment deadlines; failure to notify the National Revenue Agency and the Customs Agency concerning signed contracts (also identified during the 2021 audits) or failure to comply with the statutory deadline for notification – prior to the payments for the purpose of conducting checks regarding the lack of outstanding public payments of the contractor; failure to claim default payments to contractors for delayed implementation (also identified during the 2021 audits); failure to submit timely notifications to the Public Procurement Register for the completion of contracts; absence of designated officials responsible for the control of contract implementation; issuing acceptance protocols for construction works in the absence of executive documentation;

➤ The following findings have been identified *concerning subsidies paid out to non-profit legal entities*: some municipal councils did not adopt annual programme for the local community centres; in passing their decision to approve the municipal budget municipal council allocated additional funding for the operations of the local community cultural centres out of the municipal budgets, which has not been allocated; certain mayors did not sign contracts with the local community cultural centres for the funding of their operations; some designated committees did not compile protocols for the allocation of state subsidies; some extended subsidies were not allocated in full to community cultural centres.

➤ *The audits identified the following findings concerning communal cleaning and snow ploughing services*:

✓ The expenditure reports concerning communal cleaning activities were not approved with municipal council decisions within the statutory deadlines; absence of control on the services on behalf of the municipality and failure to officially accept the contracted activities in line with the arrangements set out in the contract; absence of protocols certifying the date of garbage collection and the quality of work done;

- ✓ Absence of documented arrangements for the reporting of fuel consumption of garbage trucks, failure to lay down consumption norms for the trucks and other discrepancies regarding the reporting and control of fuel consumption;
- ✓ Absence of plans for wintertime maintenance and snowploughing of municipal road infrastructure; absence of mayoral orders for coordination of the activities between the municipalities, the companies maintaining the municipal road infrastructure and the competent authorities with regards to the wintertime traffic organization and control. Failure to report to the Road Infrastructure Agency the expenditure of dedicated transfers for the republican road infrastructure maintenance following consultations with the local road management service; absence of certified copies of the contracts and underlying documents;
- ✓ *Significant under-collection of the planned revenues from local taxes and fees, leases and concessions;*
- ✓ *The audits identified the following findings with regards to the sales of wood: the webpages of some municipalities do not contain annual plans for the use of wood; miscalculated guarantees for non-performance; illegitimate contracts for sales of wood signed before the enactment of the decisions regarding contractor selection; failure to publish information regarding tendering procedures for sales of wood; failure to collect revenues from sales of wood within the statutory deadlines; failure to charge interest on payments in arrears; failure to claim penalty payments under contracts for the sales of wood; failure to meet the deadlines for the return of performance guarantees under public procurement contracts; certain buyers paid extra for the purchase of wood, while municipality failed to reimburse the excess amount; instances of selling wood to citizens at selling rather than market price resulting in lower revenues to the municipality.*

### ➤➤ 3.1.3. Public Procurement

The following significant deficiencies and irregularities have been identified in the area of awarding public procurement contracts by the audited entities:

#### **3.1.3.1. Ministries, agencies and public universities**

##### **Ministries and agencies:**

##### ***Rules and procedures***

- ✓ *The internal acts regulating the public procurements cycle do not reflect adequately the organizational structure of the public entities (also identified during the 2021 and 2020 audits) and do not provide effective regulation of control activities to ensure adequate planning of needs and compliant procurement procedures (also identified during the 2021 and 2020 audits);*
- ✓ *Absence of rules and procedures regulating the terms and timeframe for storage and archiving of documents concerning the awarded public procurement contracts and the terms for access to this documentation;*
- ✓ *Failure to designate staff members responsible for the preparation, award and control over the implementation of public procurement tenders or absence of effective control mechanisms for the allocation of responsibilities among them;*
- ✓ *No arrangements in place for the documentation of controls over the award of public procurement contracts, while the controls put in place concerning the coordination of actions and*

documents are not applied continuously and consistently (also identified during the 2021, 2020 and 2019 audits);

- ✓ *Absence of schedules* for the award of public procurement contracts;

#### **Disclosure of information**

- ✓ *Failure to publish in the Public Procurement Register* and in the buyer's profile the documents required by law and (also identified during the 2021 audits), or failure to comply with the deadlines for publication;

- ✓ *Failure to enter in the Random Selection System* data concerning engineering procedures amounting to more than 1,000,000 BGN less VAT;

- ✓ *Failure to include in the public procurement calls information regarding the performance and advance payment guarantees* (also identified during the 2021 audits);

- ✓ *Publishing documentation regarding a specific public procurement in the buyer's profile prior to publishing a call for proposals in the Official Journal of the EU.*

- ✓ *Certain calls for proposals* under the Public Procurement Act are not compliant with the template adopted by the Executive Director of the Public Procurement Agency;

#### **Award of contracts and selection of bidders**

- ✓ Requirements to the bidders in the public procurement procedure *that introduce illegitimate barriers for participation;*

- ✓ *Decisions on the selection of a contractor* in a public procurement procedure *issued following the statutory deadline* (also identified during the 2021 audits);

- ✓ *Protocols and reports by the Selection Committee do not contain the following:* evaluation tables used for assessing the bids; absence of clear, complete and detailed justification of the quality assessment in line with the Evaluation methodology, and clear, complete and detailed arguments regarding the justification of the proposals in line with the requirements laid down in the Public Procurement Act;

- ✓ Concerning the processes of public procurement award through open tender, the audits identified significant non-compliance with the legal framework leading to numerous appeal procedures by the bidders;

#### **Contracting**

- ✓ *Selecting contractors* based on framework agreements contrary to the *requirements laid down in the Public Procurement Act*. There have been instances of significant delays in contracting due to appeal procedures or lack of financial resources (also identified during the 2021 audits);

- ✓ *Failure to comply with the statutory deadlines* for signing public procurement contracts; failure to meet the deadlines for publishing the notices for contract completion in the buyer's profile and the Public Procurement Register;

- ✓ *Signing of contracts prior to the enforcement of the decision for contractor selection*, and prior to the expiry of the 14-day deadline following the notification of tenderers of the decision for contractor selection;

#### **Contract implementation**

- ✓ In certain cases, *the provided guarantees do not cover the timeframe for implementation* contrary to the contract provisions. Some contracting authorities failed to ensure sufficient protection of the public resources, since the deposited guarantees covered only the advance payments and performance, hence there was no coverage during the entire duration of

the contracts, and the contracting authorities were not able to retain the guarantees in case of specific negative events;

- ✓ *Inefficient control* over the documenting of contract implementation. The scope and contents of the introduced controls was insufficient, hence they failed to ensure adequate verification of current information and the compliance of performance with the contract provisions;

- ✓ *Absence of arrangements* for checking the compliance of the reporting documents with the contract provisions prior to disbursing the payments;

- ✓ In case of non-performance on behalf of contractors some contracting authorities failed to claim and collect the agreed penalty payments for non-compliance with the contract provisions resulting in revenue loss of the public entities (also identified during the 2021 and 2020 audits).

### 3.1.3.2. Municipalities

**The following significant infringement of the legal framework were identified concerning the award of public procurement contracts by municipalities:**

- ✓ *Failure to update the internal rules* governing the public procurement cycle to reflect the amendments to the Public Procurement Act and the Rules on its implementation (also identified during the 2021, 2020 and 2019 audits); internal rules lacking the minimum information requisites required by the Rules on the Implementation of the Public Procurement Act;

- ✓ *Failure to forecast the needs of public procurement*, incl. of construction works, supplies and services. Absence of schedules for public procurement (also identified during the 2021, 2020, 2019 and 2018 audits). The public procurement schedules in place do not contain the minimum information requisites required by the Rules on the Implementation of the Public Procurement Act;

**The audits identified the following findings concerning award of public procurement contracts in line with the Public Procurement Act:**

- ✓ Contents of the calls not compliant with the minimum information requisites required by the Law on Public Procurement (also identified during the 2021, 2020, 2019 and 2018 audits), and lacking lists of the documents required to prove compliance with the selection criteria and the performance guarantees;

- ✓ Some calls for tenders do not inform of the possibility to prove compliance with the selection criteria only by means of filling out Part Four of the Single European Document for Public Procurement;

- ✓ Certain contracting authorities have not performed market surveys or consultations before launching public procurement procedures to determine the current estimates of the procurement contract;

- ✓ Calls for tenders restricting competition through the introduction of unfounded barriers for participants (also identified during the 2021 and 2020 audits);

- ✓ Technical specifications for public procurement containing specific standards for their implementation without offering the possibility for the application of other identical standards (also identified during the 2021 audits);

- ✓ Requiring the submission of documents that may be obtained through direct and free access to the national databases of EU member states ex-officio (also identified during the 2021 audits);
- ✓ Significant deficiencies in the work of the selection committees for filtering the candidates and participants and evaluating the bids;
- ✓ Selection Committees failing to identify the absence of or incorrect disclosures in the Single European Document for Public Procurement and to apply the statutory means for check-ups;
- ✓ Failure to ensure timely publication of the calls for tenders in the buyer's profile;
- ✓ Decisions for contractor selection not containing a hyperlink to the relevant electronic file in the buyer's profile; failure to ensure unrestricted, full and direct electronic access to the documentation concerning specific public procurements following the date of their publication in the OJ of the EU;
- ✓ Failure to submit on time the calls for tenders for publication in the Public Procurement Register;
- ✓ Failure to ensure timely publication in the buyer's profile of award contracts; failure to ensure the publication in the buyer's profile of annexes to the contracts and the notices for contract amendments;
- ✓ Selection of suppliers of water, fuel and electricity by applying a simplified procedure without public procurement and failing to ensure the principles of free competition, publicity and transparency.

**The audits identified the following irregularities concerning the award of public procurement contracts through the collection of offers under Chapter Six of the Public Procurement Act:**

- ✓ Contractors failing to perform market surveys and consultations before launching the public procurement procedure;
- ✓ Publication of notices for the award of public procurement contracts in the Public Procurement Register after the expiry of the statutory deadline;
- ✓ Failure to publish PP contracts and the annexes to them in the buyer's profile (also identified during the 2021 audits);
- ✓ Introducing requirements in the calls for tenders concerning the technical and professional skill of participants thus setting unjustified restrictions for participation of economic entities;
- ✓ Technical specifications requiring compliance with a specific standard without offering information of the possibility to demonstrate compliance with other standards (also identified during the 2021 audits);
- ✓ Calls for tenders not containing the minimum required information; absence of information regarding the minimum statutory grounds for removing and setting performance guarantees;
- ✓ Requiring the submission of documents that may be obtained through direct and free access to the national databases of EU member states ex-officio (also identified during the 2021 audits);
- ✓ Signing public procurement contracts after the expiry of the 30-day deadline following the date of contractor selection.

**The audits identified the following findings with respect to the implementation of public procurement contracts:**

- ✓ Signing of contracts without receiving contractor guarantees with the required duration. Discharging public procurement contract guarantees before the expiry of the agreed period;
- ✓ Failure to notify the National Revenue Agency and the Customs Agency in case of expenditure equal to or higher than 30,000 BGN; failure to register payments timely in the “RMS – Payments” information system of the Ministry of Finance;
- ✓ Absence of the required protocols for the onset of construction works and protocols for contracting additional volume and types of construction works;
- ✓ During the implementation of public procurement contracts, certain contracting authorities failed to perform official acceptance of the works and did not ensure effective control of the implementation. Failure to calculate and claim default payments in cases of delay of the implementation (also identified during the 2021 audits);
- ✓ Failure to meet the deadlines for disbursing payments to the contractors due to lack of funds and poor controls; and failure to meet the statutory deadlines for discharging the performance guarantees (also identified during the 2021 and 2020 audits);
- ✓ Disbursing payments without cross-checks in the “RMS – Payments” information system of the Ministry of Finance to verify that contractors do not have any outstanding public liabilities;
- ✓ Failure to publish in the Public Procurement Register notifications of amendments to the public procurement contracts. Failure to publish notifications of completion of contracts in the buyer’s profile; notifications uploaded in the PP Register after the expiry of the statutory deadline;
- ✓ Failure to publish contracts and additional agreements in the buyer’s profile;
- ✓ Failure to designate individuals responsible for the control over PP contracts implementation.

### ➤➤ 3.1.4. Estate

In the area of subcontracting estate management, the audits identified the following significant deficiencies and irregularities:

#### **3.1.4.1. Ministries, agencies and public universities**

##### **Ministries and agencies:**

- ✓ Failure to maintain updated information on the management of state-owned estate;
- ✓ Failure to compile and publish lists of unoccupied state-owned premises designated for lease under the Law on State Ownership;
- ✓ Some orders for tendering procedures for the lease of publicly owned state property do not contain justification of the need to lease the respective estate;
- ✓ Not publishing the orders for the selection of tenants on the relevant web-pages;



- ✓ Absence of official internal acts for the approval of the format and contents of the ownership and status registers of public estate (also identified during the 2021 and 2020 audits);
- ✓ Absence of official arrangements in line with the Law on State Ownership and Law on Physical Education and Sports regulating the relations with sports clubs and legal entities/natural persons using premises within sports facilities;
- ✓ Absence of contract provisions regarding the maximum duration of the lease period of housing owned by public entities;
- ✓ Absence of internal acts regulating the initiation and signing of annexes to lease agreements for housing owned by public entities;
- ✓ No effective control mechanisms in place regarding the keeping of records of the state-owned estate.
- ✓ Absence of internal rules/ procedures for detailed regulation and documentation of the conservation and restoration works; for identification of movable cultural heritage; for the acceptance of works of art travelling for exhibitions; for acquiring and receiving in-kind donations. No arrangements in place for inspection and assessment of the state-of-play of cultural heritage kept in storage at the audited museums;
- ✓ Absence of official regulation of the lease relations between the state and political parties (leasing of premises, contract termination, contract extension).

#### **3.1.4.2. Municipalities**

- ✓ *Some municipal councils have enacted provisions that are in contradiction to the legal framework:* ordinances on the management and disposal with municipal estate (also identified during the 2017 through 2021 audits); ordinances on identifying the housing needs and leasing of municipal housing; and ordinances on exercising municipal ownership rights over the municipal holdings in commercial entities (also identified during the 2021, 2020 and 2019 audits). Certain pieces of secondary legislation passed by municipal councils and internal rules on the management and disposal with municipal estate, agricultural land and municipal housing are not in conjunction with the primary legislation;
- ✓ *Some municipal councils failed to adopt:* strategies on the management of municipal estate; policies regarding municipal shareholdings in public entities; rules on the use of communal pastures and meadows; and annual grazing plans;
- ✓ Strategies for the management of municipal estate and programs for management and disposal with municipal estate not subjected to public consultations with the local communities;
- ✓ *Absence of arrangements* regarding the contracts for the bestowal of privately state-owned estate to municipalities for their administrative needs or for satisfying local public needs in line with the legislation and the state aid rules;
- ✓ Strategies for the management of municipal estate, Programs for management and disposal with municipal estate and the Reports on the condition, management and disposal with municipal estate *are not made accessible to the citizens on the information board in the municipal administration offices;*

✓ *Failure to issue reports* on the condition of municipal estate and the outcomes of its management by types and categories of municipal sites (also identified during the 2021, 2020 and 2019 audits);

✓ *The following findings concern the insurance of municipal estate:* absence of insurance coverage for public municipal estate subject to mandatory insurance; Municipal councils failing to identify the private municipal estate and movables subject to mandatory insurance (also identified during the 2018 through 2021 audits); paying insurance premiums for public municipal estate provided for use to third parties without ensuring reimbursement of this expenditure by the tenants;

✓ Failure to designate officials responsible for the maintenance and publication of public registers and for drawing up title deeds of municipal estate.

**The following findings concern the leasing of municipal estate:**

✓ Leased property not included in the Annual program for management and disposal with municipal estate (also identified during the 2021 and 2020 audits);

✓ Absence of decisions by the municipal councils instructing the conduct of public tenders for leasing private municipal estate;

✓ The starting price for lease tenders published in the relevant documentation not in conjunction with the lease tariffs adopted by municipal councils;

✓ Conducting tendering procedures in the absence of decisions by municipal councils regarding the starting price for the tender;

✓ Mayoral orders for tendering procedures not containing the necessary information requisites;

✓ Borough mayors or their representatives not included among the members of tendering committees, although the leased estate is located on their territory (also identified during the 2021 and 2020 audits);

✓ Delayed lease payments beyond the regulated deadlines;

✓ Concluding lease contracts prior to the issuance of mayoral orders identifying the winning bidders and prior to receiving the due payments (also identified during the 2021 audits);

✓ Failure to register the lease contracts in the Registry Service of the respective territory where the estate is located (also identified during the 2021 and 2020 audits);

✓ Absence of acceptance protocols to certify the transferring of leased estate to the tenants (also identified during the 2021 and 2020 audits);

✓ Absence of municipal council decisions to lease municipal premises for health care purposes without a tender or a competitive procedure;

✓ Failure to reimburse deposits or set them off the lease payment of the winning bidder; failure to retain deposits of tenderers who did not file a bid in public tenders for land; changing the contents of draft contracts outlined in the tendering documentation before signing them

✓ The audits identified the following irregularities concerning the lease of municipal estate (*communal pastures and meadows*) for long-term use: agreed lease rate lower than the average for the respective location; failure to deposit the first annual lease payment prior to the signing of lease contracts; failure to notify in due manner the participants in the tendering procedure of the issued mayoral orders (also identified during the 2021 audits); introducing restrictive criteria for the participants concerning lack of outstanding liabilities to the

municipality and allowing eligibility only of farmers registered in the respective municipality; failure to publish on the municipal web-page the orders for use of field roads; failure to appoint substitute members of the committees responsible for the leasing of pastures; allocating lands exceeding the admissible limit; illegitimate use of field roads in the absence of mayoral orders or signed agreements;

✓ *During tendering procedures for leasing of agricultural land:* some procedures included estate already sold or leased out; leasing agricultural land without title deeds to certify the municipal ownership; holding tendering procedures for leasing agricultural land in the absence of decisions thereof by the municipal council in violation of the Law on the Ownership and Use of Agricultural Land (also identified during the 2021 audits); inconsistency between the protocols of the tendering committees and the mayoral orders identifying the selected bidders in tendering procedures for land lease; failure to inform within the statutory deadlines participants in the tendering procedure of the mayoral orders selecting the winning bidders; signing of contracts prior to the effect of mayoral orders; absence of orders for leasing field roads without tendering procedures; signing of leasing contracts in violation of the law;

✓ *The audits identified the following findings concerning the leasing of municipal housing:* absence of registers of the individuals in need of housing and failure to designate a committee to identify such needs and keep a register; registration of individuals in need of housing by committees different from the ones appointed with a mayoral order in violation of the administrative requirements and the requirements regarding the committee's composition. Absence of internal rules in writing for the operation of the registration committee - one of the main root causes for the identified irregularities; absence of accommodation orders for the leased housing; signing leasing contracts without submission of the required declaration certifying the eligibility of beneficiaries based on means-testing; failure to comply with the standards for accommodation based on the number of family members and the size of the housing; absence of annual wealth declarations and family status declarations by the tenants; tenants of municipal housing failed to declare their own estate and vehicles; leasing housing to non-eligible persons; lease contracts not containing provisions regarding communal and adjacent areas.

✓ The audits established the following findings regarding the implementation of lease contracts for premises/ terrains: failure to claim default payments in case of delayed lease payments for all kinds of municipal property leased with or without tendering procedures (housing, terrain, premises, agricultural land), resulting in opportunity losses and violation of the prudent person rule for managing municipal estate in the best interest of the municipality; failure to collect from tenants the fees for electricity and water; absence of decisions authorizing the placing of temporary structures on leased land.

✓ Failure to take the necessary steps for collecting outstanding lease payments for municipal housing through the court;

✓ Municipal administrations not terminating lease of delinquent tenants /over one month overdue or systemic delays of the lease payments/ (also identified during the 2021 audits);

✓ Some tenants of housing and non-housing estate did not reimburse the waste collection fee paid by the municipality (also identified during the 2021 audits).

**The audits identified the following findings regarding tendering procedure for the sale of municipal owned estate:**

- ✓ Sales of estate that is not included in the Annual program for management and disposal with municipal estate (also identified during the 2021 and 2020 audits);
- ✓ Failure to put up the order regarding the call for tenders on the information board in the municipal administration and borough mayors' office buildings;
- ✓ Borough mayors or their representatives not included among the members of tendering committees, although the tendered estate is located on their territory (also identified during the 2021 and 2020 audits);
- ✓ Absence of non-disclosure declarations on behalf of tendering committee members with respect to the information concerning the participants and their bids;
- ✓ Failure to document the handing/ sending to the tenderers of the mayoral orders identifying the winning bidder;
- ✓ Signing of contracts prior to the effect of the decision identifying the winning bidder;
- ✓ Absence of acceptance protocols documenting the actual transfer of the estate to the new owners (also identified during the 2021 and 2020 audits);
- ✓ Failure to write off sold estate from the municipality's register (also identified during the 2021 audits);
- ✓ Failure to draw up title deeds for restored municipal agricultural land;
- ✓ Introducing restrictive criteria for participants in public tenders for sales of estate, by requiring absence of outstanding payments to the municipality;
- ✓ The members of the evaluation committee in some tendering procedures failed to submit written declarations for the absence of conflict of interest;
- ✓ Sales of land without a municipal council decision establishing the market price;
- ✓ Instances of non-compliant sales of estate where contracts were signed based on tenders conducted more than three years back. In such cases the buyer's rights should have expired due to failure to make the payment within the required period as per the conditions of the tendering procedure;
- ✓ Allowing deferred payment for purchases of municipal estate with or without tendering procedures in the absence of a decision thereof by the municipal council;
- ✓ *Concerning tenders for the sale of residential estate:* non-compliant calculation of the published market prices based on expired market and tax appraisals; setting restrictive requirements for the participants and making their eligibility conditional upon the absence of outstanding payables to the municipality under other contracts; failure to put up information concerning the tendering procedures on the information board in the municipality office building.

**Concerning the registration of rights of use:**

- ✓ Registering a remunerative right of use without conducting market appraisal by a licensed appraiser; failure to sign relevant contracts following a decision by the municipal council to register gratuitous right of use of non-profit organizations;
- ✓ With respect to the implementation of contracts for gratuitous right of use, the audits identified cases where the users of premises failed to reimburse the municipality for electricity, water and insurance costs, and failure on behalf of the users to file the relevant tax returns as a result of which the municipality incurred expenses for covering their real estate and garbage taxes.

**Concessions:**

- ✓ Laying down non-compliant economic and financial selection criteria for the participants and requiring certification documents that are not required by law;
- ✓ Notifying the bidders of subsequent session of the Evaluation Committee after the expiry of the statutory three-day deadline; signed contracts not containing key provisions required by law.

**Implementation of concession agreements:**

- ✓ Absence of control of the overall implementation of the concession obligations;
- ✓ Absence of reporting on the implementation of the investment programs of the concession holders. Failure to implement activities laid down in the agreed investment program;
- ✓ Failure on behalf of the concession holders to insure the relevant property and failure to present proof of the created and retained jobs contrary to the contractual obligations.
- ✓ Absence of interventions to ensure collection of concession fees in case of delinquency; and lack of controls for the implementation of the concession agreements.
- ✓ Failure to designate officials responsible for the annual reporting to the National Concessions Register regarding the implementation of the concession agreements;
- ✓ Significant outstanding lease and concession receivables and inefficient measures on behalf of the municipal administrations to ensure their collection.

### ➤➤ 3.1.5. Local fees and taxes

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

➤ *Ordinances on administering local taxes, fees, and service charges non-compliant with the Law on the Local Taxes and Fees.* This has been a recurring deficiency. Between 2017 and 2021, BNAO's audits established discrepancies between the Ordinances on Local Taxes and Fees/ Ordinances on Setting and Administering Local Taxes and Service Charges, and the Law on the Local Taxes and Fees in 82% of the cases;

✓ *There has been a continuous decrease in the collection rate of local taxes and fees* dropping down to 60-65%. All audited municipalities reported a decreased collection rate and an increase in outstanding receivables;

✓ *Some municipal budget estimates envisaged lower revenues* from local taxes and fees not taking into consideration the cumulative sum of actual receivables for the current year, and the outstanding ones. In violation of the Public Finance Act, certain municipalities adopted their annual budgets without identification of the outstanding receivables from local taxes and fees planned for collection during the respective year. This resulted in misrepresentation of the collection/ overreporting of collection of 90% or revenues from local taxes and fees in the municipal budgets;

➤ *The planned revenues* in some municipal budgets from Vehicle Tax, Real Estate Tax and Garbage Collection Tax were not aligned with the cumulative amount of statutory taxes payable by the taxable persons, and were calculated based on data concerning the collection rate during preceding years (also identified during the 2021 audits);

- *Some arrangements in place* for planning revenues from Vehicle Tax, Real Estate Tax and Garbage Collection Tax *do not ensure the provision of valid information* as a basis for adequate governance decisions regarding the revenue parameters in the municipal budgets (also identified during the 2021 audits); in planning the local taxes and garbage collection charges, some revenue administrations did not conduct analyses of the outstanding previous years' payables and the actions taken to ensure their collection; failure to write off ex-officio the liabilities, which are past their ten-year statute of limitation, and failure to compile an assessment reports thereof (also identified during the 2021 and 2020 audits);
- *Absence of effective internal controls* in administering revenues from local taxes and fees. *Lack of risk assessment and controls* to ensure the timely identification of outstanding payables; no notification of the debtors and no preliminary measures for collection. In all audited municipalities, the size of outstanding payables for garbage collection was significant;
- *Failure to introduce written arrangements and designate officials* responsible for the collection of local taxes and garbage collection charges in villages under the administration of specific municipalities;
- *Failure on behalf of the municipal revenue authorities to take timely action* and apply all measures prescribed by the Tax and Social Security Procedure Code to ensure collection of outstanding public receivables from Vehicle Tax, Real Estate Tax and Garbage Collection tax, thus contributing to the drop in the overall collection rate. As a result, part of the receivables passed their ten-year statute of limitation, which led to writing off of significant debt (also identified during the 2021 and 2020 audits);
- *Failure to issue protocols for the identification of the overall outstanding debt* of delinquent taxable persons;
- *Failure to register in the municipal accounting system* outstanding receivables from Vehicle Tax, Real Estate Tax and Garbage Collection tax. As a result, these were not disclosed in the Reports on the cash execution of municipal budgets submitted to the Ministry of Finance.
- *Significant amounts of the outstanding public receivables* have been accrued due to delinquent legal entities and sole traders undergoing insolvency procedures, and due to entities deregistered from the Commercial Registry or undergoing liquidation. Collection of such receivables is difficult (also identified during the 2021 and 2020 audits);
- *Absence of controls over the functioning of municipal revenue authorities*, which preconditions violations of the principles of legality and objectivity laid down in the Tax and Social Security Procedure Code, especially with regard to cases of late filing of tax returns on real estate, vehicles and garbage tax. This may preclude the effective administrative sanctions and lead to loss of significant revenue in the municipal budgets (also identified during the 2021 and 2020 audits);
- ✓ Certain municipal administrations failed to conduct checks on the declarations filed by taxable persons for eligibility for exemption from tax collection and transportation charges thus allowing unjustified exemption (also identified during the 2020 and 2019 audits). Failure on behalf of the municipal revenue authorities to *conduct checks and audits to establish facts and circumstances* important for the identification of tax liabilities, and audits to identify local tax liabilities within the competence of the municipalities (also identified during the 2021 audits);

✓ *Municipal councils setting higher garbage tax tariffs (in pro mils) than the ones prescribed by law* due to the lack of methodology for reporting on the accounts under art. 66 of the Law on Local Taxes and Fees. This led to the Court repealing certain municipal council decisions as non-compliant with the legislation, and instructing the respective municipalities to set-off/ reimburse the overly charges;

✓ The audits identified discrepancies between the data declared in the tax returns and the information entered by the municipal administration in the information system on the local taxes and fees. This resulted in *setting lower real estate, vehicle and garbage tax rates* (also identified during the 2021 and 2020 audits);

✓ *Failure to impose administrative sanctions* for delayed filing of local tax and garbage tax returns;

✓ No arrangements in place for deferral of local tax liabilities (also identified during the 2021 and 2020 audits);

✓ Some municipalities failed to declare their entire estate (in their capacity as taxable entities) or failed to pay real estate and garbage taxes for some private municipal property and garbage tax for public municipal property (also identified during the 2021, 2020 and 2019 audits).

#### 4. OUTCOMES OF THE PERFORMANCE AUDITS

**Performance auditing** is a review of the effectiveness, efficiency and economy of the planning, implementation and control at all audited entity's levels of management. **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 2022, BNAO's Board endorsed **2 final performance audit reports**.

The reports on **3 other performance audit engagements** are at the stage of obtaining feedback from the audited entities' management, and drawing up corroborated conclusions. The final audit reports on them are expected to be endorsed by BNAO's Board at the beginning of 2023.<sup>6</sup> In 2022, **BNAO continued working on 5 additional audits carried forward from**

<sup>6</sup> The performance audit on the topic: "Management, control and monitoring of funds under Maritime Affairs and Fisheries Programme - 2014-2020" covering the audited period between 01/01/2016 and 31/12/2020 was endorsed with decision No 15 of BNAO's Board dated 18/01/2023.

Performance audit on the topic of "Effective and transparent use of public funding to overcome the consequences of COVID 19 Pandemic: economic measures for micro, small and medium enterprises" covering the audited period 01/02/2020 through 31/03/2021;

Performance audit on the topic of Administration of Irregularities covering the audited period 01/01/2017 through 31/12/2020.

previous periods, and 5 new audits under its 2022 Program. The latter will be carried into 2023.

The conducted audits were grouped in the following thematic areas:

Audit report endorsed in 2022	Ongoing audit engagements during the period ended 31/12/2022	
<b>Education, science, and culture</b>		
		<b>Management of EU funded programs and projects</b>
	Ensuring high-quality school education; audited period 01.01.2019 through 30.06.2023	European funding for research, innovations, and digitalization; audited period 01/01/2020 through 31/12/2022.
<b>Agriculture and environment</b>		
		<b>Management of EU funded programs and projects</b>
<a href="#">„Effective and transparent use of public funding for overcoming the consequences of the COVID 19 Pandemic“ – support measures for farmers in the period 01/02/2020 through 31/03/2021</a>	„Effective management of Vitosha Nature Park in the period 01/01/2018 through 31/12/2021.	„Performance audit on Public Procurement Contracts for Streets – Building, reconstruction and/ or rehabilitation of new and existing streets and sidewalks and the adjacent facilities“ under sub-measure 7.2. of measure 7 „Key services and renovation of villages in rural areas“ part of the Rural Development Programme 2014 – 2020; audited period 01/01/2018 through 31/12/2021.
<b>Social interventions and employment</b>		
		<b>Management of EU funded programs and projects</b>
<a href="#">„Effective and transparent use of public funding for overcoming the consequences of the COVID 19 Pandemic“ – interventions for social support and assisted employment in the period 01/02/2020 through 31/03/2021.</a>		
<b>Health care</b>		
		<b>Management of EU funded programs and projects</b>
	„Implementation of health-care measures in relation to the COVID – 19 Pandemic in the period 01/02/2020 through 31/12/2021.	



	„Implementation of the national programme for improving mother and child health care in the period 2021-2030“; audited period 01/01/2021 through 31/12/2022	
<b>Economy, Energy and Tourism</b>		
		<b>Management of EU funded programs and projects</b>
	„Efficiency of measures in support of tourism to overcome the COVID-19 crisis“; audited period 01/02/2020 through 31/12/2021.	
<b>E-government. Digitalization and digital transformation</b>		
		<b>Management of EU funded programs and projects</b>
	„Optimizing the organization of public administration registries;“ audited period 01/01/2019 through 31/12/2022.	„Audit of the Management and Monitoring of IT Systems“; audited period 01/01/2016 through 31/12/2021
<b>Transport and transport infrastructure</b>		
		<b>Management of EU funded programs and projects</b>
		„Performance audit of priority axis 1 of OP Transport and Transport Infrastructure 2014-2020“; audited period 01/01/2017 through 31/12/2021

#### 4.1. Outcomes of the performance audits completed during the period

##### ➤➤ 4.1.1. Agriculture and environment

**„Effective and transparent use of public funding to overcome the consequences of the COVID 19 Pandemic“ – support measures for farmers during the period 01/02/2020 through 31/03/2021.**

This audit engagement was one of a series of audits included in the 2020 Annual Audit Programme of the Bulgarian National Audit Office in response to the joint efforts of the International Organization of Supreme Audit Institutions (INTOSAI) to strengthen SAIs contribution to society by drawing their attention to the measures put in place by the

**national governments to overcome the consequences of the COVID-19 Pandemic and the public expenditure thereof.**

This audit engagement and the rest of the audits planned for the purpose of analysis and evaluation of the effective and transparent use of public funding to overcome the consequences of the COVID-19 Pandemic in different economic sectors in Bulgaria followed similar methodologies to ensure comparability of results.

**Key audit question: Is public funding allocated for overcoming the consequences of the COVID-19 Pandemic in the period 01/02/2020 through 31/03/2021 used effectively and transparently?**

**Audited entities:** Ministry of Agriculture and Food and the National Agriculture Fund.

**The audit concluded that: the Ministry of Agriculture and Food and the National Agriculture Fund ensured effective use of public funding to overcome the consequences of the COVID-19 Pandemic in view of the following:**

- putting in place arrangements to ensure timely approval of interventions for farmers' support;
- actual allocation of financial resources for support;
- high relative share of approved applications and paid out support under measure 21 „Ad-hoc temporary support for farmers and SMEs affected significantly by the COVID 19 crisis“ under the Rural Development Programme 2014-2020;
- positive outcomes in applying the state aid scheme.

Under general measure 21 „Ad-hoc temporary support for farmers and SME affected significantly by the COVID 19 crisis“, a total of 31,201 farmers/ SMEs received cumulative financial support of 79,440,273 BGN achieving coverage of 91,55% of all farmers, SMEs, clusters and organizations of Bulgarian producers that filed for support.

**In the meantime, the audit identified some deficiencies.** Their correction will help ensure better clarity, predictability and protection of the interests of applicants; reliability of the progress evaluation under different indicators, and the maximum possible absorption of funds planned for interventions for overcoming the COVID-19 Pandemic under the Rural Development Programme 2014 – 2020. Some of the more significant deficiencies are as follows:

- No designated hyperlinks with information concerning the opportunities for farmers to apply for support under the COVID-19 measure. If presented separately, this information would facilitate the promotion of the measure among the stakeholders. The Single Information Portal on COVID-19 does not contain information on some of the measures;
- The financial allocations in programming measure 21 „Ad-hoc temporary support for farmers and SME affected significantly by the COVID 19 crisis“ under the Rural Development Programme 2014 – 2020, were not based on analyses and projections concerning the number of potential beneficiaries. It is unclear how the budgets of the sub-measures were calculated;
- Relocation of 11% of the projected funding under measure 21 „Ad-hoc temporary support for farmers and SME affected significantly by the COVID 19 crisis“ to other measures of the Programme while the Pandemic was still ongoing;
- The arrangements in place for extending and use of the support for farmers and SMEs were not sufficiently detailed;

- Failure to comply with the requirements for informing the applicants in line with the provisions of the Law on Managing the EU Structural and Investment Funds.

The Managing Authority of the Rural Development Programme 2014 – 2020 and the National Agriculture Fund ensured timely monitoring through regular reporting on the progress of the interventions for farmers targeting the overcoming of the COVID-19 consequences. The statutory requirements for reporting to the Minister of Agriculture, Food and Forestry and to the EC were followed strictly.

## ➤➤ 4.1.2. Social affairs and employment

### **„Effective and transparent use of public funding to overcome the consequences of the COVID 19 Pandemic“ – welfare and assisted employment measures during the period 01/02/2020 through 31/03/2021**

**Kye audit question:** Is public funding allocated for overcoming the consequences of the COVID-19 Pandemic through welfare and assisted employment measures used effectively and transparently?

**Audited entities:** Ministry of Labor and Social Policy (MLSP), Employment Agency (EA) and Social Assistance Agency (SAP).

**Audit conclusion:** During the period 01/02/2020 through 31/03/2021 the Ministry of Labor and Social Policy, the Employment Agency and the Social Assistance Agency implemented pro-active policies for timely introduction of social assistance and employment promotion measures to help overcome the consequences of the COVID-19 Pandemic. **Public funding was used effectively and transparently.**

The audit identified insufficient interest in the use of loans extended through the financial instruments under OP Human Resource Development 2014-2020. There is a risk of non-attainment of the expected outcomes and benefits from the application of the financial instruments as an intervention for overcoming the COVID-19 consequences.

The Ministry of Labor and Social Policy, the Employment Agency and Social Assistance Agency **undertook timely and adequate measures to identify, design and approve:**

- a) social assistance measures applied by the SAP;
- b) measures in support of job retention and creation, applied by the EA;
- c) financial instruments designed for start-ups and social enterprises funded under OP Human Resource Development.

With respect to the decision making on the selection of adequate interventions for social and employment assistance to help overcome the consequences of the COVID-19 pandemic, the audited entities conducted analyses and projections on the scope of target groups and the needed financial allocations. They identified the sources of funding in consultations with the Ministry of Finance and the National Tripartite Council/ the Monitoring Committee of OP Human Resource Development 2014-2020, thus ensuring broad institutional and public support. The draft documents were discussed with all line ministries.

**The design of the measures was aligned with the targets and their predefined scope.** The parameters and deadlines for implementation of each of the stages under the measures, the eligibility criteria and the arrangements for evaluation, reporting and control were clearly defined.

To avoid unnecessary administrative burden, the type and number of application and reporting documents were designed carefully. Procedures for ex-officio checks in the relevant databases were introduced together with alternative options for filing documents – on the spot, by mail or email.

**The audited entities drew up clear and detailed rules, procedures and document templates for monitoring each of the stages in the project development.** No special arrangements for appeal were introduced. Appeals are filed under the general arrangement in the respective agencies.

No actions were taken to ensure the timely adaptation of the financial instruments using public resources applied for SMEs, start-ups and social enterprises for the duration of the COVID-19 crisis. Therefore, the instruments were launched not earlier than the end of 2020.

**The Ministry of Labor and Social Policy, the Employment Agency and the Social Assistance Agency put efficient arrangements in place for the implementation of the approved measures.**

The audited entities conducted monitoring of the progress and current check-ups, and prepared analytical reports to inform the taking of adequate corrective measures.

**The following results were achieved after the launch of the measures on 31/03/2021:**

- one-off lump sum welfare payments in relation to the COVID-19 pandemic were extended to 3,813 families identified as eligible through means-testing. There were no delays or denial of welfare allowances due to lack of funding.

- one-off lump sum allowances for eighth-grade students under art. 12a of the *Law on Measures and Interventions during the State of Emergency introduced with a Parliamentary decision dated 13 March 2020 and on Overcoming the Negative Consequences* (hereinafter *The Interventions Law*) were paid to the families of 24,124 students during the 2019/2020 school year, while in 2020/2021 the average number of students who received support was 22,594;

- a total of 47,414 families were identified as eligible to receive monthly targeted allowances for parents of children below the age of 14, while the average number of families who actually received monthly allowances was 42,179, i. e. 89% of all eligible families;

- In total 193 municipalities and regions provided targeted assistance through the Ad-Hoc Programme “Warm Lunch at Home” during the state of emergency in 2020, i. e. 73% of all municipalities in the country. 24,000 senior citizens (over the age of 65) living under the poverty line and over 11,000 individuals with disabilities received assistance under this programme;

- 13,000 employers received assistance under the 60/40 employment protection measure;

- 2,422 employers (employing cumulatively 28,000 employees) received assistance under the project “Short-term employment assistance in response to the COVID-19 pandemic” funded under OP Human Resource Development 2014-2020.

The number of contracts signed with end-beneficiaries for preferential microlending with shared risk-taking was disappointingly low.

Only one financial instrument, namely *Portfolio Guarantees with a cap on microlending losses* was not applied through 01/12/2021 due to failure to sign an agreement with the financial intermediary for applying the preferential lending conditions.

#### 4.2. Summarized conclusions regarding the performance audits



**The audits on the efficient and transparent public spendings for the implementation of measures and activities aiming at overcoming the consequences of the COVID-19 pandemic identified the following:**

- reasonably, the mobilized national resources to ensure quick and adequate support for the population and the vulnerable groups were focused in the area of social protection and employment. The Ministry of Labor and Social Policy and its agencies, incl. the Employment Agency and the Social Assistance Agency implemented some of the earliest support measures in this area, incl. through the adaptation of existing social protection measures and using well established schemes and statutory arrangements to ensure support for the most vulnerable social groups;
- as expected, the support for businesses, incl. farmers was sought through the opportunities provided by the EU funds. The procedures for the extension of such assistance take longer, however, the arrangements were simplified through the provisions of the Law on the Measures;

- Regardless of the complex situation during the Pandemic, the administrations of the audited entities managed to organize their operations in 2020-2021 in such a way as to ensure timely support of the affected groups, by taking adequate actions to promote the launched measures and introducing adequate arrangements for application and timely administration of the support measures.

The identified deficiencies are as follows:

- ambiguous allocation of financial resources and changes thereof under the sub-measures for farmers funded out of the Rural Development Programme 2014 – 2020;
- failure to achieve the goals under part of the financial instruments for support under OP Human Resource Development 2014-2020;
- failure to meet the deadlines for implementation of some of the procedures related to evaluation of the applications for support under the employment retention measures funded under OP Human Resource Development 2014-2020.

The main reasons for the irregularities are as follows:

- deficiencies in planning and designing the support measures;
- lack of stakeholder interest, experience and culture with respect to the possibilities to use financial instruments v. s. the possibilities to use grants;

- insufficient administrative capacity of the bodies responsible for the simultaneous administration of numerous measures for social and employment assistance during the Pandemic.

## 5. OUTCOMES OF THE SPECIFIC AUDITS

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



In 2022, BNAO's Board endorsed 12 specific audit reports.

These include audits of:

- ✓ Reports on the execution of the State Budget of the Republic of Bulgaria, the Budgets of the Public Social Security System and the National Health Insurance Fund;
- ✓ Budget expenditure of the Bulgarian National Bank and its cost management;
- ✓ Commercial entities with 50% or over 50% state shareholding;
- ✓ Financial operations and management of estate provided for use by political parties;
- ✓ Financing of election campaigns.

Based on these audits, the management of audited entities received constructive recommendations for overcoming the root-causes of the identified deficiencies, and the improvement of the audited operations and processes.

### 5.1. Conclusions from the specific audits conducted during the period

#### ➤➤ 5.1.1. Audits of the budget execution and budget expenditure statements

##### [Audit of the 2021 statement on the execution of the state budget of the Republic of Bulgaria](#)

The audit identified that the statement submitted to the National Audit Office is in line with the requirements laid down in the Public Finance Act, the effective internal rules and the guidance issued by the Minister of Finance. The revenues are reported in line with the indicators laid down in the 2021 Law on the State Budget of the Republic of Bulgaria. **There is a 106.8% execution of the revenues, aid and donations projected in the Budget Law**, which is due to the over execution of the planned tax revenue.

The audit identified *excessive engagements for expenditure, higher than the maximum permitted cap through 31/12/2021*. These were made by two primary budget financed entities. The auditors identified also *excessive new liabilities higher than the statutory*

*maximum for 2021* incurred by two entities, which constitutes a breach of article 88 of the Public Finance Act and of the budgetary discipline.

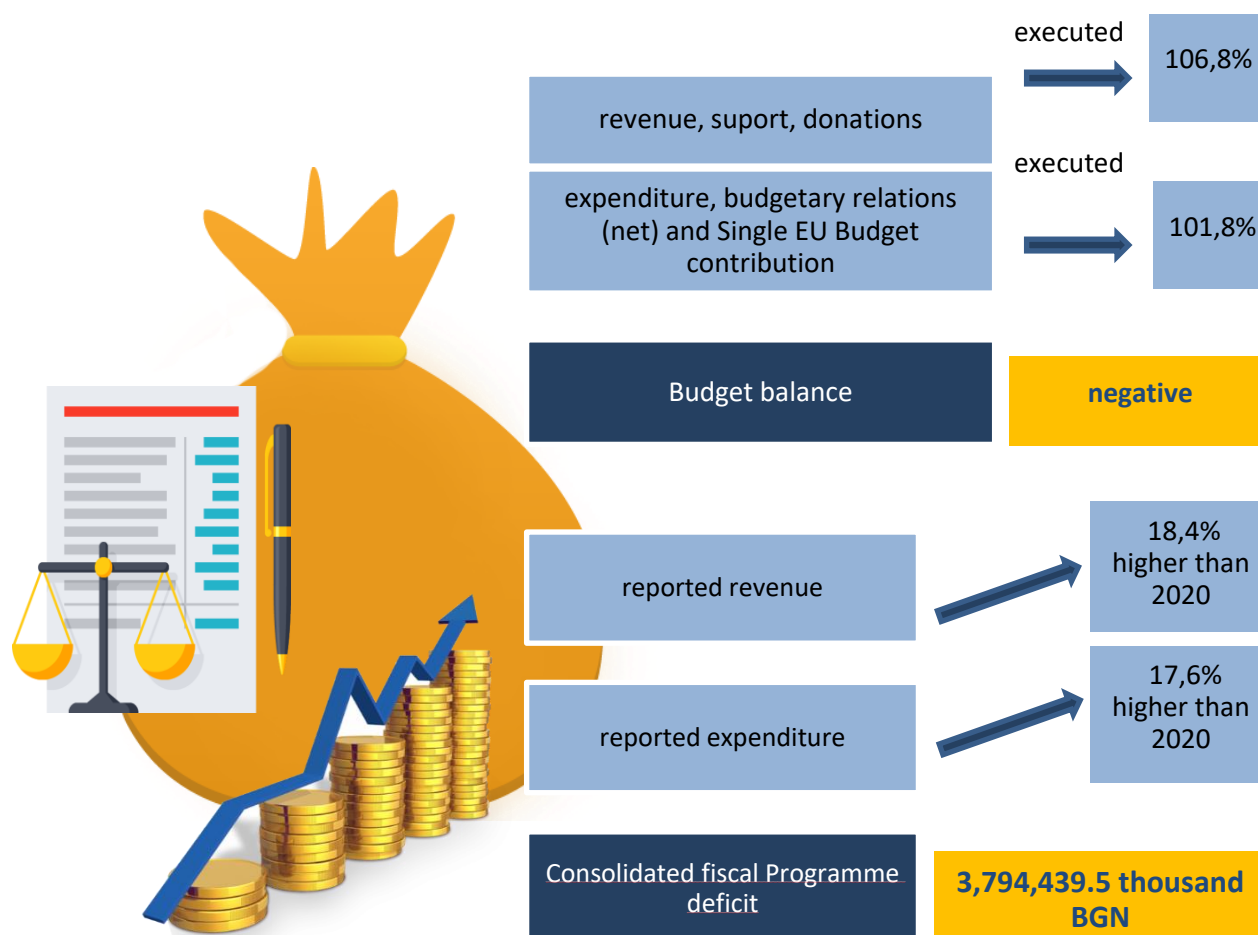
**The execution of the reported expenditure, the budgetary relations (net) and the contribution to the Single EU budget was at 101.8 percent compared to the indicators adopted in the 2021 Law on the State Budget.**

**The reported budget balance for 2021 amounts to (-4,270,419.3) thousand BGN, i. e. 1,355,261.1 thousand BGN less compared to the projections laid down in the 2021 Law on the State Budget.**

The financing operations (net) amount to 4,270,419.3 thousand BG, incl.: external financing (net) of 715,912.2 thousand BGN, internal financing (net) of 3,553,897.6 thousand BGN and privatization amounting to 609,5 thousand BGN.

**The incurred deficit** under the Consolidated 2021 Fiscal Programme amounts to **(-3,794,439.5) thousand BGN**. Reported revenue, support and donations was 18.4 percent higher compared to the previous year, while the contribution to the Single EU budget is 17.6 higher year-on-year.

The audit identified that **the management and control systems applied for drawing up and reporting of the state budget execution are in line with the legal framework**, and there are effective controls in place for the current monitoring of the drawing up, execution and reporting of the state budget.



### Audit on the execution of the 2021 Public Social Security System Budget

The Statement on the execution of the 2021 public social security system budget was drawn up, approved and submitted to the National Audit Office and Parliament in line **with the statutory procedures and deadlines**. The structure and contents of the statement are in line with the 2021 Law on the Budget of the Public Social Security System.

The reported **incoming transfers, expenditure and outgoing transfers** that were not projected in the 2021 Law on the Budget of the Public Social Security System **are in line with the effective legislation**.

**Social security revenues** for 2021 in the budget of the public social security system are **1.4 % smaller than planned**, which is predominantly due to non-collection of revenues from social security contributions of workers (personal contribution) and self-employed individuals.

**Total expenditure in the budget of the public social security system is 0.8% smaller than planned**, which is mainly due to the smaller expenditure for paying out pensions and for programmes, activities and social assistance and employment promotion services.

In 2021, **the share of government financing in the social security spending went up** at the expense of the state budget, since the government increased its financing for pensions, welfare benefits and allowances, and employment promotion measures to support the individuals and sectors affected by the COVID-19 pandemic.

The public social security budget execution statement reported a **surplus of 69,095.5 thousand BGN**, while the 2021 Social Security Budget Law did not project any deficit (surplus).

**The controls put in place through internal rules were efficient and consistent throughout the audited period**. The financial management and control system ensured compliance of the audited processes with the statutory requirements.

### Audit of the 2021 National Health Insurance Fund Budget Execution Statement

The Statement on the Execution of the 2021 National Health Insurance Fund (NHIF) Budget **is in line with the structure, indicators and requirements laid down in the 2021 NHIF Budget Act**. The reported revenue, expenditure and transfers are in conformity with the provisions of the Health Insurance Act.

The statement on the execution of the 2021 NHIF budget was approved by the NHIF Supervisory Board and submitted to the National Audit Office in line with the applicable legislation. However, the statement was not submitted to Parliament through the Minister of Health and the Council of Ministers within 30/06/2022, **which constitutes a breach of art. 30, paragraph 1 of the Health Insurance Act**.

**The reported revenues and transfers are 8.4 % higher than planned in the 2021 NHIF Budget Act**.

**The revenue from health insurance contributions was 1.9% higher than planned for 2021**.

**The reported revenues and transfers were 7.5% higher than planned in the 2021 NHIF Budget Act**.

**The 2021 NHIF Reserve Fund** amounting to 153,162 thousand BGN **was spent** for health insurance payments **in line with the statutory requirements**.

The 2021 NHIF budget was balanced. **A positive balance of 44,112 thousand BGN** was reported at year-end.



During the audited period, **the audited elements of the financial management and control system were working well, except for the controls on the submission of the statement on the execution of the 2021 NHIF budget.** These controls failed to ensure compliance with the statutory requirements.

#### [Audit of the 2021 budget expenditure of the Bulgarian National Bank, and its budget management](#)

The conducted audit identified **compliance in all significant aspects** of the audited areas, namely: **managing the planning, incurring and reporting of budget expenditure of the Bulgarian National Bank (BNB), and managing the award of public procurement contracts.**

The planning of budget expenditure and the adoption of the 2021 BNB budget were conducted in line with article 48, paragraph 1 and article 50 of the Bulgarian National Bank Act and the Internal Rules on drawing up, execution and reporting of the BNB budget.

The planned operational and investment expenditure were not fully absorbed. There was an 85.6% execution of the planned operational costs, while the projected investment expenditure was executed at 34.4 %.

The total budget expenditure of the BNB amounts to 122,790 thousand BGN and was incurred in line with the limits for the separate indicators approved by the BNB Managing Board and planned in the 2021 budget of the bank.

Some corrections were introduced in the 2021 BNB budget, which were in line with the Internal Rules on drawing up, execution and reporting of the BNB budget and article 48, paragraph 1, and article 50 of the Bulgarian National Bank Act.

The expenditure incurred by the BNB in 2021 was in line with the statutory requirements, it was supported by underlying documents, and corresponded with caps on the separate cost indicators set out in the 2021 BCB budget.

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

The internal control achieved its goals; the control procedures were effective and consistent during the audited period.

#### **➤➤ 5.1.2. Audits of commercial entities with 50% or over 50% state or municipal shareholdings**

##### [Compliance audit on the award and implementation of contracts under the Public Procurement Act by the company “Montazhi EAD” during the period 01/01/2017 through 31/12/2020.](#)

This audit was conducted following a Decision dated 25/02/2021 of the 44<sup>th</sup> National Assembly (SG issue 18 from 02/03/2021). The compliance audit on the award and implementation of public procurement contracts by “Montazhi EAD” for the period 01/01/2017 through 31/12/2020 was followed by the issuance of audit report No1000200321 adopted with Decision No 047 from 24/03/2022 of BNAO’s Board. Based on item 6 of this decision, **the final audit report and the materials to it were submitted to the Prosecutor’s Office in line with article 58, paragraph 1 of the National Audit Office Act.**

**Audit of the actions by the Minister of Health in exercising the state's ownership rights in commercial entities with 50% or over 50% state shareholdings; audited period 2019 through 2020.**

**Key audit question:** Did the Minister of Health ensure effective exercising of the state's rights in commercial entities with 50% or over 50% state shareholdings within the system of the Ministry of Health?

**The audit informed the conclusion that during the audited period the Minister of Health did not ensure sufficiently the effective exercising of the state's rights in commercial companies with state-owned shareholdings.**

The following conclusions were made based on the audit procedures and audit evidence:

**The arrangements in place do not ensure the effective exercising of the state's rights in commercial companies with state-owned shareholdings,** because of the following:

- The 2020 National Health Strategy does not contain clear strategic goals concerning the state intervention in the management of hospitals. The exercising of state's rights in the commercial entities is hampered additionally due to the lack of clear policy on the state's involvement in the management of public entities, which precludes the timely identification of the existing problems and analysis of the results to inform managerial decisions.

- Before the enactment of the Law on Public Enterprises and the Rules on its implementation, the provisions concerning the exercise of state's rights in commercial entities within the health-care system with state-owned shareholdings were scattered in numerous laws and regulations. This hampered the effective implementation of the audited activities. The large number of legal acts regulating these matters was a precondition for lack of consistency and/or omissions, hence inefficient controls. With the adoption of the Law on Public Enterprises and the Rules on its implementation, the fragmentation of regulations was overcome. However, the application of numerous provisions was deferred, resulting in delaying the effect of the new rules and precluding the effective implementation of the audited activities.

- The internal rules on the management of hospitals and other companies with state-owned holdings in the health-care system were not updated timely; they were not aligned with the new legislation and did not cover in full the audited activities. The rules on exercising the state's rights in enterprises with state-owned shareholdings (repealed) and the Internal Rules do not provide for effective controls in the entities with state-owned holdings where the state is not the sole shareholder (i. e. 41 percent of all hospitals). Part of the internal documents relevant to the audited activity were not updated as of the audited period.

**The Minister of Health will have to cope with the challenge of optimizing the controls and improving the management of hospitals with state-owned shareholdings.** The management rights in the commercial entities within the health care system were exercised despite the following deficiencies in implementing the audited activities:

- Absence of controls over the remuneration and the good governance guarantees of the entities' management, and over the planned targets in their business programmes, incl. the planned financial outcome in the sole-owner commercial companies, which precludes the effective planning of operations and the objective evaluation of the benefits (effects) for the society.

- During the audited period, the Ministry of Health did not receive any revenues and/ or property from the commercial entities in liquidation, since the liquidation procedures were ongoing and the value of non-allocated assets could not be estimated. The Ministry of Health did not take timely actions and did not perform systemic control on compliance with the legislation concerning the timely submission of the necessary documents to assignees in liquidation. As a result, the liquidation procedures took too long precluding the optimum income and benefits for the state. The deadlines of the liquidation procedures were extended several times without justification for these decisions on behalf of the sole owner. The failure to appoint assignees in liquidation or their frequent replacement also contributed to the lengthy procedures and the ineffective liquidation processes.

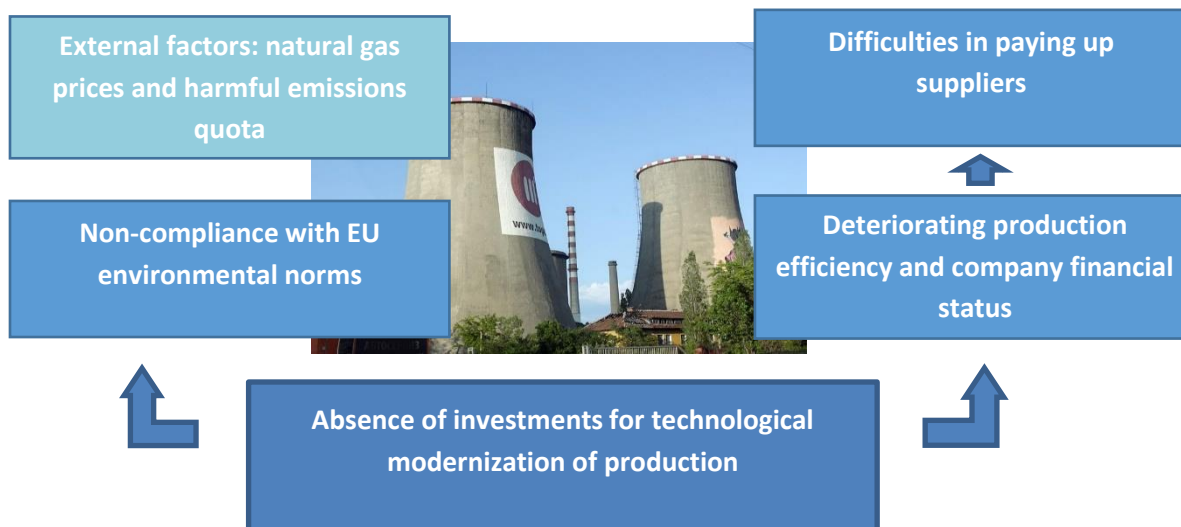
Based on the introduced standards on the financial operations, the Ministry of Health collects and publishes key indicators regarding the financial condition of hospitals with the aim of enhancing the efficiency of their management and the controls on the expenditure of public funds for health care. Despite the invested efforts, in 2020 the share of hospitals in need of immediate interventions increases, while the number of those in good financial condition dropped. During both years of the audited period, the number of hospitals needing immediate interventions was the largest, while the smallest group were the hospitals in good financial situation. During the second year of the audited period, there was a certain decrease in the outstanding liabilities. The majority of hospitals had liabilities from previous periods. **In 2020, due to the COVID-19 pandemic, state-owned hospitals endured the main burden of the epidemic and found it difficult to execute their planned revenues due to the suspension of a number of medical activities and services.** In 2020, the monitoring by the Ministry of Health focused mainly on the preparedness of hospitals to curtail the pandemic-related crisis.

#### [Audit of heating utility company “Toplofikatsia Sofia EAD” for the period 2018 - 2020](#)

**The audit engagement covered 4 audit areas:** Management of “Toplofikatsia Sofia EAD”, Financial Status of “Toplofikatsia Sofia EAD”, Management of the real estate of “Toplofikatsia Sofia EAD” and Planning, award and implementation of public procurement contracts. **The following significant areas of non-compliance with the legal framework, the internal documents and the agreements were identified within the audited period:**

**The management and control of the municipal joint stock company were awarded without a public tendering procedure.** The good governance guarantees deposited by the members of the Board of Directors, the Supervisory and Managing Boards were lower than the statutory requirements. The annual activity reports and the annual financial statements of the heating utility company for 2019 and 2020 were not verified and approved by the Supervisory Board.

**With respect to the financial status, the audit identified absence of timely actions and significant progress on the overall technical renovation and modernization of the heating plants and transit network.** The investments, maintenance works and the production indicators laid down in the 2015 – 2019 Business Plan were not executed in full. The approved retroactive prices of natural gas and heating energy, and the liabilities for reimbursing the supply chain resulting thereof had a negative impact on the cash flows. The payment of the loan to the Bulgarian Development Bank taken with the aim of overcoming the liquidity difficulties resulted in obligations to channel cashflows outside the operational costs of the company.



**Regarding estate management, the audit identified the following:** poor management of the real estate of the company – housing and commercial estate; long term lease of real estate in the absence of tendering procedures, and multiple extension of the lease contracts or extension for indefinite period; failure to update the lease rates under the long-term lease contracts; outstanding liabilities under the contract and absence of collection measures.

**On the planning, award and implementation of public procurement contract, the audit identified the following:** public procurement planning was not compliant with the internal rules; the company awarded public procurement contracts without following the publicity requirements in the case of 7 public procurement procedures; one contracting procedure that was conducted in the absence of a call for proposals, while there were no legal grounds for such form of contractor selection; in the case of one public competition, the contract was concluded after the expiry of the statutory deadline; in case of one contract, the contractor failed to submit all required documents; two contracts were signed after the expiry of the statutory deadline, while part of the required documents were not published in the buyer's profile; there was delay of the works under one of the contracts without charging of default payments for delays; in the case of two contracts, the provided performance guarantees did not cover the entire duration of the contract, while in case of four contracts the guarantees were not reimbursed to the contractor within the statutory deadlines; part of the contracts were not subjected to consultations and the double signature principle was not applied.

### ➤➤ 5.1.3. Audits of political parties, coalitions of parties and nomination committees

#### [Audit of the 2020 financial operations and the management of estate provided to political parties](#)

**The 2020 Annual Financial Statements of the political parties** and the relevant notes to them **were submitted to the National Audit Office within the statutory deadlines.** They contain all elements required by the Accountancy Law and the applicable accounting standards. The form, structure and presentation in the Annual Financial Statements correspond to the requirements of art. 34 of the Law on the Political Parties. **All political parties have followed the requirements of the Accountancy Law regarding the organization and functioning of their accounting systems.**

**The generated revenues and incurred expenditure by political parties were in line with the statutory requirements.**

**The state subsidy reported in the annual financial statements of the political parties corresponds to the amounts granted by the Ministry of Finance.** In line with article 5, paragraphs 1 and 2 of the Transitional and Final Provisions of the Law amending the Law on Political Parties<sup>7</sup>, the Ministry of Finance recalculated the annual state subsidies extended to political parties and coalitions in the period from 26/05/2016 through the enactment of the Law. Under article § 5, paragraph 4, item 2 of the Transitional and Final Provisions of the Law amending the Law on Political Parties, six of the audited political parties which were required to reimburse the extended state subsidy received 50% of the 2020 subsidy, while three of the political parties that were required to reimburse the received subsidies were not granted any subsidy in 2020. In line with article 5, paragraphs 5 through 7 of the Transitional and Final Provisions of the above Law, the political parties were required to reimburse the extended subsidies within 31/01/2021. After this date, the subsidies were subject to collection by the National Revenue Agency. **Out of all audited political parties, five reimbursed the received excess part of the subsidies into the state budget, while four parties failed to reimburse the cumulative amount of 104,626 BGN through 01/09/2021.**

**The management of the property provided to the political parties by the state and/or by municipalities was performed in line with the effective legal framework and agreements, with the exception of the identified significant irregularities,** such as: failure to regulate the gratuitous right of use through the signing of new contract in line with the legislation. This irregularity was identified with respect to 44 estates that are private municipal property and one estate that is private state property. These were provided for free-of-charge use to 6 political parties (in line with annexes, additional agreements, mayoral orders, and letters).

The public registers of political parties were maintained and updated in compliance with the legislation, except for part of the declarations concerning the origin of donations made to one of the audited political parties in 2020. These donations were entered in this party's register dated 2021.

With respect to the compliance with the Election Code during the campaign for the partial elections and the new local elections conducted in 2020, the audits identified compliance with the legislation in all significant aspects.

**[Compliance audit of the declared revenue and expenditure in relation to the campaign for the 04/04/2021 Parliamentary elections.](#)**

<sup>7</sup> Promulgated in SG issue 50 from 25/06/2019, in effect as of 25/06/2019.

**All audited participants in the election campaign complied** with the requirement of the Election Code to submit to BNAO Reports on the Income, Expenditure and Engagements for Payments in relation to the election campaign, **with the exception of** one party and one nomination committee. All reports followed the template approved by the National Audit Office in line with article 172, paragraph 4 of the Election Code and contained in attachment all required underlying documents in line with article 172, paragraphs 1 and 3 of the Election Code.

**Six political parties, three coalitions of parties and one nomination committee did not comply with the statutory requirements** to provide the National Audit Office during the election campaign with timely information regarding facts and circumstances subject to publication in the Single Register under the Election Code.

All audited election campaign participants **complied with the statutory requirements concerning fund raising.**

**All audited participants followed the requirement to receive donations for the election campaigns exceeding 1,000 BGN only through wire transfers.**

Two political parties and four coalitions **continued to raise funds for their election campaigns, even after the end of the campaigns** in violation of the Election Code.

The audit identified a cumulative amount of 342,204 BGN in unreported expenditure by six parties and one coalition and cumulative unreported revenue of 90,373 BGN by seven parties and five coalitions.

Through the date of the audit, four political parties and one coalition of parties had outstanding payables to suppliers of goods at services amounting cumulatively to 103,890 BGN.

**The requirement for receiving donations exceeding BGN 1,000 to finance the election campaign only through wire transfers was breached by two political parties and one coalition.**

All audited election participants **complied with the legal requirement concerning the cap on the financing of the election campaign.**

#### [Compliance audit of the declared income and incurred expenditure in relation to the campaign of the participants in the Parliamentary elections held on 11/07/2021](#)

**All audited participants complied** with the deadline regulated in the Election Code for submission to the National Audit Office of a Statement on Income, Expenditure and Engagements for Payments in relation to the election campaign. All submitted statements follow the template approved by the BNAO in line with art. 172, paragraph 4 of the Election Code. They contain in attachment all required underlying documents in line with art. 172, paragraphs 1 and 3 of the Election Code.

**Five political parties, four coalitions, and one nomination committee did not comply with the statutory requirements** to provide the National Audit Office during the election campaign with timely information regarding facts and circumstances **subject to publication in the Single Register under the Election Code.**

All audited election campaign participants **complied with the statutory restrictions concerning the sources of funding** and support of election campaigns, **except for one party** which received an illegitimate donation from a natural person.

One political party **continued to raise funding for its election campaign** after the end of the campaign itself.

**The audit identified undisclosed expenditure by three parties and four coalitions of parties** amounting cumulatively to 117,262 BGN and **non-reported revenues by five parties and seven coalitions** amounting cumulatively to 70,081 BGN.

Through the date of the audit, **two political parties and three coalitions of parties had outstanding payables to suppliers of goods and services** amounting cumulatively to 62,010 BGN.

**All audited participants complied with the requirement for receiving donations exceeding BGN 1,000 for financing the election campaign only through wire transfers.**

**The amounts of funding for the election campaign of the individual election participants analysed during the audit did not exceed the upper limit set out in the Election Code for Parliamentary elections.**

#### [Compliance audit of the declared income and incurred expenditure in relation to the campaign of the participants in the Parliamentary elections held on 14/11/2021](#)

**All audited participants complied** with the deadline regulated in the Election Code for submission to the National Audit Office of a Statement on Income, Expenditure and Engagements for Payment in relation to the election campaign. All submitted statements follow the template approved by the BNAO in line with art. 172, paragraph 4 of the Election Code. They contain in attachment all required underlying documents in line with art. 172, paragraphs 1 and 3 of the Election Code.

**Three political parties and four coalitions did not comply with the statutory requirements** to provide the National Audit Office during the election campaign with timely information regarding facts and circumstances **subject to publication in the Single Register under the Election Code.**

One political party **continued to raise funding for its election campaign** after the end of the campaign itself.

**The audit identified undisclosed expenditure by three parties and two coalitions of parties** with a cumulative amount of 45,978 BGN and **non-reported revenues by four parties and six coalitions** amounting cumulatively to 87,606 BGN.

Through the date of the audit, **tree coalitions of parties had outstanding liabilities to suppliers of goods and services** amounting cumulatively to 78,508 BGN

**All audited election participants followed the requirement for receiving donations exceeding BGN 1,000 to finance their election campaign only through wire transfers.**

All audited election participants **complied with the statutory requirement concerning the cap on the total funding used for campaign purposes.**

#### [Compliance audit of the declared income and incurred expenditure in relation to the Presidential elections in the Republic of Bulgaria held on 14/11/2021](#)

**All audited participants complied** with the deadline regulated in the Election Code for submission to the National Audit Office of a Statement on the Income, Expenditure and Engagements for Payment in relation to the election campaign. All submitted statements follow the template approved by the BNAO in line with art. 172, paragraph 4 of the Election

Code. They contain in attachment all required underlying documents in line with art. 172, paragraphs 1 and 3 of the Election Code.

**One political party and three nomination committees failed to comply with the statutory requirements** of providing the National Audit Office during the election campaign with timely information regarding facts and circumstances **subject to publication in the Single Register under the Election Code.**

**All audited participants complied with the statutory requirements for fund-raising.**

One nomination committee **continued to raise funding for its election campaign** after the end of the campaign itself.

The audit identified undisclosed revenues by one party, two coalitions of parties and one nomination committee with a cumulative amount of 42,711 BGN, and **non-reported expenditure by one party** amounting cumulatively to 23,200 BGN.

**All audited election participants followed the requirement for receiving donations exceeding BGN 1,000 to finance their election campaign only through wire transfers.**

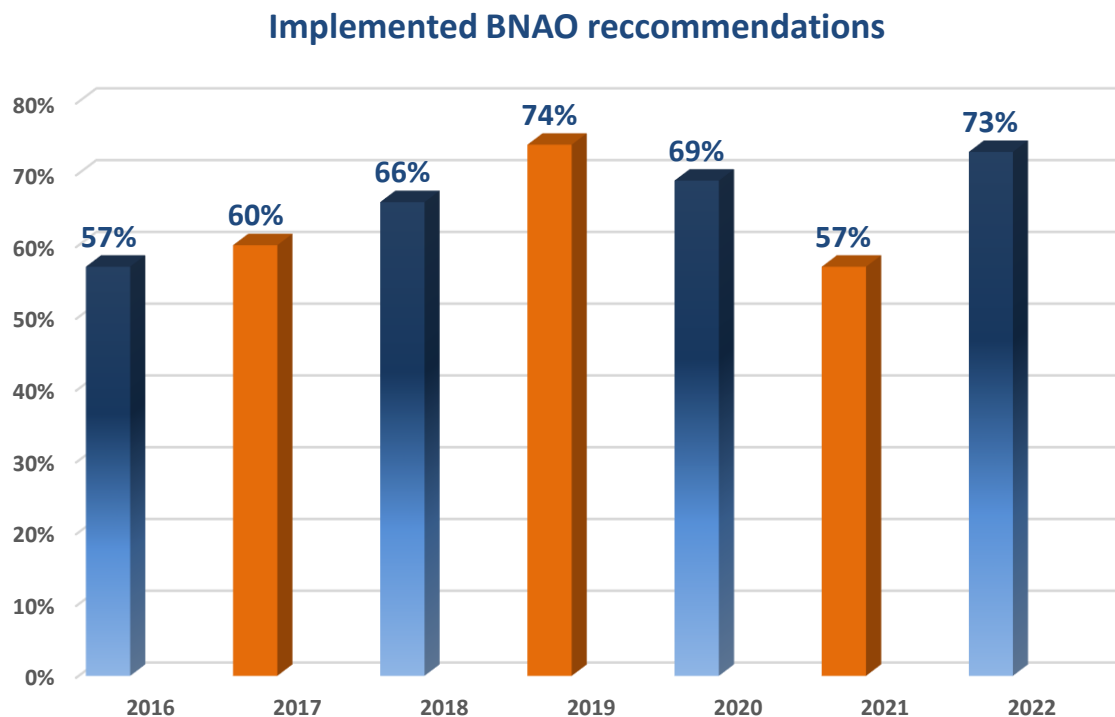
All audited election participants **complied with the statutory requirement concerning the cap on the total funding used for campaign purposes.**

## **6. COMPLIANCE WITH THE RECOMMENDATIONS ISSUED BY THE BULGARIAN NATIONAL AUDIT OFFICE**

**In 2022, the Board of the Bulgarian National Audit Office endorsed 41 final reports on the executed compliance, performance and specific audits. Twenty-eight of them contain constructive result-oriented recommendations.** The National Audit Office implements successfully its mission to improve the management and accountability of public finances by using one of its main instruments, namely issuing recommendations. Thirteen audit reports did not contain recommendations to the management of the respective audited entities, because 12 of the completed audits did not identify any significant discrepancies with the applicable legal framework (audits of the Bulgarian Academy of Sciences; Ministry of Justice; Bulgarian National Bank; Commission for the Regulation of Communications; the 2021 Statement on the Execution of the State Budget; the Budget of the National Health Insurance Fund; and the 2021 Budget of the Public Social Security System; financial operations and management of estate provided to political parties in 2020; the declared revenue and incurred expenses in relation to the campaign participants in the parliamentary elections held on 04/04/2021, 11/07/2021 and 14/11/2021, and the campaign participants in the Presidential elections held on 14/11/2021), while in the audit of the Ombudsman of the Republic of Bulgaria actions were taken to implement the recommendation issued in the draft audit report, and the necessary adjustments were introduced before the adoption of the final report itself.



Figure 6



**In 2022, based on instructions issued by the Vice - Presidents of BNAO, the auditors conducted 50 follow-up checks on recommendations**, incl. 34 first checks, 11 cases of secondary follow-up (on the recommendations issued based on compliance audits in the municipalities of Kameno, Chuprene, Slivo pole, Krivodol, and Parvomay; and on performance audits concerning: air quality; household waste management; monitoring and evaluation of OP Environment; administrative burden for farmers; e-health and access to public information). In four cases follow-up checks were conducted for the third time (in the municipalities of Sopot, Dimitrovgrad, Sandanski and Blagoevrad); and in one case follow-up a check was performed for the fourth time (on the Freight Service of the Bulgarian National Railways /BDZ – Freight/). The 50 follow-up checks tracked the progress on the implementation of recommendations issued in 49 final reports (in 2022, there were two follow-up checks in the municipality of Parvomay). **The purpose of these checks was to identify compliance between the issued recommendations, the information submitted by the management of the audited entities, the actual measures put in place and the actions taken for their implementation.**

The majority of follow-up checks were conducted regarding the recommendations based on compliance audits of financial management – a total of 35, incl. five follow-up checks repeated for the second time, and four repeated for the third time. The Performance Audit Directorate conducted 10 follow-up checks, six of which for the second time. The Specific Audit Directorate conducted five follow-up checks, one of them for the fourth time.

The number of conducted follow-up checks, and respectively the number of checked recommendations depends on the type and nature of the audit engagements, the deadlines

for the recommendation implementation, and the administrative capacity of the respective audit directorates. Six of the conducted checks followed up on the recommendations issued based on horizontal audits whose scope covers more than one public entity.

**The entities receiving recommendations are obliged to take the necessary measures for their implementation and to inform BNAO's President thereof in writing.** The follow-ups conducted in 2022 found that 53 of the audited entity managers (i. e. 58%) submitted notifications to BNAO within the established deadlines, nine managers filed their reports after the expiry of the set deadlines, while another **13 (i. e. 25%) failed to report on the introduced measures for implementing BNAO's recommendations.**

**In 2022, BNAO's auditors followed up on the implementation of 373 recommendations and 75 sub-recommendations.** This analysis covers both recommendations and sub-recommendations (i. e. 448), since there were individual checks to evaluate the progress on the implementation of each sub-recommendation.

The graph below shows the implementation of recommendations by types of audits:

Figure 7

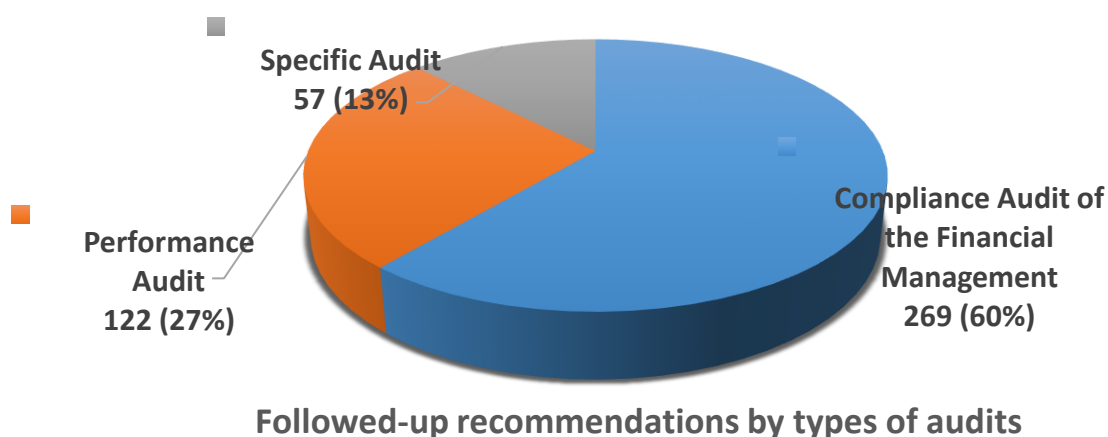
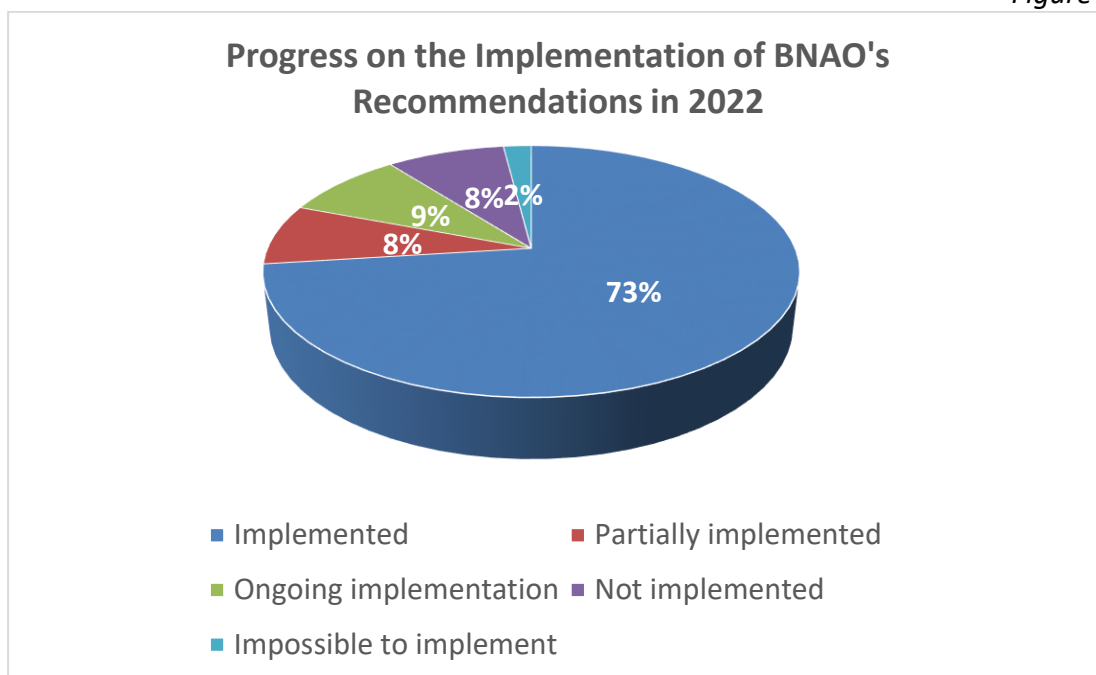


Figure 8



**In 2022, the implemented recommendations – 73% compared to 56.6% in 2021** had the highest relative share. Out of the total number of implemented recommendations (327), 63.9% were issued based on compliance audits of financial management. The implementation of recommendations issued by BNAO helps improve the processes related to budget execution, public procurement award and management of estate of ministries, agencies, public universities, and municipalities.

Ensuring compliance with the recommendations issued based on performance auditing aims to achieve effective, efficient and economic management of public funds and conduct of public business. In 2022, BNAO followed up on the recommendations issued during the performance audits of e-health care; the interventions concerning the main sources of urban air pollution; improving household waste management; reducing administrative burden for farmers; publicity and transparency of the public administration; anti-poverty measures; administration of VAT revenue; absorption of funds under three operational programmes – Environment, Good Governance and Science and Education for Smart Growth. The follow-up checks identified a 72-percent compliance rate with the recommendations (72 implemented recommendations out of 100), which helped improve the audited areas and achieve actual benefits for society.

The relative share of **partially implemented recommendations in 2022 was 7.8 % (compared to 10.3% in 2021)**, while the recommendations in the process of implementation constituted **8.7% (6.1% in 2021)**. In the first case, the responsible officials have taken the recommended action, however, there is no proof of achieved improvements or elimination of identified deficiencies, while in the latter case, the process of implementation was still ongoing. The progress on the implementation of recommendations demonstrates pro-active behaviour on behalf of the audited entities with respect to the irregularities identified during

the audits. Compliance with the recommendations demonstrates the entities' trust in the National Audit Office and their understanding that this will help improve their operations.

The relative share of cases in 2022 where the responsible officials failed to undertake the recommended actions and the recommendations were identified as **non-implemented was 8.5 %, i. e. 38** (compared to 23.6% in 2021, or 194).

In case of partial or ongoing implementation, or failure to implement the recommendations, BNAO informs the Parliament, Council of Ministers or the respective Municipal Councils for taking the necessary actions. Therefore, in 2022, seventeen reports were forwarded respectively to Parliament, the Council of Ministers (four reports), the Municipal Councils of Blagoevgrad, Vidin, Dimitrovgrad, Kotel, Krivodol, Laki, Parvomay, Razgrad, Sandanski, Slivo pole, Chuprene and Shumen.

**The third round of follow-up checks in Dimitrovgrad and Sandanski identified systemic non-compliance with the recommendations issued by BNAO and the reports were referred to the Minister of Finance to apply art. 107 of the Public Finance Act** with respect to the audited entities, namely reducing or suspending transfers/ lowering the payment limits to budget funded organizations.

The reports on the follow-up checks in three municipalities (Parvomay, Dimitrovgrad and Sandanski) were sent to the National Associations of Municipalities in Bulgaria to inform of partially implemented or non-implemented recommendations.

The relative share of recommendations which were **impossible to implement was 2% (9 recommendations)**. Following the issuance of the recommendations, there have been significant changes in the regulation of functions and activities subject to auditing or in their management making BNAO's recommendations void.

In 2022, BNAO passed 6 decisions for second follow-up on recommendations and 3 decisions for fourth follow-up (in the municipalities of Dimitrovgrad, Sandanski and Blagoevgrad).

## 7. ADMINISTRATIVE SANCTIONS

In 2022, BNAO took actions for administrative sanctioning in line with the following pieces of legislation:

- Public Procurement Act (PPA);
- Law on Political Parties (LPP);
- Election Code (EC);
- Concessions Law (CL).

As a result of the checks in the area of public procurement and in implementing BNAO's functions for administrative sanctioning under the Public Procurement Act, the Audit Office issued 70 protocols on administrative violations between 01/01/2022 and 31/12/2022.

Through 31/12/2022, the bodies responsible for administrative sanctioning passed decisions on 48 of these protocols, issuing 10 punitive orders, 33 warnings in line with art. 28 of the Law on Administrative Violations and Sanctions, and 5 resolutions on termination of proceedings. Regarding the rest of the cases, the decisions of the relevant authorities responsible for administrative sanctioning were due past the end of the reporting period 31/12/2022.

In 2022, there were also 3 additional punitive orders and 7 warnings under art. 28 of the Law on Administrative Violations and Sanctions issued in relation to 10 administrative sanctioning procedures initiated in 2021.

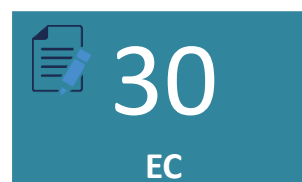
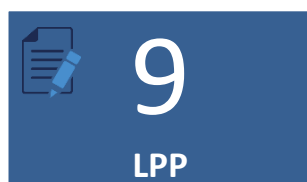
In implementing BNAO's functions for administrative sanctioning under the Law on Political Parties, between 01/01/2022 and 31/12/2022 the SAI issued 2 protocols on administrative violations.

The relevant bodies responsible for administrative sanctioning passed resolutions on them through 31/12/2022, issuing 1 warning under art. 28 of the Law on Administrative Violations and Sanctions and 1 resolution for termination of proceedings.

In implementing BNAO's functions for administrative sanctioning under the **Election Code**, between 01/01/2022 and 31/12/2022 the SAI issued 29 protocols on administrative violations.

The relevant bodies responsible for administrative sanctioning passed resolutions on 28 of these cases through 31/12/2022 issuing 8 penal orders, 19 warnings under art. 28 of the Law on Administrative Violations and Sanctions and 1 resolution on termination of proceedings. In one of the cases the decision of the relevant administrative sanctioning body was due past the end of the reporting period (31/12/2022).

In 2022, there were also 1 penal order, 8 warnings under art. 28 of the Law on Administrative Violations and Sanctions, and 4 resolutions on termination of proceedings in relation to 13 procedures initiated in 2021.





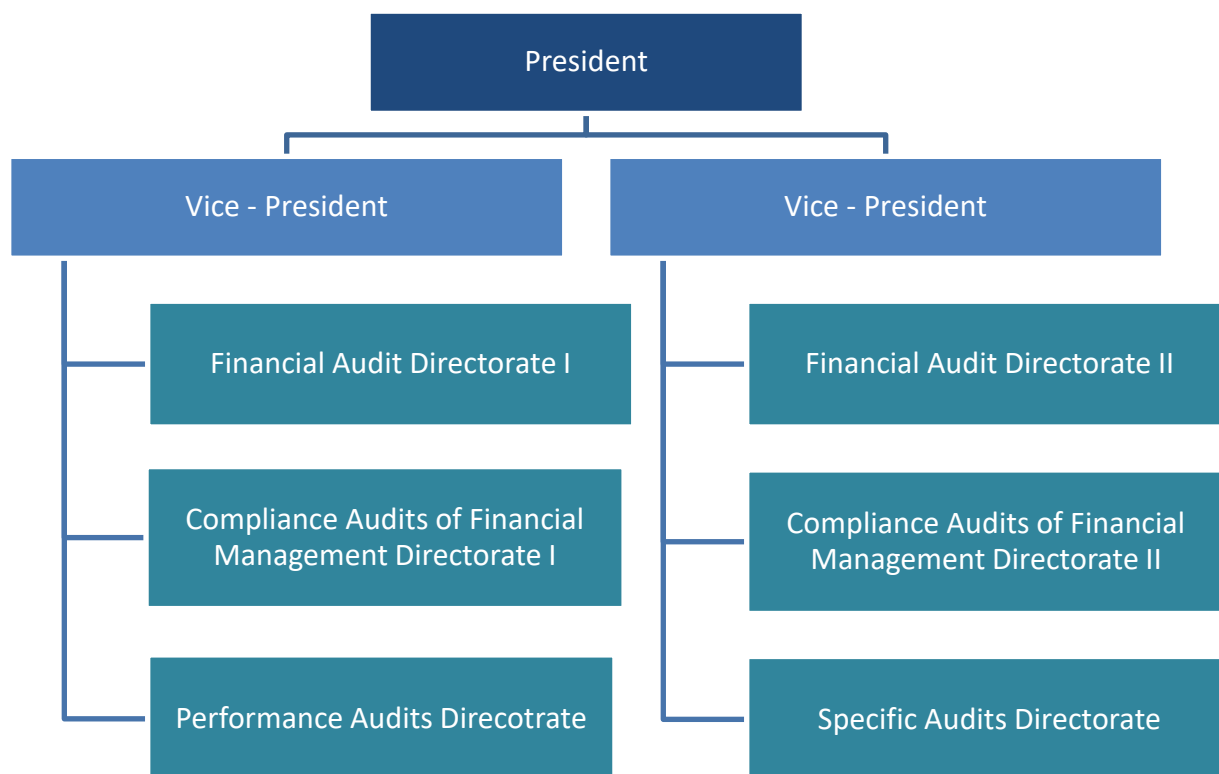
# MANAGEMENT AND ORGANISATIONAL STRUCTURE

## I. MANAGEMENT AND ORGANISATIONAL STRUCTURE OF THE NATIONAL AUDIT OFFICE

### 1. ORGANIZATIONAL STRUCTURE

In 2021, the audit function of BNAO was performed by six audit directorates, organized based on types of audits: two Financial Audit Directorates; two Compliance Audits of the Financial Management Directorates; one Performance Audit Directorate; and one Specific Audits Directorate. The latter conducts the mandatory audit engagements in line with the Law on the National Audit Office, audits under the specialized legislation and audits of state-owned enterprises and enterprises with over 50% state and/ or municipal shareholdings. The audit directorates are comprised of departments and regional units throughout the country. The audit directorates are managed by directors.

Figure 9



In performing its functions, BNAO is supported by six administrative directorates and their departments, the President's Office and an Internal Audit Unit.

## 2. INSTITUTIONAL AND ADMINISTRATIVE CAPACITY

In line with BNAO's staffing plan, through 31/12/2022 the SAI has a total of 401 staff members.

In 2022, the employment relations with 36 staff members were terminated due to the following reasons:

- ✓ Eligibility for retirement based on length of service – 6 cases;
- ✓ Upon request by the employee – 15 cases;
- ✓ Employees taking up other government office – 11 cases;
- ✓ Termination during the trial period – 3 cases;
- ✓ Death of an employee – 1 case.

In 2022, BNAO appointed 20 new staff members at the following positions: second degree senior auditor, methodologist – 1; trainee auditor– 16; experts – 3.

### Ratio of audit directorates staff to administrative staff

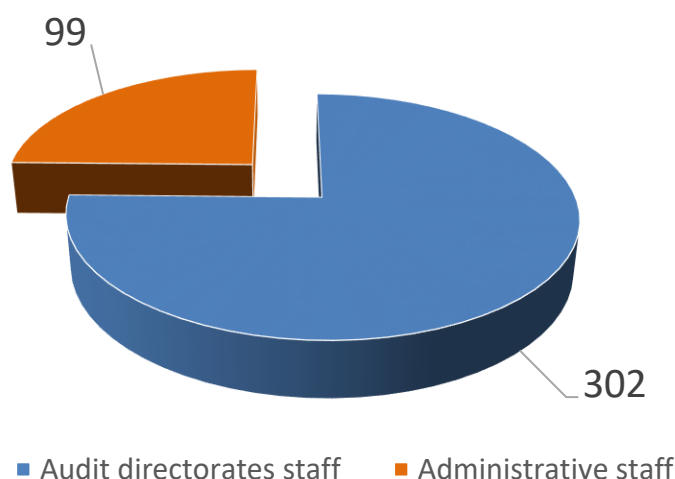


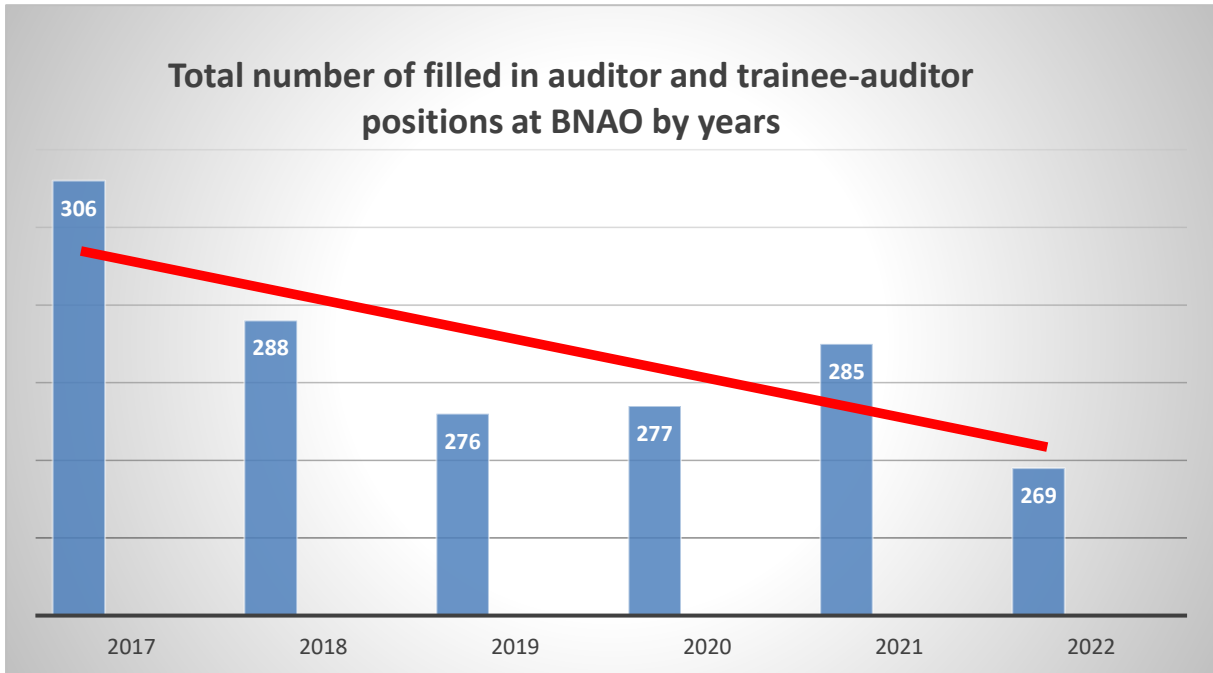
Figure 10

The number of staff of BNAO's audit directorates through 31/12/2022 is 302, allocated among the following positions: 6 directors of audit directorates; 16 heads of department within the audit directorates; 105 chief auditors; 37 second degree senior auditors; 29 first degree senior auditors; 48 auditors; 50 trainee auditors; 11 experts reporting to the directors of audit directorates. There are 269 occupied auditor and trainee- auditor positions at BNAO, 137 of them in the regional units.

Despite BNAO's constant recruitment efforts and announcing of competitions for the available vacancies, in recent years there has been a negative trend towards a reduction in the number of auditing staff.

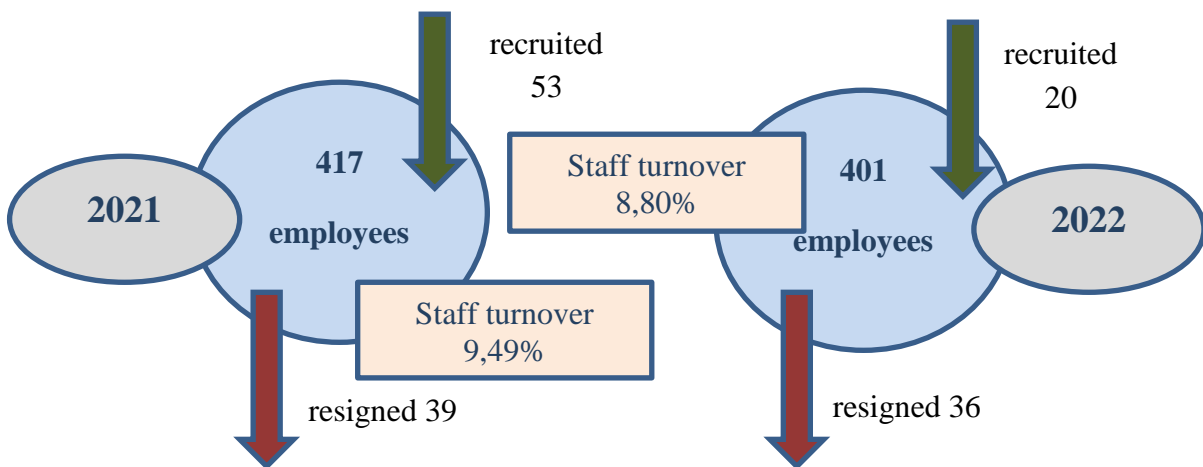


Figure 11



The root causes of this problem are complex. There are stringent criteria regarding the eligibility of BNAO’s staff, which is a necessary prerequisite to ensure objective and professional implementation of the internationally recognised standards of auditing by the SAI. Therefore, BNAO is in constant competition for highly qualified workforce with other control institutions in the public sector and with private audit firms. Meanwhile, the salaries of the auditing staff do not correspond to these strict requirements. As a result, BNAO is becoming a less attractive employer compared to other public sector organizations. An indication of this is the fact that 42% of employees leaving BNAO do so in order to take up another public office.

Figure 12



**All BNAO auditing staff members** hold master's degrees, six of them have a PhD. The majority of employees have economic (257 employees) and legal background (30 employees), and the rest have technical (15 employees) or other backgrounds.

**The administrative staff on the BNAO payroll consists of 96 employees**, 75 of them with higher education - 67 masters, and one PhD.

### 3. TRAINING AND QUALIFICATIONS

The training process at BNAO offers the staff the possibility to acquire, expand or improve their professional knowledge and skills, taking into account the structural and/ or individual goals based on the Annual Training Plan adopted by the National Audit Office.

**In 2022, BNAO conducted 94 professional training courses covering a total of 1,485 participants**, allocated among the following training programmes:

**1. Specialized professional training programmes** – the focus is on areas relevant to the operations of the respective audit directorates or administrative units. A total of 67 trainings were implemented on the following topics:

- Practical guidance on the implementation of the International Standards of Supreme Audit Institutions and the Manual on the implementation of the internationally recognized standards of auditing and the audit function of BNAO;
- Relevant issues with regard to the financial reporting by public sector entities;
- Amendments to the legal framework: Public Procurement Act; and relevant issues concerning the practice in implementing the Public Procurement Act and the Rules on its implementation;
- Personal data protection;
- Latest amendments to the Law on Administrative Violations and Sanctions;
- Combatting fraud in absorption of public funds;
- New technologies for governance;
- Relevant issues concerning the Labor Code and human resource management, etc.

**2. ICT training programmes** – aiming at providing knowledge and skills for using specialized software products. Fourteen trainings on the following topics:

- Information security;
- Auditing software for database analysis and control and/ or planning and managing audit activities and engagements;
- Database analysis and visualization;
- Applications for video-conferencing and webinars;
- Information and media literacy;
- Working with the centralized information system for e-procurement;
- Text processing programmes, electronic tables, pre-printing, video editing etc.

**3. Trainings on organizational management** – managerial knowledge and skills, specific leadership skills. Eleven trainings on the following topics:

- Developing communication, leadership and team management skills, teamwork;
- Collaborative innovations in managing administrations;
- The interview as an evaluation and recruitment instrument, etc.

4. **Foreign language training** aiming to develop the staff's linguistic skills. Two trainings for 10 employees on the following topics: communication skills in English and English language for EU institutions.

#### 4. AUDIT METHODOLOGY

The Bulgarian SAI performs its functions in line with the National Audit Office Act and the internationally recognized standards of auditing. BNAO's 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, and the application of the best auditing practices.

In 2022, 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:

- Further developing the methodological guidance and updating the working document template used to report on the check-ups on public procurement. The updates focus on collecting information on the outcomes of BNAO's audits of contracting authorities that the Public Procurement Agency considers risky based on the information submitted to the SAI;
- updating of working documents templates for ongoing controls and audits of the annual financial statements of public entities financed by the state budget;

The Audit Development Directorate is responsible for the overall enhancement of BNAO's audit methodology. It assists the audit directorates in the successful application of the new methodological guidance and the introduction of new audit techniques, including through the use of specialized audit software. Representatives of this directorate conduct specialized internal trainings and periodically publish answers to questions and specific case studies.

#### 5. INFORMATION AND COMMUNICATION

The 2022 audit of the Information Security Management System was completed successfully, which ensured the continuation of BNAO's certification process under the international standard ISO 27001:2013. This standard provides a framework for information security management systems (ISMS) ensuring information confidentiality, integrity and availability, as well as compliance with the legal provisions. The ISO 27001 certification is key for ensuring the protection of an organization's most important asset - information. The extension of the 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. A new system for IT monitoring was introduced within BNAO to

ensure real time surveillance of all critical information assets. The monitoring system covers predefined IT assets of key importance to BNAO. It provides ongoing monitoring and control of their status with an option of immediate response in case of an incident.

The construction of a Disaster Recovery Centre at BNAO's Regional Office in Lovech was completed. The purpose of this centre is to store electronic archives of BNAO's databases, which can be used for their recovery. The migration of IT systems to the new servers and storage arrays was completed together with the full migration of all information systems from the old to new storage arrays.

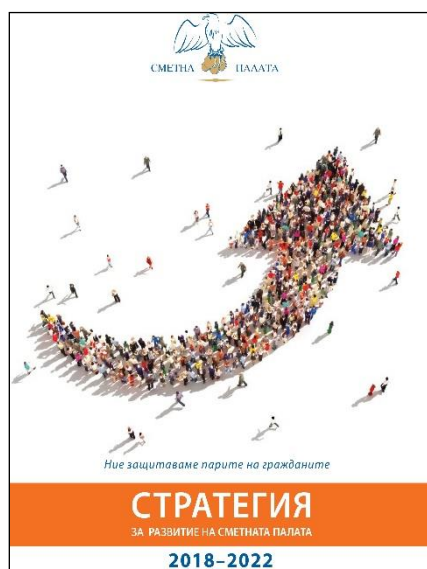
A new intranet portal was introduced at BNAO based on cutting-edge technological solutions with extended functionalities.

The configuration of a new structural cabling system was launched, since the existing one is obsolete and physically worn out which causes periodic disruptions in the institution's connectivity.

In 2022, BNAO deployed successfully the latest version of the Pentana software with 315 licenses, which the staff members use in the audit process. BNAO uses the Arbutus specialized software for database analyses. The ACL and Equa software is used to support the auditing process.

## 6. IMPLEMENTING BNAO'S STRATEGIC AND OPERATIONAL GOALS

**BNAO's Development Strategy 2018 - 2022** contains 16 strategic goals allocated in three priority areas with regard to conducting independent, effective and efficient audit activities, developing the human resource management system and improving public sector governance and accountability through strengthening stakeholder collaboration. It sets out specific interventions for attainment of the goals and indicators for measuring progress.



BNAO adopts **annual action plans to ensure the consistency between the strategic horizons of its overall development and the operational goals of each structural unit**. These documents outline the activities contributing to achieving BNAO's goals and designate responsible persons for them. The evaluations of the action plans implementation showed a trend towards increased non-performance, the main reason being the insufficient administrative capacity (insufficient number of qualified staff) and some external factors.

To overcome these difficulties, BNAO resorted to prioritizing its strategic goals and activities based on the latest international practices for SAI strategic management contained in the SAI Strategic Management Handbook developed by INTOSAI's Development Initiative (IDI). This procedure included outlining prerequisites for goal attainment; defining the cause-and-effect relation between goals; SWOT analysis of the impact of changes in the environment (incl. COVID-19 Pandemic) on the institution's strategic goals; and applying criteria for the evaluation of the significance and feasibility of each strategic goal and related activities. This prioritization exercise informed the decision where

the institution should channel its restricted resources to ensure the greatest value added for the audited entities and the citizens. BNAO's management discussed the matter and placed the focus on the implementation of several key tasks contained in the BNAO's Development Strategy 2018 – 2022 in an attempt to achieve the greatest possible positive impact for the institution's operations.

BNAO started an evaluation of the Strategy's implementation, which will be completed in 2023 and will inform society and other stakeholders of the attainment of BNAO's strategic goals based on the adopted performance indicators. It will also help identify possible weaknesses, which BNAO should try to overcome in the next five-year strategic period.

The Bulgarian SAI updates its Strategic plan annually and applies **a flexible approach to strategic management responding adequately to the new risks** and making sure that its audits are topical and add value for the main stakeholders and society at large.



## COOPERATION

### III. COOPERATION

#### 1. PUBLIC SECTOR ENTITIES, PROFESSIONAL AND NON-GOVERNMENTAL ORGANIZATIONS

In 2022, BNAO continued its cooperation with all stakeholders - citizens, professional and non-governmental organizations, academia, media. It also continued to provide the National Assembly with reliable information of the public sector state-of-play.

**The Subcommittee on the control of public spendings of the 48<sup>th</sup> Parliament discussed at one of its sessions BNAO's report on the outcomes of the 2021 financial audits.** The SAI's Board familiarized the Subcommittee with an outline of the 286 financial audits stressing on their importance for ensuring true and fair representation in the public entities' financial statements.



BNAO's Board took part in a **round table discussion organized by the Parliamentary Budget and Finance Committee** on the topic of inflation and economic growth, benefits, challenges and risks of the euro introduction in Bulgaria. The audit institution expressed its position that the good and transparent management of public finances is important for ensuring continuous sustainable economic growth. This can only be achieved by applying programme-based budgeting. This issue has often been revisited by the National Audit Office in its position papers on the execution of the state budget, and in an audit report on this topic which identified that the effective programme-based budgeting still remains a challenge in the public sector. Another important issue raised by BNAO's representatives during the round table was the need for effective management of state-owned enterprises which play a key role for the economic growth, and the need for strengthening the control on behalf of the line ministries exercising the state's ownership rights over these enterprises.

BNAO's audits offer significant support to municipalities with respect to the management of budgetary funds, while the financial audits ensure reliable accountability. **This conclusion was stressed during the 10<sup>th</sup> National Meeting of the Financial Directors of Municipalities.** BNAO's management discussed the contribution of financial audits conducted by the SAI in 2021 to the true and fair representation in the financial statements of municipalities. These statements are a basis informing effective decision-making. The Audit Institution outlined the weaknesses identified during the audits and the challenges, whose overcoming is of key importance for improving accountability, namely the adoption of a

consolidated financial reporting framework for the public sector, and full implementation of the accrual basis in accounting. The Forum was attended by representatives of the Ministry of Finance, the Public Financial Inspection Agency, and other public institutions.



In 2021, **BNAO received a recognition as a trusted partner of the Public Financial Inspection Agency** for the effective cooperation between the two institutions in the area of financial control. The certificate was handed by the Head of the Public Agency during an event marking the Financial Inspector Day. BNAO stressed its high appreciation of the cooperation with the State Financial Inspection Agency. The two institutions share a mandate for imposing sanctions in the area of public

procurement. In the face of the Public Agency BNAO sees a partner in a common cause – achieving a more reasonable and accountable management of public funds to contribute to the prosperity of the Bulgarian society. The SAI's representatives delivered presentations on the topics "BNAO's practices in the area of administrative sanctions" and "Key issues in applying article. 94, paragraph 3, items 1 and 2 of the Public Finance Act in relation to the maximum cap on the new annual obligations for expenses and on the expenditure engagements in municipal budgets".

***Effective anti-corruption efforts through the prism of best practices in auditing political parties and campaigns*** – this was the topic of a seminar organized with the support of the **Bulgarian Institute for Legal Initiative**, and with the participation of auditors from the Bulgarian National Audit Office, and leading European experts in this field. Keynote speakers were Doctor Magnus Oman – Europe Regional Director of the International Foundation for Electoral Systems (IFES), and Barbara Stonestreet – Law and Political Fundraising expert of the French National Commission supervising the funding of election campaigns and political parties. They shared their experience in the area of political fund-raising and control, and the electoral systems. The forum discussed the international standards, various approaches, and best accounting practices of political parties in EU countries – caps on donations, thresholds for their reporting, deadlines, etc., as well as maintaining electronic systems for reporting and disclosing income and expenditure of political parties and candidates. It was stressed that not only the reporting by political entities and election campaigns is key for ensuring the effectiveness of this process, but also the publicity of this financial reporting.

BNAO's management took part in an international scientific conference **„70<sup>th</sup> anniversary of the Department of Finance and Accounting of the University for National and World Economy”**. It was stressed that this department serves as a benchmark of high quality academic and professional training, and its alumni of thousands of accountants, financial experts, auditors are well-equipped to overcome challenges in both the private and public sector. The presentations were delivered in four sessions: "Financial brokerage and financial markets, financial management, and fiscal policy"; "Accounting policies, analysis and



standardization“; “Management control systems, audit, tax control” and an international session.

A conference entitled *“Economy of Fear”* marking the 20<sup>th</sup> anniversary of the **University of Insurance and Finance (VUZF)** was held under the auspices of BNAO’s President. The event acknowledged the contribution of Prof. Mihail Dinev and associate professor Georgi Nikolov as the main drivers in the successful restoration of the Bulgarian National Audit Office during the period of Transition, who also served as the first elected Presidents of the SAI. The participants stressed the importance of building bridges between the academia and the public entities – this university’s students are trained by some of the most successful public and private sector managers; once they graduate they find their career paths in these sectors and contribute to enhancing their administrative capacity. The conference was attended also by representatives of the Financial Supervision Commission, the Bulgarian National Bank, government institutions, regulatory bodies, and academia.

The Supreme Audit Institution participated as a **main partner in the eleventh edition of the *Young Auditor Competition* organized by VUZF and private audit firms**. The special prize “Acad. Ivan Gyuzelev” was awarded to student Milena Ivanova from the “D. Tsenov” Economic Academy in Svishtov. She got a one-month internship with BNAO. Over 50 students from 11 universities around the country took part in the 2022 edition of the national competition, whose aim is to promote the auditor’s profession among young people in Bulgaria.

The prize **“BNAO Partner – 2022”** was awarded to **prof. Boris Velchev – rector of the University for Insurance and Finance and Dimitrina Zaharinova – manager of Nexia EOOD** for their effective partnership with BNAO in training highly-qualified auditing and economic experts. The awards were handed by Ms. Lidia Rumeno (BNAO’s President 2014 -2015) and associate professor Georgi Nikolov (BNAO’s President 1995 – 2005). *VUZF* and *Nexia EOOD* support the development of the audit profession in Bulgaria also by being co-organizers of the *Young Auditor National Competition* contributing to the career development of young people.



Sharing basic human and professional values, such as empathy and justice, BNAO’s employees **did not remain passive in the aftermath of the crisis situations that struck Bulgaria and the world and extended a helping hand to the people in need**. Our staff raised funding to purchase some basic supplies for the people in Ukraine and dispatched them through the Bulgarian Red Cross. BNAO organized a campaign to raise funding for our colleagues from the Ukrainian Supreme Audit Institution and their families.

BNAO’s staff together with their colleagues from the Public Agency for Financial Inspection sent donations to the flood victims in the village of Bogdan. The two institutions joined efforts in this charity campaign and used the raised funds to purchase home appliances for families whose homes were destroyed by the floods now living in container houses.

BNAO's staff participated in a fund-raising for the *I Want a Baby* Foundation. At a meeting after the campaign, the participants stressed that BNAO also made a contribution for solving some of the issues faced by many families. Following an audit of the Assisted Reproduction Centre for the period 01/01/2014 through 30/06/2016, and the issued recommendations, the Centre received additional financial allocations and was able to offer access to in-vitro procedures to a larger number of families for more than one reproductive attempt.

## 2. INTERNATIONAL ACTIVITIES

During the reporting period, BNAO's international activities were focused on activating and expanding the SAI's participation in initiatives of the international audit community contributing to enhancing its institutional and administrative capacity.

Due to the COVID-19 Pandemic, the majority of international events in 2022 took place online.

**As part of its international cooperation with the European Organization of Supreme Audit Institutions EUROSAI, BNAO attended the following events:**

- 15<sup>th</sup> annual meeting, workshop and international conference entitled "*30 years of progress towards digitalization in auditing*" as part of the IT Working Group, and a webinar on the data flow challenges for SAIs;
- The spring session of the Environmental Auditing Working Group with a focus on water supply and quality in the context of climate change; and the 20<sup>th</sup> annual meeting of the WG entitled "*Environmental Protection During Crises*";
- Eighth annual meeting of the WG on the Audit of Funds Allocated to Disasters and Catastrophes and a workshop on Methodological Approaches to auditing losses and damages caused by war conflicts;
- Sixth Annual meeting of the Task Force on Municipality Audit, and 5<sup>th</sup> annual workshop on "*Digitalization of public services and administration in municipalities*";
- Webinar: "*Countering corruption in public procurement*" as part of the Ethics Network;
- Meeting of the project group on preparation for future risks and climate changes;
- Two online meetings within the Project Group on Auditing the response to the COVID-19 Pandemic; lessons learned and focus on the employment support schemes after the Pandemic.

**Representatives of BNAO participated also in events within the INTOSAI's working groups:**

- Twenty-first annual meeting of the Environmental Auditing WG on the topic of "*Enhancing Sustainability*";
- Annual meeting of the WG on Public Debt Auditing, and three online meetings on the preparation of a report on the impact of health and other crises on public debt and its management;
- Meetings of the Forum for INTOSAI for Professional Pronouncements (FIPP);
- Thirty-first annual meeting and two webinars of the WG on IT auditing;
- Sixth annual meeting of the WG on Big Data;

- Two webinars organized by (iCED)<sup>8</sup> and the Environmental Auditing WG;
- Annual meeting of the WG on Evaluation of Public Policies and Programmes.

**Within the Contact Committee between ECA and EU SAIs, BNAO participated in:**

- Annual meeting of the VAT Working Group;
- Meeting of the Fiscal Policy Network.

**BNAO's representatives took part in conferences, seminars, trainings and webinars for sharing experience** on cyber security risks for SAIs and good mitigation practices; quality assurance methods in auditing; the future of the EU; new challenges before public sector internal and external auditors; public sector fraud detection; Data Envelopment Analysis (DEA); guaranteed lending and debt transparency; present and future work in relation to climate and the environment, etc.

The Bulgarian SAI participated online also in the annual conference of the Internal Audit Service of the European Commission; the annual meeting of the International Board of Auditors for NATO (IBAN) with the Competent National Auditing Bodies (CNAB); international conference entitled "*Financial transparency and accountability as key elements of good governance within NATO*"; annual meeting of the SAI liaison officers from EU countries; online meeting for the launching of a new EUROSAI WG on stakeholder collaboration, etc.

**BNAO's Board took part in a number of high-level fora, such as:**

- "*The Future of Europe*" – a conference organized by the SAI of France as part of the French Presidency of the EU Council. This conference offered the opportunity to discuss the lessons learned from the health crisis, to analyse the role of SAIs and to exchange best practices in overcoming future challenges.
- Annual meeting of the Contact Committee of EU SAI leaders with ECA. The focus of this meeting was on strategic tasks and challenges for the EU SAIs in evaluating the value



added of the Recovery and Resilience Mechanism at national and EU level.

- A meeting of SAIs following the Xlth EUROSAI congress. This forum was organized as a practical discussion following the EUROSAI Congress enabling the exchange of ideas and experience, as well as outlining the new challenges resulting from the complicated international situation.

<sup>8</sup> The International Center on Environmental and Sustainability Auditing of the SAI of India.



•XXIVth INTOSAI Congress. Some of the key issues discussed during the Congress were: how SAIs around the world may respond more adequately to the quickly changing environment, and to the global and regional disasters; how to strengthen SAIs' independence and professional capacity, and how to improve the partnership within the INTOSAI communities. The discussions revolved around two main topics: "SAIs' operations in crises" and "Global voice, global outcome, and broad impact".

**BNAO exchanged study tours with the SAI of the Republic of North Macedonia as part of their**

**bilateral cooperation.** During the visit of the Macedonian delegation to Bulgaria in the autumn of 2022, the two institutions signed a Cooperation Agreement aiming at ensuring new dimensions and horizons in their bilateral relations.

**BNAO** continued its cooperation with the European Court of Auditors during ECA's audits in Bulgaria. Auditors from the Bulgarian SAI participate in the preparation and implementation of these audit missions as an observer. There were meetings with Ms Iliana Ivanova, member of ECA to present the 2021 annual report on the Execution of the EU Budget.

BNAO finalized its contribution to the coordinated international audit on plastic waste management. A final online meeting was held in May which was attended by members of BNAO's Board and the Director of the Performance Audit Directorate.

**In discharging their obligations as auditors of EUROSAI** representatives of the Bulgarian National Audit Office in conjunction with the Croatian SAI conducted an on-site audit of the 2021 EUROSAI reports and related documents at EUROSAI's Secretariat headquarters in Madrid.

As part of the operational cooperation process, BNAO exchanged information in different surveys and answered questions coming from other SAIs with regard to various aspects of the national auditing practices. The National Audit Office contributed with publications in the journal of INTOSAI's Environmental Auditing WG and the Municipal Audit Task Force.

**BNAO** (junior partner) together with the Croatian SAI (lead partner) **implemented successfully the second twinning project** MK 18 IPA FI 03 20 "Improving External Auditing and Parliamentary Control", **with the SAI of the Republic of North Macedonia as a beneficiary.** The project was launched in February 2021, while the official closing meeting was held in October 2022 in Skopje. The activities under the four components of the project supported the efforts for building and stabilizing the 4 fundamental pillars of a modern well-functioning Supreme Audit Institution – independence, institutional capacity, good governance, publicity and transparency.





## **PUBLICITY AND TRANSPARENCY**

#### IV. PUBLICITY AND TRANSPARENCY

BNAO enjoys the confidence of the Bulgarian citizens and audited entities as demonstrated by the results of a nationally representative survey conducted by the Alpha Research polling agency in 2022. The survey conducted in line with the international best practices for SAIs covered around 1000 citizens and 80 entities subject to audit by the National Audit Office – ministries, state agencies and commissions, universities, political parties, state-owned enterprises, regional administrations and municipalities.

**The citizens' confidence in BNAO's audits has grown by 18 percentage points compared to 2016 reaching 55%, while the trust of the audited public sector entities has grown by almost 7 percentage points reaching 96.3% of respondents who gave a "firm yes" or "predominantly positive" answer to the relevant question.**



Compared to 2016 when the first such survey was conducted, there has been an improvement along almost all key indicators. BNAO comes third after the National Revenue Agency and the Bulgarian National Bank as the most recognizable institution controlling the public finances.

Almost 79% of the responding organizations believe BNAO's audits are truly impartial. The representatives of audited entities gave very high scores when asked to evaluate their

**When asked about the features best describing the organization, the respondents listed publicity and professionalism first.** The survey registered more respondents familiar with BNAO's functions (citizens are best informed about its financial audits). This translates directly in a better positive image and trust in the SAI.

collaboration with BNAO's teams and the audit reports. The three most prominent characteristics of the audit reports according to almost 80% of the surveyed audited entities are completeness, objectivity and convincing nature. Communication with the audit teams is not only highly appreciated, but also additionally underscored in the open-ended question regarding BNAO's greatest advantages. Eighty-eight percent of the respondents ranked the National Audit Office first as compared to the other control institutions; BNAO ranked 20% ahead of the next two institutions – the National Revenue Agency and the Public Financial Inspection Agency.

**Almost 69% of the surveyed participants were convinced that BNAO needs financial independence from the executive power.** One of the survey conclusions was that the issue of financial independence should be discussed separately and publicly – as a prerequisite for the implementation of the SAI's mission and functions.

BNAO earned the acknowledgement demonstrated in the survey by continuing in 2022 to invest efforts for adequate provision of information to its stakeholders and society at large. The SAI ensures full publicity of the outcomes of its operations in line with the National Audit Office Act and the principles of publicity and transparency.

**BNAO's webpage** is a key platform for providing information to citizens. It contains:

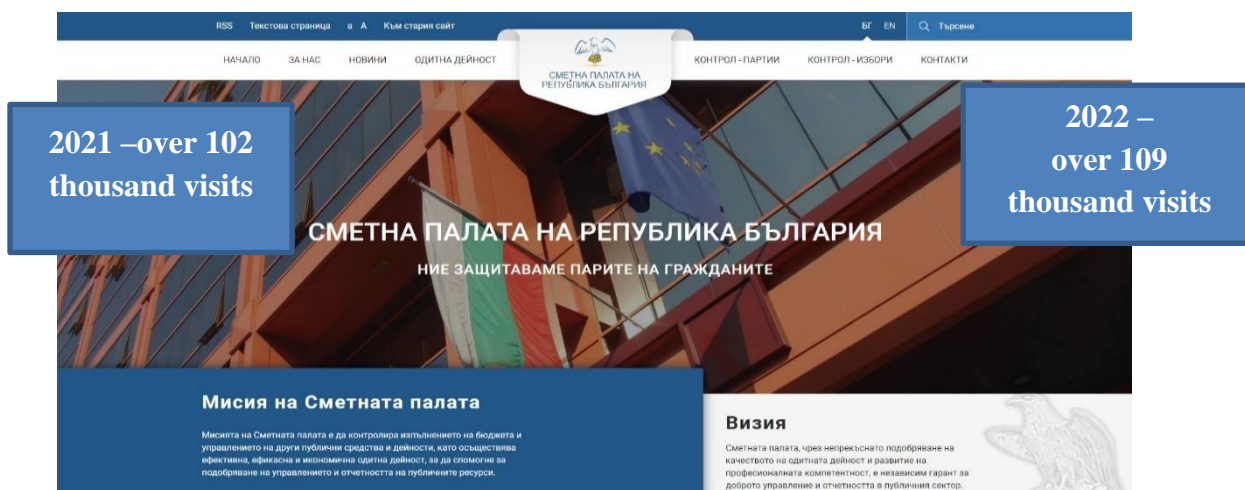
- All endorsed audit reports (except for the reports or parts thereof referred to the Prosecutor's Office);
- Reports on the follow-up of BNAO's recommendations;
- Notifications on submission of draft audit reports to the audited entities;
- Summary of the minutes of BNAO's Board meetings and the voting during those meetings;
- Information on the international activities and cooperation with the stakeholders;
- Career development opportunities, etc.

BNAO's webpage is an entry point to **the Uniform Register under the Election Code** which provides transparency of the financing of election campaigns, and contains the following data:

- Names of donors, type, purpose and size of the donations;
- Origin of Funds Declarations;
- Reports on the Income, Expenditures and Commitments for Payment in relation to the election campaign compiled by the election participants, etc.

BNAO published on its webpage information, document templates and guidance with the aim of facilitating the reporting by the participants in the October 2, 2022 Parliamentary elections and disseminated a leaflet of the requirements they have to follow. Through its webpage the SAI ensured full transparency of the 2021 financial reports of political parties and of their donors in line with the Law on Political Parties.





In 2022, BNAO's webpage had 109,332 visitors – an increase by over 6,6 thousand YoY. There was an increase in the number of new visits – over 80.7%, which can be explained with the increasing public interest towards the audit reports on the one hand, and on the other – with personal changes in the group of stakeholders.

BNAO published 46 [press-releases](#) concerning audit reports and the outcomes of its auditing and other functions. BNAO's representatives gave 12 media interviews in leading national media outlets informing the audience of the institution's functions. There were interviews in *24 Hours Daily*, *Banker Weekly*, the *Bulgarian National TV*, *bTV*, *Nova Television*, the *Bulgarian National Radio*, etc.

Our institution uses Facebook and YouTube to ensure broad promotion of its functions and to reach out to specific audiences. The social media posts contain information on the audit reports, brief videos explaining their contents; information on BNAO's cooperation with institutions, other SAIs and international organizations.

In line with the Law on Access to Public information, BNAO ensured such access to journalists, citizens and NGOs, and published its 2022 Report on its webpage.

To mark the Day of the Audit Profession – 20 December, BNAO awarded the 2022 prizes to its best auditors – a recognition for their contribution to the development of the institution:

**The prize 2022 Auditor of BNAO was awarded to Anelia Mitreva** – chief auditor in Financial Audits I Directorate. The award is a recognition of her high professionalism, competency, diligence and teamwork through which she contributed to the enhancement of public sector accountability. The 2022 audit engagements led by her identified misstatements amounting to 213,08,958 BGN. During the course of the audits, corrections of misstatements amounting to 161,989,804 BGN were introduced. She was also a member of an international team that conducted the audit of the 2021 EUROSAI annual report.



The **“2022 BNAO Audit Team”** prize was awarded to the team that conducted the audit of the annual financial statements of Mineralni bani municipality, Haskovo Region led by **Nikolinka Ivanova** – chief auditor in the Plovdiv regional office of Financial Audits II Directorate. Members of the team were: **Stoyan Nalbantov** – auditor (Plovdiv regional office); **Lyudmil Alexandrov** – chief auditor (Kardzhali regional office, **Lozko Lozev** - second degree senior auditor (Haskovo regional office). This financial audit was conducted with high professionalism and contributed to the attainment of BNAO’s priorities and strategic goals.

The prize **“2022 BNAO Leader”** „was awarded to **Tatyana Bagashka**, director of Financial Audits I Directorate and to **Yulia Yordanova - Kachkova**, Financial Audits II Directorate. These awards were recognition of their high professionalism, incl. in quality assurance of the audit reports and their continuous efforts to further develop the auditors’ administrative capacity and to establish an ethical and conducive environment.

In 2022, the Bulgarian National Audit Office continued its independent external audits of public funds and conduct of public business in line with the provisions of the National Audit Office Act and the internationally accepted auditing standards. Its financial audits contributed to ensuring true and fair representation in the financial statements of public sector entities, thus providing a solid foundation for decision-making. The compliance audits helped the audited entities improve their internal control systems, avoid infringements of the legal framework and the agreements vis-à-vis important functions such as public procurement, management of public estate, budget execution, etc. Through its performance audits BNAO raised important questions on the achieved value for money in an area of great importance for the Bulgarian society – overcoming the consequences of the COVID -19 Pandemic. The specific audits provided valuable information on the execution of budgets and activities of significance for the public finances.

BNAO's auditing contributes to strengthening accountability, transparency and integrity in public sector governance through its direct impact and through providing information to Parliament and other institutions mandated to introduce corrective measures. This is how BNAO continuously adds value to the benefit of society and contributes to the attainment of its ultimate goal – improving the life of Bulgarian citizens.

сътрудничество  
**безпристрастност**  
 добросъвестност  
 прозрачност  
 професионализъм  
 обективност  
**последователност**  
 конструктивност  
**независимост**  
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