



**BULGARIAN NATIONAL AUDIT OFFICE**

# **ANNUAL REPORT**



**2018**



**WE WATCH OVER CITIZENS' MONEY**

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*Dear all,*

*The underlying philosophy of the activities of the Bulgarian National Audit Office in 2018 was the conviction that through our efforts to enhance public sector governance and accountability we contribute to the better standard of living of the Bulgarian citizens and the improved credibility of public institutions.*

*One of the major priorities set out in our new 2018 – 2022 Development Strategy is to continue responding to the public's expectations in tackling issues that are directly relevant to them. Our goal is to ensure that we add value through our audits not only to the benefit of the citizens and institutions, but also for Parliament's sake by reporting on the accountability and effectiveness of public spending and conduct of public business.*

*Our ambition is to continue enhancing our professionalism, developing our administrative capacity and leading by example in the area of good governance. Our analyses point to a trend of increased compliance with BNAO recommendations, and fewer cases in which the audited entities have not acted on them. In 2018, we once again engaged in capacity building and upskilling of our human resources and used computer assisted audit tools in all our audit engagements.*

*Our international cooperation was especially beneficial. We launched an EU project on further improvement of the administrative capacity and efficiency of the North Macedonian Supreme Audit Institution (SAI) implemented by the Bulgarian National Audit Office (with the Croatian SAI as a junior partner). As part of the Bulgarian Presidency of the Council of the EU, we organized an international conference where 27 European SAIs (plus the ones of the Western Balkan countries) had the opportunity to exchange experience and discuss important national and European issues, incl. the independence of SAIs. We also worked on joint coordinated audits as part of the common European family.*

*This year saw the completion of the structural transformation provided for in the Anti-Corruption and Asset Recovery Law. As part of it, the Public Register Directorate that had ensured publicity and transparency of the senior public officials' wealth by checking 80 thousand wealth declarations since 2007 was transferred to a new government entity.*

*I would like to assure you that in submitting this 2018 Annual Report of the BNAO to Parliament in line with the Law on the National Audit Office, we are providing you with our wealth of expert knowledge on the entire public sector in our capacity of a modern European institution that applies the International Standards of Auditing.*

*Sincerely,  
Tzvetan Tzvetkov,  
President*

## I. ACTIVITIES OF THE NATIONAL AUDIT OFFICE

### 1. Background information

The Bulgarian National Audit Office (BNAO) is an independent institution conducting reviews of the reliability and credibility of public sector financial reporting, and the compliance, efficiency, effectiveness and economy of public spending and operations, and providing reliable reporting to the Bulgarian Parliament.

The National Audit Office consists of a President, two Deputy Presidents and two members appointed by the National Assembly. The President manages and organizes the conduct of BNAO's operations, while the Deputy Presidents are responsible for organizing the audit activities and ensuring the quality of audits. The members are representatives of professional organizations, namely the Institute of Chartered Accountants and the Institute of Internal Auditors in Bulgaria. They participate in the sessions of the National Audit Office and have a role in the endorsement of the audit reports. The National Audit Office adopts its decisions through open voting and a majority of four votes.

Between 1 January and 31 December 2018, the National Audit Office held 46 sessions, adopted 482 decisions and endorsed 30 compliance audit reports, 7 performance audit reports and 12 specific audit reports. Following the audits of the annual financial statements of public sector entities, the National Audit Office endorsed 252 financial audit reports compared to 292 during the previous year.

Six audit reports were submitted to the Speaker of Parliament, while another 19 were provided to different Parliamentary Committees, as follows:

- Budget and Finance Committee – 4 reports;
- Committee on Regional Policy, Public Works and Local Governance – 2 reports;
- Agriculture and Food Committee – 2 reports;
- Education and Science Committee – 2 reports;
- Environment and Water Committee – 2 reports;
- Committee on Transport, Information Technologies and Communications – 2 reports;
- Committee on EU Affairs and Control of EU Funding Absorption – 3 reports;
- Defense Committee – 1 report;
- Energy Committee – 1 report.

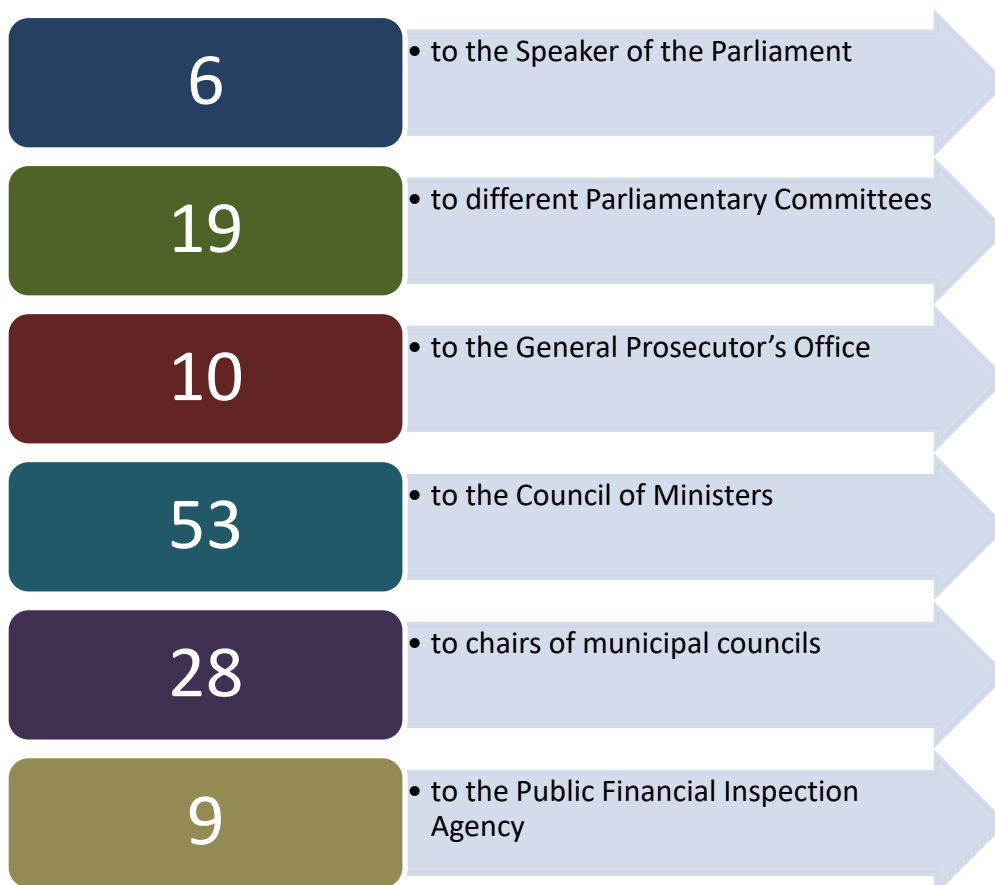
BNAO's findings, conclusions and recommendations from these audits provide Parliament with reliable information to support its parliamentary control activities.

Ten audit reports were referred to the General Prosecutor's Office because of suspected crimes. The Council of Ministers received 53 audit reports, the chairs of

municipal councils – another 28, while nine audit reports were addressed to the Public Financial Inspection Agency because of indications of infringements.



**Submitted reports:**





## 2. Outcomes of the Financial Audits

In 2018, the Bulgarian National Audit Office (BNAO) conducted audits of the 2017 annual financial statements of public sector organizations. Financial auditing is an expression of an **independent audit opinion with a reasonable degree of assurance** of whether the annual financial statements of a public sector entity are in line, in all material aspect, with the applicable financial reporting framework. This audit opinion helps increase the users' **confidence** in the information disclosed in the financial statements.

There are unmodified, qualified and adverse audit opinions. The unmodified audit opinion shows that the audited financial statements are free from misstatements and that the notes to them do not contain any omissions of non-financial information of relevance to the users. The financial statements on which the National Audit Office has expressed an unmodified opinion provide a true and fair representation of the financial status, financial results of operations and cash flows of the public sector entity. The National Audit Office expresses a qualified opinion when the audited financial statements contain material misstatements or omissions of important non-financial information, whose impact is restricted. Financial statements on which the National Audit Office has expressed a qualified opinion provide true and fair representation of the financial status, financial results of operations and cash flows of the public sector entity, except for 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, whose effect is pervasive. Financial statements on which the National Audit Office has issued an adverse opinion do not provide a true and fair representation of the financial status, financial results of operations and cash flows of the public sector entity. In exceptional cases, when the circumstances<sup>1</sup> prevent the auditor from conducting the necessary audit procedures, the National Audit Office may issue a disclaimer of opinion. It is impossible to conclude whether the financial statements on which the National Audit Office has issued a disclaimer of opinion provide true and fair representation of the financial status, financial results of operations the cash flows of the respective public sector entity.

In 2018 the National Audit Office reported on a total of 252 audits of the 2017 annual financial statements of public sector entities. A prevalent majority of 95 % of all reports<sup>2</sup> contain unmodified opinion (*see Fig. 1*). This is due to the fact that many of the misstatements identified by the auditors were adjusted during the course of the financial audits. The adjustments were introduced to make sure that the financial

<sup>1</sup> For example, when the audited entity's management refuses or is unable to provide to the auditors specific information due to reasons outside of its competence.

<sup>2</sup> Compared to other Supreme Audit Institutions in EU, the BNAO has issued a relatively high number of unmodified audit opinions. According to a study conducted by the SAI of the Czech Republic by type of modification, the relative share of unmodified audit opinions on the financial statements of the central government departments is as follows: Croatia – 25 %, Finland – 61 %, Lithuania – 64 %, France – 77 %, Cyprus – 80 %, Latvia – 85 %, Portugal – 93 %, Sweden – 94 %.



statements provide a true and fair representation of the financial status, financial results from operations and the cash flows of the public sector entities and therefore can serve as a reliable basis for decision-making at institutional, regional and national level. The number of unmodified opinions is an indication of the level of compliance with the applicable financial reporting network but not of the quality of public sector accounting; the latter being a function of the nature of the financial reporting framework.

The opinion of the National Audit Office on the eligibility and future development of the financial reporting framework is part of the Report on the outcomes of the financial auditing conducted by BNAO in 2018, which is published on the BNAO's website.

During the reporting period, the implementation of 88 financial audits of the financial statements for 2018 has begun, of which 23 of ministries, institutions and public universities and 65 audits of municipalities.

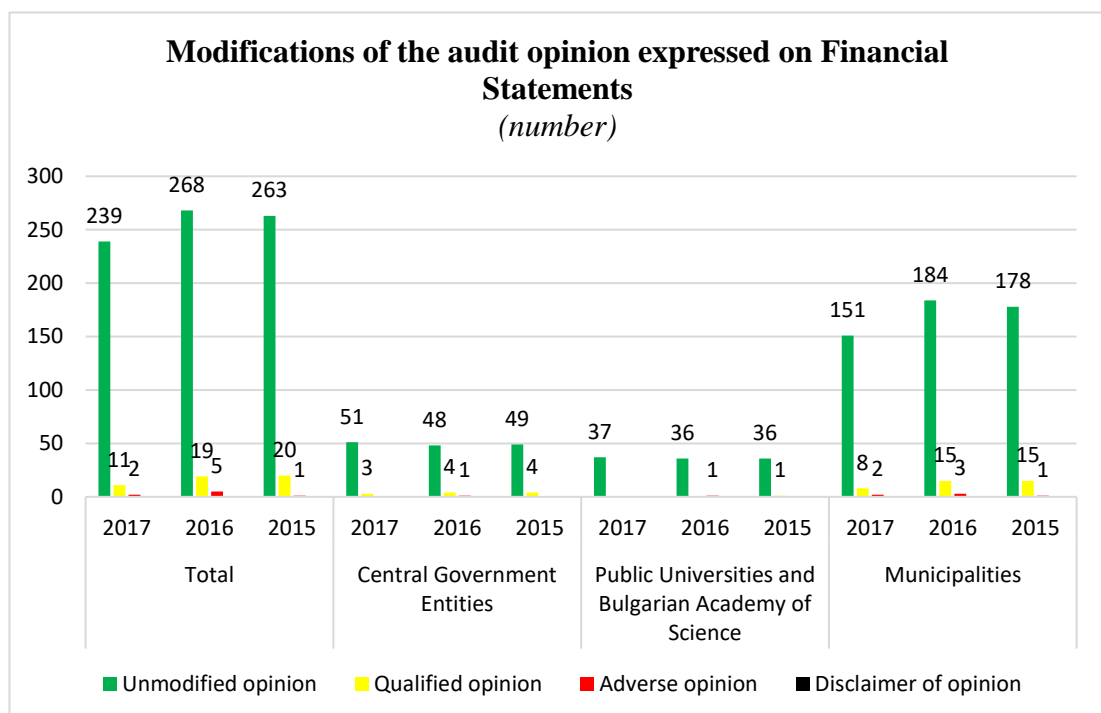
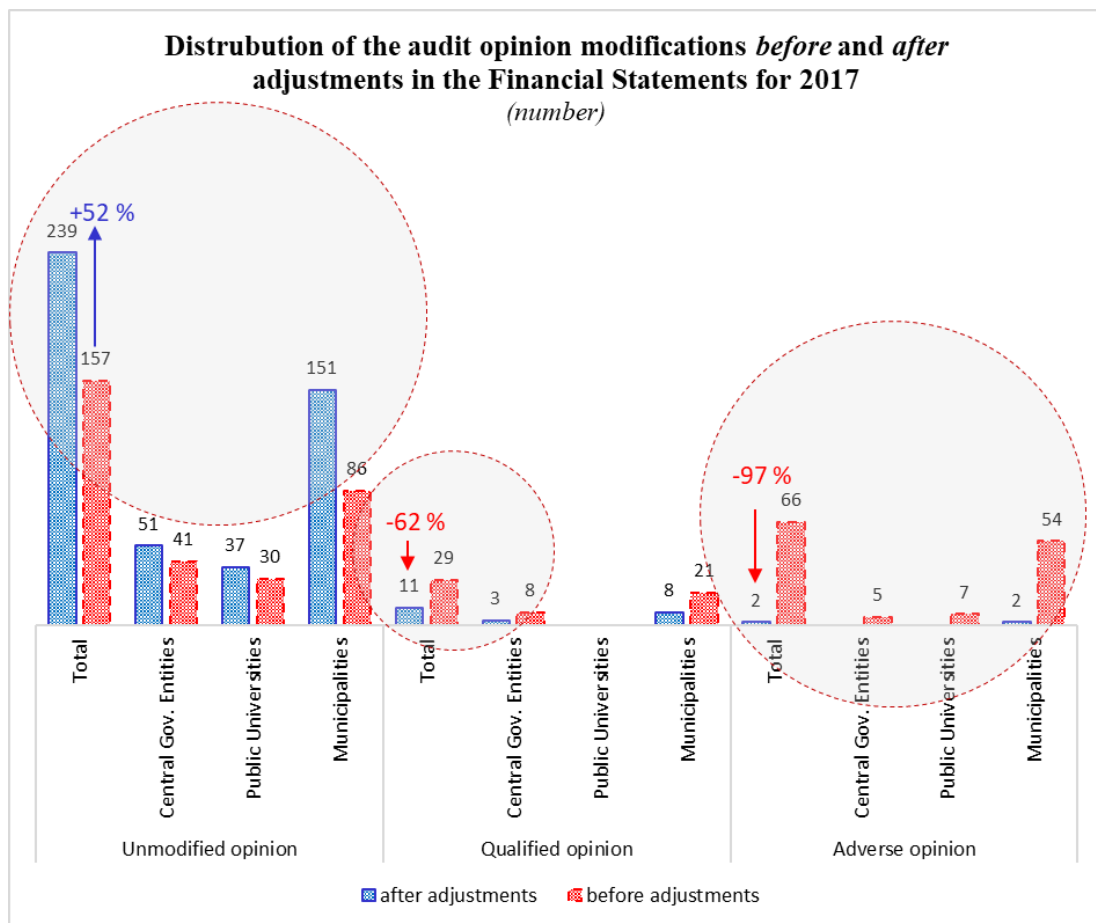


Figure 1

Fig. 2 shows the positive impact of the adjustments<sup>3</sup> on the reliability of information contained in the annual financial statements, illustrated through the number of modifications of the auditors' opinion in 2017. If adjustments had not been made, the BNAO would have issued an adverse opinion on the financial statements of 66 public sector entities and a qualified opinion on the financial statements of 29 entities. As a result of the adjustments introduced in the course of the audits, the adverse opinions were reduced by 97 %, and the qualified opinions – by 62 %, whilst the number of unmodified opinions grew by 52 %. In other words, **the adjustments of the misstatements identified by the BNAO resulted in an increase in the number of financial statements providing true and fair representation of the financial status, financial results from operations and cash flows of the public sector entities.** The most significant impact was observed in the case of municipalities where the unmodified opinions grew by 65 or 76%.

Figure 2



<sup>3</sup> The number of modified opinions before adjustments is calculated based on the assumption that modifications are only conditioned on the scale of identified misstatements relevant to the level of materiality set for the financial statements. This approach has several important disadvantages: first, it does not take into consideration the possible different materiality levels for classes of transactions; second, it fails to account for significant misstatements; and third, it precludes the calculation of the potential number of disclaimers of opinion. Each of these factors alone provides additional grounds for opinion modification. Therefore, if their effect is taken into consideration, the number of modifications would grow. Consequently, in analyzing the effect of adjustments, one should take into consideration the fact that the above situation describes the best-case scenario.

## 2.1. Financial audits of government ministers, agencies and public universities

The following groups of errors and irregularities were identified **recurrently**:

- Inaccurate depreciation of noncurrent non-financial assets as a result of incorrectly defined end-of-life period (not taking into consideration the year of acquisition, the physical wear and tear, and obsolete nature of assets) and failure to define the residual value. This affects both the depreciation costs and the carrying value of the noncurrent non-financial assets.
- Failure to report correctly the changes in the share holdings of public sector entities in commercial companies (also identified in the audits of the 2016 annual financial statements). This leads to misrepresentation in the annual financial statements of equity holdings and related revenues.
- Misstated commitments and provisions (also identified during the 2015 and 2016 financial statements audits) that usually result in under-reported costs and balance sheet and off-balance sheet liabilities.
- Incorrect classification of assets, liabilities, revenues, expenditure account transfers in the public sector organizations chart of accounts and the uniform budget classification (also identified during the 2015 and 2016 financial statements audits) resulting in misrepresentations in the balance sheet, profit and loss and cash-flow statements.

Part of the errors and irregularities in the financial statements of ministries, agencies and universities were **adjusted** in the course of the audits:

- ✓ Adjustment of depreciation costs to ensure fair representation of the book value of depreciable assets.
- ✓ Recognition of non-disclosed assets, liabilities, revenues and expenditure (also adjusted during the 2015 and 2016 audits). These adjustments ensured fair representation and full disclosure in the financial statements.
- ✓ Writing off receivables and debt already collected. This helps eliminate the overstatements of assets and liabilities of public sector organizations.
- ✓ Carrying expenditure for overhauls under assets to avoid overstatement of costs for current repairs and understatement of the carrying value of assets and depreciation costs.
- ✓ Adjusting the classification of assets, liabilities, income, expenditures and transfers in the public sector organizations chart of accounts and the public sector uniform classification (also adjusted in the line of the 2015 and 2016 financial statements audits), thus ensuring adequate disclosures in the Balance Sheet, Profit and Loss and Cash-flow statements.

## 2.2. Financial audits of municipalities

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

- Incorrect depreciation of noncurrent non-financial assets resulting from the inadequate calculations of their useful life (failing to take into consideration the

year of acquisition, physical conditions and obsolete nature of assets) and failure to calculate the assets' residual value. This affects both depreciation costs and carrying value of noncurrent non-financial assets.

- Incorrect classification of assets, liabilities, income, expenditure and transfers in the public sector chart of accounts and the uniform public sector classification (also identified during the audits of 2015 and 2016 financial statements), which results in misrepresentations in the Balance Sheet, Profit and Loss and Cash-flow statements.

- Non-capitalized infrastructure construction costs (also identified during the audits of 2015 and 2016 financial statements), resulting in underreporting of these assets in the Balance Sheet, understatement of the depreciation costs and overstatement of costs carried under the heading *Other Accounts and Activities*.

- Misstatements of municipal shareholdings in commercial companies and understating the share of such investments (also identified during the audits of the 2015 and 2016 financial statements) resulting in unfair representation of such holdings and the related income.

- Failure to adequately report income and expenditure in corrective accounts at year-end, resulting in misstatements of income and expenditure for the reporting period.

Without modifying the audit opinion, emphasis of matter was raised in the case of some municipalities that used short-term interest-free loans out of the Third-party Funds accounts in violation of the legal framework<sup>4</sup>.

During the course of audits of the financial statements, some errors and irregularities at municipal level were **adjusted**:

- ✓ Adjustments of depreciation costs to achieve fair representation of the carrying value of depreciable assets.

- ✓ Adequate disclosure of the changes in municipal shareholdings in commercial companies (also adjusted in the course of audits of the 2015 and 2016 financial statements) to achieve fair representation of such investments and the related income.

- ✓ Disclosure of commitments (taken and implemented) under contracts, bank guarantees, writs of execution and other off-balance sheet assets and liabilities (also adjusted in the course of audits of the 2015 and 2016 financial statements). This ensures fair representation by offering full disclosure in the financial statements of the off-balance sheet assets and liabilities.

- ✓ Disclosing previously non-reported assets, liabilities, income and expenditure (also adjusted in the course of audits of the 2015 and 2016 financial statements). These adjustments ensure fair representation and complete disclosure in the financial statements.

- ✓ Correcting the classification of assets, liabilities, income, expenditure and

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<sup>4</sup> Art. 147 of the Law on Public Finances prohibits the use of Third-Party Funds 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 applicable legislation.

transfers in the Public Sector Chart of Accounts and the Uniform Public Sector Classification (also adjusted in the course of audits of the 2015 and 2016 financial statements), resulting in correct representation in the Balance Sheet, Profit and Loss and Cash-flow statements.

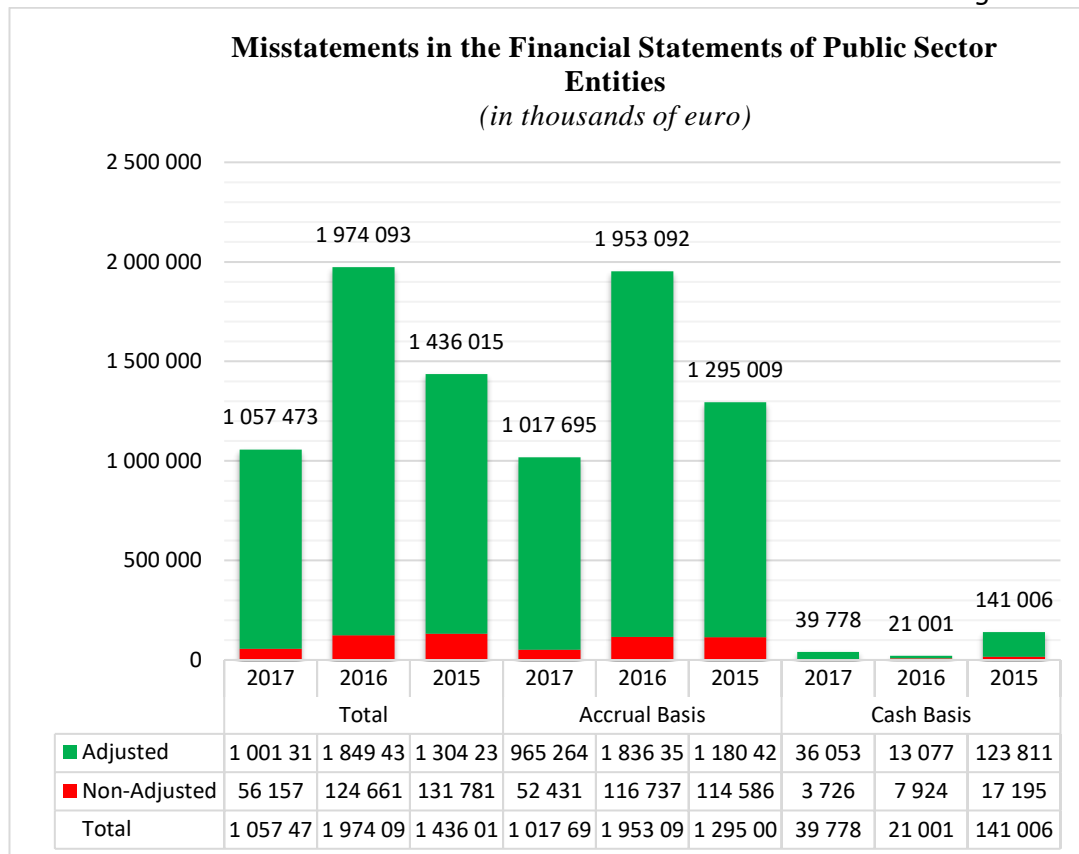
### 2.3. Main conclusions from the audits of the 2017 financial statements conducted in 2018

The adjustments of misstatements in the financial statements of the public sector organizations introduced as a result of the audits of the 2017 financial statements account for 1.96 million BGN, which is a decline by 46% compared to the adjusted misstatements in 2016.

Some of the reasons for not introducing adjustments of misstatements in the financial statements are:

- Differences of opinion between the auditors and the public sector organizations management regarding the accounting treatment and reporting of specific events, transactions and operations. Such differences of opinion may arise due to the contradictory legal framework, including the complex and sometimes unclear public sector financial reporting framework.
- Inability to adjust previous period disclosures that continue to influence the financial statements of the current reporting period.
- The accumulated sum of the misstatements is not significant and will not influence the audit opinion.

Figure 3



### 2.3.1. Weaknesses in the preparation of financial statements

- All three groups of audited public sector entities - government ministries and agencies, public universities and municipalities make similar mistakes regarding the **classification of income and expenditure, inadequate carrying of assets and liabilities under the respective paragraphs and sub-paragraphs of the Uniform Public Sector Classification and the Public Sector Chart of Accounts**. In our opinion, the above weaknesses are mainly due to the frequent amendments of the financial reporting framework, incl. insufficient guidance for its implementation issued by the Ministry of Finance (e.g. on recognizing adjacent land 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.
- Incorrect calculation of depreciation costs following events leading to **changes in the depreciation plan**.
- Failure to comply with the Ministry of Finance Guidance regarding **capitalization of infrastructure sites**, land, forest and perennials, and assets of artistic or historic value.
- Inadequate accounting of the funds received and expended under EU funded programs such as: transfers; using funding from the EU programs accounts as short-term interest-free loans for the Central Budget; taking loans from the central budget while keeping off-balance sheet statistics of the funds at the expense of beneficiaries, EU and other donors;
- Non-compliance with the MF guidance on mandatory review for **depreciation of the noncurrent assets and for provisioning of receivables** conditioned upon the achieved collection rate;
- Failure to follow the MF guidance regarding off-balance sheet disclosure of the undertaken or implemented commitments and/ or new commitments for expenditure, contingent claims and liabilities;
- Problems in identifying and applying the relevant principles in the Accountancy Act;
- Failure to comply with the rules for annual stocktaking of assets and liabilities.

### 2.3.2. Weaknesses related to the organization of the accounting processes

- The highest relative share of modified opinions (qualified and adverse) is contained in the audit reports on the municipal annual financial statements. This indicates an **insufficient administrative capacity** and **inefficient internal controls** at municipal level.
- **First-line budget spending public entities** are not required to set up an **adequate uniform electronic database** of all accounting records (on accrual and cash basis). Using a uniform database when compiling the financial statements will reduce the risk of technical error in summarizing information, provide **traceability** and facilitates computer assisted auditing.

The above weaknesses in the organization of the accounting processes were also identified during the audits of the 2015 and 2016 annual financial statements

### 3. Outcomes of the Compliance Audits

**Compliance audit** is a review of the financial management and control systems, incl. the internal auditing and management decisions regarding the organization, planning, governance, reporting and control of budget and other public spending and operations in the audited entity to check for compliance with the regulatory requirements and internal documents and with the agreements.

**In 2018, the National Audit Office endorsed 30 compliance audit reports.** Subject of review were the financial management and control systems (FMCS), budget execution, awarding and implementing public procurement contracts and management of the estate of ministries and agencies, municipalities and public universities. The findings informed the evaluation and conclusions regarding the managements of public funds and conduct of public business in the audited entities, as well as the recommendations for the improvement thereof.

#### 3.1. Conclusions from the compliance audits conducted in 2018

##### 3.1.1 Financial Management and Control Systems

The audits identified the following significant irregularities and lack of compliance in the financial management and control systems of the audited entities:

###### 3.1.1.1 Ministries, Agencies and State-owned Universities

✓ **Control environment:** Absence of periodic review and analysis for compliance. Failure to ensure timely update of the internal documents in line with the amendments in the relevant regulatory framework and of the entities' statutes governing their structure (also identified during the 2017 audits);

✓ The internal rules do not contain detailed description of the steps that should be followed in different processes inside the organizations, and do not ensure efficient ongoing and ex-post controls;

✓ Universities do not have in place documented rules and procedures on allocation of duties that outline the sequence of activities in case of labor costs for non-contractual labor relations.

✓ **Risk management:** Failure to update the Risk Management Strategy (also identified in the 2017 audits);

✓ Failure to identify and assess all significant risks in the audited entities, which have a negative impact on goal attainment (also identified in the 2017 audits);

✓ **Controls:** Absence of adequate and effective controls to prevent, identify and rectify non-compliance with the regulatory framework and agreements;



- ✓ The controls in place are not implemented continuously and consistently; they inefficient and do not cover all aspects of the audited entity's operations;
- ✓ No designated responsible persons for the implementation and documentation of controls introduced through the internal rules and procedures, incl. for preparing documentation/ files and conducting communication between the structural units/ entities involved in the process with the aim of ensuring compliance;
- ✓ Absence of ex-ante controls for compliance prior to concluding contracts for lease and sales of housing buildings and individual units in them, and prior to launching public procurement procedures;
- ✓ Failure to conduct ax-ante controls before entering into commitments or incurring expenditures that exceed 10 thousand BGN (also identified during the 2017 audits);
- ✓ Failure to apply the double signature approach in concluding contracts for scientific projects in state-owned universities.
- ✓ Some state-owned universities do not have procedures in place for analyzing expenditures to ensure timely planning of public procurement and compliant selection of terms for awarding public procurement contracts.

### 3.1.1.2 Municipalities

- ✓ **Control environment:** the internal documents related to the introduction of FMCS in the audited municipalities were not adequately revised and undated (also identified in the 2017 audits);
- ✓ The internal rules on financial management and control do not document all steps related to managing and disposing with municipal estate, insurance of real estate and other municipal-owned units and conduct of economic activities;
- ✓ **Risk management:** Risk management strategies were not updated within the statutory deadlines (also identified in the 2017 audits);
- ✓ Failure of the audited organizations to identify and assess all significant risks that may affect their goal attainment, such as risks related to public procurement and implementation of the awarded contracts (also identified in the 2017 audits);
- ✓ **Control activities:** Absence of adequate and effective controls to prevent, identify and rectify non-compliance with the regulatory framework and agreements;
- ✓ The controls in place are rather superficial; they are not being applied continuously and consistently; they are inefficient and do not cover all aspects of the audited entities' operations (also identified in the 2017 audits);
- ✓ The risk mitigation controls are not reviewed and updated at least once a year (also identified in the 2017 audits);
- ✓ Failure of some financial controllers to apply ex-ante controls for compliance before entering into commitments;
- ✓ Absence of rules on performing and documenting controls for receiving, reviewing, processing and archiving of tax returns; calculating the rate and collecting local fees and taxes (also identified in the 2017 audits);
- ✓ The rules and procedures in place for control/ monitoring of the administration of the audited tax revenues (from real estate and vehicles tax, and

tourist fees) and waste collection fees are not drafted in line with the requirements of the Law on Public Sector Financial Management and Control;

✓ **Monitoring:** Absence of monitoring of the financial management and control processes (also identified in the 2017 audits).

### 3.1.2. Budget

#### 3.1.2.2. Ministries, Agencies and State-owned Universities

The following significant irregularities and non-compliance were identified in relation with the budget execution of Ministries, Government Agencies and State-owned Universities:

##### **Ministries and Government Agencies:**

✓ Non-compliance with the regulatory requirements regarding expenditures for vouchers for clothing allocated to the employees;

✓ Signing part-time services agreement with employees of the audited entity in violation of the legal requirements;

✓ Expenditures for business trips abroad were not reported within the statutory deadlines. Some of the officials failed to submit reports on their business trips abroad or presented them after the 10-day deadline;

✓ The audits identified the following findings in relation with the incurred expenses: non-compliant contract execution or incomplete documentation for the acceptance of work/ services under the contracts;

✓ Failure to appoint responsible persons to control the implementation of the concluded contracts for works, supplies or services;

✓ Delayed and incomplete documenting of donations in the relevant registers and accounts.

##### **State-owned Universities:**

✓ Absence of rules regarding the formulation of budgets of major university units (also identified in the 2017 audits);

✓ Academic councils have voted on introduction of administrative fees for students and PhD students in the absence of legal grounds for them;

✓ Failure to calculate the actual expenditures for administrative services rendered to individuals who are not students;

✓ Non-compliant collection of administrative fees for services to students in relation to paying the tuition fees at the university cash-desk;

✓ Paying out remuneration/ royalties at rates that are not in line with the ones adopted by the Academic Council and in the absence of protocols for acceptance of the performed work;

✓ Payments for activities conducted prior to the conclusion/ registering of contracts;

✓ Non-compliance with the regulatory requirements in extending scholarships, as follows: not defining the relative share of the funds for academic performance scholarships during the semester; not announcing the number of

fellows receiving scholarship; failure to set the monthly rate of scholarships; irregularities in checking the applications for scholarships. Absence of clear rules for the allocation of scholarships by university departments and irregularities in calculating the ratio/ average grades of students eligible to scholarships;

✓ Spending allocations out of the state budget for scientific research using targeted financing in violation of the relevant provisions. Failure to meet the deadlines for contracting scientific research and failure to submit financial statements.

### 3.1.2.3. Municipalities

The following significant irregularities and non-compliance were identified vis-a-vis the management of municipal budgets:

✓ Some ordinances adopted by Municipal Councils contain **provisions that are not in line with the regulatory requirements**;

✓ Inefficient measures on behalf of some municipal administrations to ensure collection of local taxes and communal waste fees, resulting in significant amounts of bad debt past the statute of limitation, overdue debt payments transferred for enforced collection, and a large number of debtors;

✓ Irregularities regarding **taking up and managing municipal debt**: storing and providing information and preparing annual statement on municipal debt; taking loans without earmarking sources of funding for debt payback and without analyzing the impact of the debt on the municipal budget; failure to pay back loans within the prescribed deadlines, etc. **The audits identified non-compliance with the regulatory requirements in taking and managing municipal debt, such as**: incomplete justifications for taking long-term loans; some justification papers for taking long-term loans **do not contain a payback scheme**; taking long-term loans and using them to finance current expenses for local activities; taking up debt in the form of interest-rate free loans from the Central Government Budget and using the funds to cover final payments for projects without a mandate from the Municipal Council; **exceeding the statutory cap on the admissible payments of the municipal debt**; incomplete disclosures in the annual reports on the municipal debt provided to the Municipal Councils.

✓ Failure to comply with the limits set out by the Municipal Council in taking and implementing the decision for debt securitization: regarding the municipal guarantees that might be issued during the year and the maximum limit on the municipal guarantees at year-end. The audits identified cases of systemic **failure to apply ex-ante compliance control** prior to paying the due interest-rate, fees and principal on the loans;

✓ Non-compliance with the regulatory framework was identified in relation to **spending the targeted subsidies for capital expenses in eight municipalities**: failure to pay back to the state budget the unspent targeted commitments for capital expenses for the preceding year; some Municipal Councils have not adopted ordinances for managing the municipal road infrastructure; payments have been made on invoices prior to receiving all required documents under the contracts; introducing changes in the types and quantity of contracted works without duly

documenting them in a paper signed by both the contracting authority and the contractor;

- ✓ Using contracts for services to avoid signing **employment contracts**;
- ✓ **Planning the revenues from local taxes and charges** in the municipal budgets **in violation of the Law on Public Finances**; reporting false over-execution of revenues; failure to implement measures for collecting overdue taxes and waste management fees for previous years (also identified during the 2017 audits); providing untrue and unfair information to the Ministry of Finance, the Municipal Council and the mayors on the foreseen budget revenues and on their execution;
- ✓ **Absence of controls over the performance of the revenue bodies** and lack of monitoring on the implementation and outcomes of internal controls in municipalities. This may result in violation of the principles for legality and objectivity laid down in the Tax and Social Security Procedure Code in relation to art. 4 of the Law on Local Taxes and charges and may lead to opportunity costs in the municipal budgets;
- ✓ **Non-compliance of the enforced collection measures for local taxes and charges with the regulatory framework**: failure to apply a procedure for voluntary collection after the enforcement of the protocols for debt identification based on the tax returns; revenue officials failed to undertake enforced collection measures for overdue municipal receivables, incl. from local taxes and charges;
- ✓ The following irregularities were identified in relation to expenditures covered out of the receivables from **municipal waste fees**: non-compliant preparation of accounts for the activities under art. 66 of the Law on Local Taxes and Charges; absence of expenditure estimates by towns/ villages and by activities, and incorrect planning of expenditures under the accounts; **spending part of the collected revenues from waste fees in violation of the regulatory requirements**; failure to make deductions and payments in line with the Law on Waste Management;
- ✓ **Non-compliance with the legal framework and agreements in collecting the land lease revenues**, namely: failure to charge interest rate for delinquency; failure to terminate the lease agreements in case of lease payments overdue for more than one month; failure to seek court remedies for lease delinquencies.

### 3.1.3. Public Procurement

The following significant irregularities and deficiencies were identified in the area of public procurement:

#### 3.1.3.1. Government Ministries and Agencies and State-owned Universities

- ✓ **Expenses incurred without applying the relevant public procurement regulations** (also identified during the 2017 audits), incl. paying for heating, electricity, water, postal services costs and costs for other external services and materials. This is partially due to the fact that some audited entities **do not have cost-analysis procedures in place** to ensure the timely planning of public procurement and compliant terms and procedures for awarding the contracts.

✓ Public procurement procedures were planned without taking into consideration the entity's resources and without prioritizing the needs, which resulted in implementing procedures that had not been planned in advance and in failure to conclude the necessary public procurement contracts. This placed at risk the **legality of expenditures and the normal conduct of business in the organizations;**

✓ The following infringements were identified in relation to public procurement procedures: introducing requirements in the call for proposals and the documentation for participation that give advantage to specific entities or **place unjustified restrictions for the participation in the procedure of others;** non-compliance with the legal requirement to inform the Public Procurement Agency of the completed contracts or filing such information after the expiry of the statutory deadlines; **non-disclosure or late disclosure** of the required information in the buyer's profile (also identified during the 2017 audits);

✓ Some calls for proposals do not contain all required information. **In certain cases the deadline for releasing the guarantees for participation was not met** (also identified during the 2017 audits). Participants in open tenders were requested to prove three (and not the required five) years of prior experience in providing similar services;

✓ Irregularities were identified in the public procurement documentation, namely introducing requirements for proving compliance with specific criteria and performing actions that are irrelevant to the concrete public procurement. The auditors also found mixing up of indicators and evaluation methodologies;

✓ Partial **infringements of** specific contract provisions, with the Public Procurement Law and the Law for Public Sector Financial Management and Control **in implementing the contracts;**

✓ Public procurement **was not planned in line with the terms and procedures** set out in the internal rules of state-owned universities;

✓ The following violations of the legal framework were identified in relation to awarding public procurement contracts in state-owned universities: not extending the initial deadline in case of receiving less than three bids; failure to approve the call for proposals together with the decision for launching a public procurement procedure as required in the Law on Public Procurement; some public procurement contracts required from the bidders to provide guarantees for contract implementation while such requirement was not present in the call for proposals; contracts for public procurement were signed before the date of effect of the contracting authority's decision; some evaluation committees changed the approved methodologies in the course of bids evaluation; some Evaluation Committee protocols did not contain justification for replacing members of the Evaluation Committee with substitute members; amending the initial conditions set out in the documentation by means of providing clarifications.

### 3.1.3.2. Municipalities

✓ Incurring expenditures **without applying the required procedures for awarding public procurement contracts** in line with the Law on Public Procurement (also identified during the 2017 audits);

✓ Some municipalities **failed to develop and adopt new internal rules for managing the public procurement cycle** following the effect of the amended Law on Public Procurement (effective as of 15 April 2016);

✓ **Significant violations of the legal framework** have been identified in awarding public procurement contracts, such as: non-compliant selection of procedure for awarding public procurement contracts; introducing requirements that place unjustified restrictions to the eligibility of bidders; amending the contract deadlines in the absence of grounds thereof; failure to disclose the required information in the buyer's profile (also identified during the 2017 audits); some calls for tenders do not contain all necessary information elements; introducing illegitimate requirements for bidders to provide explanation in writing on specific quotations in their bids; failure of the Evaluation Committee to meet the statutory deadlines; signing public procurement contracts without checking whether the selected bidder has any outstanding debt to the central or local government; some Committees did not apply all indicators set out in the methodology for each separate lot; absence of mayor's resolutions appointing designated officials to maintain the buyer's profile (also identified during the 2017 audits); incorrect disclosures of paid out amounts in the reports on completed contracts submitted to the Public Procurement Agency;

✓ **The following violations were identified in relation to contract implementation:** non-compliance with the contract deadlines; failure of the Contracting Authority to introduce penalty charges for delayed or incorrect implementation (also identified during the 2017 audits); not duly authorized officials accepting the works done under the contract; absence of official procedure for acceptance of the works under the contracts and **lack of control on behalf of the Contracting Authority**; non-compliance with the deadlines to report on the completion of contracts to the Public Procurement Register.

✓ Incomplete calls for tenders;

✓ Discharging the guarantees for participation in tendering procedures and the guarantees for contract implementation **later than the statutory deadlines.**

### 3.1.4. Estate

The following significant irregularities and disparities were identified in relation to allocation and management of estate:

#### 3.1.4.1. Government Ministries and Agencies and State-Owned Universities

**Government ministries and agencies:**

✓ **Lack of internal rules** regulating the terms and conditions for managing, disposing and maintaining the estate and other state property;



- ✓ **Absence of internal documents** regulating the functions and duties of the officials charged with organizing tenders for leasing publicly owned real estate and for disposal with public property, exercising ongoing control over the implementation of lease contracts and preparing, maintaining and updating the files of the leased property;
- ✓ **A large number of the ministry-owned housing units are being allocated to non-eligible users;** delayed orders for restoration of estate.
- ✓ Leasing of premises without tendering procedures by signing supplementary agreements that are not in line with the Law on State Property;
- ✓ **Leasing premises for short periods of time without contracts.**
- ✓ **Lack of written procedures for efficient communication** between the structural units charged with the management, the financial and legal services to ensure adequate and timely measures against delinquent tenants.

#### State-owned universities:

- ✓ **Absence of internal rules** regulating the lease of state-owned property or units thereof and implementation of the lease agreements.
- ✓ Concluding contracts for lease of state-owned property **without conducting tendering procedures.**
- ✓ **Failure to adopt managerial decisions for termination of contracts** concluded without tendering procedures and in violation of the effective legislation.
- ✓ **Failure to charge interest** for delayed lease payments.

#### 3.1.4.2. Municipalities

- ✓ **Non-compliance with the statutory requirement for insurance** of state-owned property; failure to identify the state/ municipal-owned property that is subject to mandatory insurance.
- ✓ **Non-compliance with the legal requirement** to adopt a Strategy for Managing Municipal-Owned Estate (also identified in the 2017 audits) and Annual program for managing and disposing with municipal-owned estate;
- ✓ Some municipal ordinances regulating the management and disposal with municipal estate **are not aligned with the effective legislation** and the municipal administration structure (also identified during the 2017 audits);
- ✓ Some open bidding tenders for real estate leasing were not fully in line with the regulatory requirements;
- ✓ **Housing units have been leased** in violation of the Law on Municipal Property;
- ✓ Systematic delinquencies in the payment of lease and absence of measures **for terminating the lease agreements and enforced collection;**
- ✓ Absence of procedures for documenting the municipal estate and establishing registers thereof. **A large number of property units managed by the municipalities lack title deeds for municipal ownership** (also identified in the 2017 audits);
- ✓ Failure to enter in the Public Registry newly issued deeds for municipal ownership and lease agreements;



- ✓ Failure to include in the annual program for managing and disposal with municipal estate all estate that is subject to lease and disposal;
- ✓ When leasing small plots of municipal land, common land, pastures and meadows without public tenders, the agreed total lease payments do not correspond to the amounts payable in line with the ordinances adopted by the municipal council;
- ✓ **No management decisions and actions** to update the lease tariff for municipal housing; incorrect definition of lease tariffs for housing resulting in opportunity costs;
- ✓ **Failure to put in place strict procedures** for the leasing of common fallow land and pastures and for placing citizens in public housing due to lack of regulated terms and conditions for means-testing and ex-ante controls of eligibility;
- ✓ Some lease agreements for common fallow land and pastures **do not contain clauses for adjusting the lease payments to account for the inflation index**; agreements were signed with tenants who did not pay in full the previous year's lease;
- ✓ Placing non-eligible individuals in municipal housing;
- ✓ **Signing land-sale agreements** without meeting the statutory deadlines and **before the effect of the mayor's order** for selection of a buyer;
- ✓ Signing land-sale agreements with buyers whose right to purchase the land expired due to failure to pay the required instalments within the deadlines;
- ✓ The following violations of the legal framework and the agreements **were identified in relation to sales of wood: non-compliance with the contract provisions** vis-à-vis the deadlines for payments; failure to impose penalty payments as provided in the contracts for delinquencies on behalf of the buyers of wood; some contracts for wood sales do not contain clear and specific price tariffs.

#### 4. Outcomes of the performance audits conducted by BNAO

**Performance auditing** is a review of the planning, implementation and control at all levels of management within the audited entity in view of their effectiveness, efficiency and economy. **Effectiveness** describes the extent to which the audited entity has achieved its goals by comparing the actual to the expected results 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, while **economy** focuses on acquiring the resources needed for the operations of the audited entity at the lowest costs while meeting the requirement for quality of those resources.

The National Audit Office supports the national mid and long-term efforts to achieve accelerated economic growth and enhance the standard of living of the Bulgarian citizens and to ensure gradual convergence with the average European standards. In 2018, BNAO's auditing priorities continued to focus on attaining the goals of the National Program for reforms in implementation of the EU 2020 Strategy and the National Development Program *Bulgaria 2020*, balanced and sustainable

regional development, strengthening of the institutional environment and enhancing the implementation of EU-funded programs and projects.

In 2018, the National Audit Office endorsed the reports on 7 completed performance audits, terminated the implementation of 2 audit engagements<sup>5</sup> and implemented 16 carried forward audits grouped in the following thematic areas:

| Audit report endorsed in 2018   | Audits carried forward (2018 – 2019)  |
|---|---|
| <b>Education, Science and Culture</b>   |   |
| 1. Improving the quality and access to preschool education  | 1. Preservation and maintenance of urban architectural legacy sites   |
| <b>Agriculture and Environment</b>  |   |
| 2. Effectiveness and efficiency of the measures undertaken by the central and local governments to tackle the main sources of air pollution in big cities | 2. Effectiveness of the measures to reduce the administrative burden on farmers   |
| 3. Development, supervision and control of production and trade in organic food and products  | 3. Effective management of the NATURA 2000 network to ensure environmental protection and protection of the local population living in the areas covered by the network |
| <b>Energy efficiency, effective and efficient use of resources</b>  |   |
| 4. Energy efficiency of buildings owned and used by the central and local governments   |   |
| <b>Social affairs and employment</b>  |   |
|   | 4. Effectiveness of measures to reduce poverty  |
| <b>Public finances</b>  |   |
|   | 5. Effectiveness of collection measures by the National Revenue Agency  |
|   | 6. Effective administration of VAT revenues   |
|   | 7. Effective implementation of program-based budgeting as a tool for optimal resource allocation  |
| <b>Economy, energy and tourism</b>  |   |
|   | 8. Reducing the administrative burden on businesses in tourism  |

<sup>5</sup> *Efficient administration of the revenues from excise duties by the Customs Agency* - terminated due to the introduction of significant legislative and structural changes; and *Effectiveness of measures to reduce the number of regulatory regimes for the businesses*

| <b>Regional development and infrastructure projects</b>   |   |
|---|---|
|   | 9. Conditions for balanced and sustainable development  |
| <b>Institutional development and effectiveness</b>  |   |
|   | 10. Transparency and publicity of the public administration and access to public information  |
| <b>Management of EU-funded programs and projects</b>  |   |
| 5. Does programming and contracting of the support from the European Social Fund contribute to meeting the goals of the National Development Program Bulgaria 2020? | 11. Monitoring and evaluation of OP Regions in Growth   |
| 6. Effective management and control of OP Innovations and Competitiveness 2014-2020   | 12. Monitoring and evaluation of OP Environment   |
| 7. Performance audit of measure 11 "Organic Agriculture " of the Rural Development Program 2014-2020  | 13. Monitoring and evaluation of OP Innovations and Competitiveness and OP SMEs Initiative  |
|   | 14. Effective management and controls of OP Science and Education for intelligent growth 2014 – 2020  |
|   | 15. Effectiveness of measures and activities to improve household waste management financed out of OP Environment   |
|   | 16. Effectiveness of planning and contracting of allocations under priority axis 1 „Sustainable and integrated urban development” of OP Regions in Growth |

#### 4.1. Conclusions from the performance audits finalized in 2018

##### 4.1.1. Education, science and culture

##### Improving the quality and access to pre-school education in the period 2014 – 2016

The key audit question was: Are the measures put in place by the Ministry of Science and Education to improve the quality and access to pre-school education effective?

The audited institution was the Ministry of Science and Education (MSE).

**The Ministry of Science and Education has ensured the necessary conditions** for implementing the measures related to improving the quality and access to pre-school education.

The adopted strategies and action plans (for which MSE is the lead institution) **are compliant with the common European instruments** for promoting education quality. They contain interlinked goals and plan for activities targeting specific groups.



**The approved strategic documents focus on resolving the existing issues** and establishing a conducive environment for equal social inclusion and meaningful personal development for all subjects of education, incl. children in pre-school age. This has laid the grounds for streamlining a consistent policy in this area, for applying an integrated approach and attaining sustainability of the planned outcomes.

**The necessary primary and secondary legal framework has been put in place** to regulate the activities related to

pre-school upbringing and education.

The Law on Pre-School and School Education in effect since 1 August 2016 focuses on the overall development of the child's personality, on acquiring of a number of competences, knowledge and skills and building relations necessary for the child's transition to school education. Through the end of the audited period, the Ministry failed to adopt a uniform standard concerning the physical environment, library and information services in kindergartens, schools and personal development support centers.

Uniform expenditure standards for the financing of activities delegated by the state containing in-kind and numerical values were introduced. **MSE and the Ministry of Finance published joint guidance** on the implementation of the system for delegated budgets in schools and kindergartens.

The pedagogical staff working with children in pre-school age possess the necessary qualifications and experience to perform the functions delegated to them. However, in general, **the employees are aging and young professionals show little interest in this profession.** Sufficient number of trainings have been conducted to improve the qualifications of the staff, however no system for recording the training needs and the trainings implemented at national level has been put in place. There is a need for additional impact analysis and assessment of the effect of the streamlined policies and measures for professional development and retention of young pedagogical staff.

**Despite the efforts** to implement the planned measures and activities in the area of pre-school education, **the Ministry of Science and Education still faces the following challenges:**

✓ **The issued reports** on strategic goals attainment do not include analyses and **quality assessment** of pre-school education. There is no regulation on the quality assessment at national level. The lack of a uniform system ensuring comparability and performance evaluation of separate kindergartens or schools with preparatory groups hampers the quality assessment of pre-school education at national level.

✓ The outcomes of activities aiming to improve the quality of pre-school education have not been assessed and evaluated due to the short period of effect of the Law on Pre-school and School education (since 01.08.2016).

✓ **The relative share of children covered by the system of pre-school education has decreased from 82% in 2014 to 79% in 2016.** To ensure better coverage and retention of children and school students during the mandatory stages of pre-school and school education, the Council of Ministers passed a Resolution introducing a Mechanism for joint institutional measures for enrollment and retention of children during the mandatory stages of pre-school and school education.

✓ **Often the number of children in pre-school groups is higher than the statutory limit, which affects the adequate upbringing, training and socialization of children and the quality of pre-school education in general.**

The Law on Pre-School and School Education and the adopted State Education Standards provide regulation of the system and instruments for quality assessment in pre-school education. The interventions planned by the Ministry of Science and Education under the new legal framework have not been analyzed and assessed due to the short period of effect of the new Law.

#### 4.1.2. Agriculture and Environment

##### Effectiveness and efficiency of the measures undertaken by the central and local authorities to tackle the main sources of air pollution in big cities in the period 2014-2016

This audit engagement was part of a cooperative audit of the EUROSAI Working Group on Environmental Auditing on air quality conducted jointly by 15 SAIs and the European Court of Auditors.

The key audit question was: Are the measures put in place to tackle the main sources of air pollution in big cities efficient and effective?

The audited institutions were the Ministry of Environment and Water, the Executive Environmental Agency, the Regional Environment and Water Inspectorates and three municipalities (Sofia, Plovdiv and Stara Zagora).

**Fine dust particles (FDP<sub>10</sub> and FDP<sub>2,5</sub>) are the most concerning air pollutant in Bulgaria** causing the most serious human health problems. Other issues related to air quality are the peaks in average hourly rates of nitrogen dioxide and the excessive average annual rate of benzo pyrene in big cities. Only one region in the country (the town of Galabovo) experiences systematic excessive quantities of Sulphur dioxide exceeding the danger threshold.

**Household heating, automotive transport, industrial production and construction** are the sectors **with the highest contribution to air pollution.**

Air management and quality assessment falls within the competences of both national and local agencies. The Ministry of Environment and Water implements the state policy on air quality. The Minister of Environment and Water is in charge of controlling the status of environmental components on the territory of the country.

**There is no Consultative Council on air quality reporting to the Minister of Environment and Water.** There are **deficiencies in communication and exchange regarding relevant measures and programs** among municipalities with poor air quality. There is lack of sufficient coordination of activities among all stakeholder institutions and no initiative on behalf of the Ministry of Environment and Water to ensuring cooperation and communication.



The municipal agencies and regional environment and water inspectorates are in charge of controlling and managing the activities relating to ensuring good air quality on their respective

territories. **There are deficiencies in allocating responsibilities at local level** for the implementation clean air policies.

The quality of air is monitored through a national air-monitoring network as part of the National System for Environmental Monitoring. Air quality is evaluated in 48 stations located throughout the country.

**The Bulgarian legislation regarding air quality has been harmonized with the *acquis communautaire*.**

The policy for ensuring clean air is implemented based on the measures set out in three effective National Programs outlining air quality as one of their priorities; and in the programs of municipalities with poor air quality. The requirements for introducing environmental strategies laid down in the Environmental Protection Law **are not fully complied with. At national level, there are measures in place to gradually limit pollution** from big burning installations, for reducing Sulphur contents in liquid fuel and for introducing legal amendments to strengthen control over the implementation of these requirements. **The Government's sectoral policies also contain measures whose implementation contributes to improving air quality.**

The air quality management programs of the audited municipalities contain measures targeting the identified problematic pollutants on their respective territories. There are **deficiencies in the planning and reporting on the implementation of measures and the evaluation of each measure's individual contribution to improving the air quality**, and on their effectiveness. For reporting purposes, the implemented measures are not assessed individually against the planned indicators; there is only cumulative data on the outcomes achieved during the year without description of the individual progress on each intervention. **There is no reasonable assurance that the revenues accumulated in the municipal budgets from penalties are being used to finance measures improving the air quality.**

There is no requirement in place for a cost-benefit analysis in planning and reporting the air quality measures. The financial allocations for air quality measures and for the National System for Environmental Monitoring are much smaller compared to



allocations to other budget-financed programs of the Ministry of Environment and Water. **Minimum investment costs financed** out of the national budget **have been reported for updating, improving the quality and extending the instruments for measuring, monitoring and reporting.** There are no specific quantified financial projections for the implementation of the national and municipal strategies, programs and plans and there is no consistency with the financial projections and annual budgets of national and local level. **No specific allocations have been planned to finance the air quality measures** planned in the strategic documents at national and local level. **Municipalities lack sufficient funding for the implementation of adequate air quality measures** and fail not grasp the opportunities to implement projects and interventions financed from sources outside the municipal budget.

**The national legislation provides for sanctions in case of non-compliance with the air quality standards.** Administrative measures, fines and sanctions are envisaged in case of non-compliance.

Since 2015, local authorities are also subject to sanctions in case of non-compliance with the Environmental Protection Law and the Law on Clean Air. The Minister of Environment and Water has not introduced any pecuniary penalties for mayors and officials for non-compliance with their obligation to design and implement air quality programs.

**Pollutants may also be held accountable** when allowing air pollution to pose a hazard to human health, the flora and fauna. The envisaged punishments are in the form of pecuniary sanctions or terms of imprisonment.

The national system for air quality monitoring is part of the National System for Environmental Monitoring. In each region of the country, there are a minimum number of monitoring stations used to assess and manage air quality in line with the regulatory requirements. Part of these sites do not operate continuously because of technical issues, bad weather or transfer to new locations. **The majority of monitoring stations use obsolete equipment.** There is a need for new regulatory requirements to ensure the efficient functioning of the National System for Environmental Monitoring. The system applies uniform methods for sampling and analysis in compliance with the procedures for quality assurance of measurement and air data. There are arrangements in place and designated officials to control the operation of the system and the quality of measurements and data registered by the automated monitoring sites. **Despite the efforts and significant financial investments, the National System for Environmental Monitoring does not provide sufficient information on FDP<sub>2,5</sub> - the pollutant with the most serious negative impact on human health.**

The government policy on air quality provides for achieving and maintaining good air quality in line with the statutory requirements and with the commitments undertaken by the Republic of Bulgaria to apply the EU directives and international agreements. **Bulgaria failed to adopt a national strategy on environmental protection in the period 2009 – 2017** as an instrument for achieving the goals and principles set out in the Law on Environmental Protection. The air quality policies of the central and local authorities aim at achieving and maintaining air quality in line with the requirements and norms prescribed in the national legislation.



**The root causes for poor air quality in Bulgaria are of socio-economic nature and are related to the serious energy poverty of the population**, since the main source of pollution in winter is household heating. The social policy in place providing for targeted heating allowances to low-income households also fails to provide adequate environmentally-friendly fuel to help resolve the air quality issues in big cities. **The national and local measures do not target adequately the main sources of pollution**, namely household heating using hard fuel, the obsolete automotive fleet and infrastructure in the country. This reduces the effectiveness and efficiency of measures against the main air pollutants in big cities.

**Development, supervision and control over the production and trade in organic food in the period 2015 – 2017**

The key audit question was: Are the interests of consumers of organic food well protected in Bulgaria?

The audited institutions were the Ministry of Agriculture, Food and Forestry (MAFF) and the Bulgarian Agency for Food Safety.



**The arrangements for issuing permits for control on compliance with the rules of organic production need to undergo significant revision** to ensure their effectiveness. During most of the audited period, MAFF did not have in place internal rules and procedures on issuing permits for control purposes. The procedure that was approved in mid 2016 provides for checklists for on-site control and for substantial testing of the documentation submitted by the applicants.

There is insufficient audit trail on the scope of the inspections carried out by the competent unit, while the process documentation points to **significant weaknesses of the control mechanisms**. In some cases, permits to perform control functions were issued to applicants whose procedures did not satisfy the key statutory requirements.

Due to the lack of documentation, the auditors could not gain assurance whether the audited applicants satisfied all eligibility criteria referred to in art. 27 of Regulation (EC) 834/2007. In some cases, the statutory deadline for issuance of control permits was not met. There is lack of adequate audit trail on the activities of the Permanent Inter-ministerial Committee on Organic Food Production.

The information contained in the database of bodies controlling the conformity of organic production is incomplete and does not allow traceability.

**Supervision of the control bodies is inefficient**. The scope of planned inspections is inadequate and opportunities for additional ad-hoc check-ups are not used. There are no arrangements in place to ensure objective evaluation of the control bodies – **the lack of clear and objective definitions for assessment purposes leaves room for non-uniform approaches and corrupt practices**. There are significant deficiencies with regard to the adequacy and traceability of the scope of

supervisory inspections. The scope of supervision is restricted by law to 1% of the files of operators with whom control bodies have contracts. Supervisory inspections of the control bodies in 2015 and 2016 were carried out after the end of the active agriculture season. Towards the end of the audited period, there were attempts to better target the supervisory inspections to cover the active agricultural season. **There are no clear, complete and precise guidelines on how to carry out the inspections**, incl. on the types of documents that have to be requested and analyzed and the procedures that need to be followed. **There is no quality assurance system in place**, either.

**There are no arrangements in place for sanctions and penalties** and for withdrawal of the delegation for control activities. **The measures that the competent authority applied in case of identified irregularities and infringements by the control bodies** were inadequate and **non-compliant with the regulatory requirements**. The failure of the administration to exercise its powers for withdrawal or restriction of the scope of permits for control and for imposing sanctions and pecuniary penalties in line with the legislation is unsubstantiated and **poses a risk of allowing trade in food and products that do not meet the requirements for organic production**. The arrangements in place for **follow up on the implementation of recommendations** do not enable efficient supervision and **need to be improved significantly**. Implementing substantive controls only during the follow-up inspection is insufficient in view of the long timeframe between the two check-ups (often longer than one year).

**The control over organic agricultural products and food traded in the Bulgarian market is only partially efficient**. Because of weaknesses in the legislation, there is no information on all sites around the country trading in organic food and products. The lack of such information hampers the efficient planning and implementation of controls of organic food traded in Bulgaria. **There is no control on the organic food and products offered in restaurants and online**. This is due to lack of provisions thereof in the national legislation. The way controls are carried out and documented points to a need for an internal methodology and for theoretical and practical training of inspectors to achieve a uniform high-quality approach to inspections in line with the regulatory requirements. Upon identifying violations of art. 25 of the Law for Applying the Common Organization of Agricultural Markets in the EU, inspectors resorted to only prescribing recommendations without issuing protocols of infringements. This lax treatment **prevents the full enforcement of statutory sanctions**.

**There are no adequate arrangements in place for exchange of information between the BFSA, MAFF and the control bodies**. Because of the relatively low awareness of consumers regarding the labelling requirements for organic food, additional expenditures were incurred for verification because of the numerous received alerts of incorrectly labelled products, which were in effect non-organic and their producers did not claim organic origin. The inspectors of the regional food safety directorates are not equipped with internet-connected portable devices, which prevents their access to the MAFF databases during onsite checks in the commercial sites.

**There are no arrangements in place for efficient exchange of information among MAFF, BAFSA and the Payment Agency of the State Agriculture Fund** in case of irregularities of infringements of the rules for organic production, while the **database of producers**, processing factories and traders in organic products and food currently does not satisfy its purpose. The delayed responses by the competent authority upon receiving notifications from the OFIS system poses a risk of **hurting the image of the Bulgarian state**, and in some cases leads to unjustified negative reception of Bulgarian products abroad. MAFF should make better use of its mechanisms to check the operators, ensure adequate evaluation of the situation and to improve the consumers' confidence.

**The system for supervision and control of organic food and products traded in Bulgaria does not ensure sufficient protection of consumer interests.** The audited processes were not implemented in line with the principles of good financial governance and did not satisfy key provisions of the Law on Public Sector Financial Management and Control. The fast development of organic production **calls for the introduction of numerous urgent measures** on behalf of MAAF, incl. legislative amendments and updating of the internal rules and procedures **to ensure better control and supervision of organic foods and products.** Improving the systems to ensure quality and consistency is key to raising the confidence of consumers in the organic foods and products traded in Bulgaria.

#### 4.1.3. Energy efficiency, effective and efficient use of resources

##### Energy efficiency of buildings owned and used by the central and local government during the period 2014 - 2016

This audit engagement was part of a cooperative audit project of EUROSAI's Environmental Auditing Group focusing on energy efficiency of public buildings and conducted by the SAIs of 8 EU member states.



The key audit question was: Is Bulgaria prepared to satisfy the goals for improving energy performance of buildings owned and used by the central and local government?

The audited institutions were the Ministry of Energy (ME), Ministry of Regional Development and Public Works (MRDPW), the Agency for Sustainable Energy Development and municipalities.

The most cost-efficient minimum requirements for energy performance designed in line with the EU law and setting the frame of energy consumption scales were designed **in line with Directive 2012/27/EU**. The difference between these requirements and the effective conditions regarding the energy performance of buildings is within the admissible margin; therefore, no measures were introduced to improve the system in place.

The provision of art. 5 of the Energy Efficiency Directive 2012/27/EU (EED) has been transposed in the national legislation. However, the wording of the Bulgarian provisions **does not set all prerequisites for the practical implementation of the Directive**. The scope of obligations originating from the Directive is not clearly defined and the national strategic documents contain significant discrepancies in the data regarding buildings that do not meet the minimum energy requirements. **The selected approach to building prioritization is not in line with the Guidance by the Commission.**

The national plan on improving the energy performance of buildings does not establish the necessary prerequisites for the practical implementation of the effective national and EU requirements for retrofitting the central administration's buildings.

Information on the buildings owned and used by the central government, on the scope of relevant obligations and on the planned financial allocations contained in the National Action Plan for Energy Efficiency does not correspond in substance to the provisions of art. 5 of Directive 2012/27/EU.

A National Plan on near-zero buildings was adopted at the end of 2015. To a large extent, **it is compliant** with Directive 2010/31/EU and with the guidance on its drafting. **The policy for promoting the construction of near-zero buildings** set out in the Law on Energy Efficiency **is not defined clearly** enough to ensure that following 2019 all new buildings owned or used by the public authorities will be near-zero buildings. The plan does not provide for a system for monitoring, reporting and evaluation of the implementation, which **hampers the follow up on the achieved progress on the set targets**.

The National Plan on Improving Energy Performance of Buildings **does not provide for a mechanism of coordination, monitoring and control of the retrofitting of the public administration's buildings**. Also, no mechanism for ESIF funding coordination has been introduced as prescribed in the Partnership Agreement, which further hampers the coordination of measures for enhancing energy performance of buildings.

**There is a system in place for monitoring and control of energy audits and the energy performance certificates** as part of the system for monitoring and control on the implementation of the Law on Energy Efficiency. The institution charged with this monitoring is the Agency for Sustainable Energy Development.

An imperative approach to implementing the energy saving measures prescribed by the energy audits within specific deadlines has been undertaken without setting deadlines for the certification of existing buildings.

Although all central and local government entities are obliged to implement the national energy efficiency policy through developing and adopting energy efficiency programs, **there is no centralized information of these programs at national level**. A significant number of agencies **have not developed such programs, and part of them seem unaware of their obligations referred to in the Law on Energy Efficiency**. Two-thirds of municipalities do have energy efficiency programs in place, however these are quite diverse in their contents. The implementation of the energy efficiency programs has been delegated to the local authorities. The majority

of municipalities focused their priorities on retrofitting the housing and other buildings, but not administrative ones.

No reliable evaluation of the necessary financial allocation for implementing the obligation under art. 5 of the EED has been performed. There is no information at national level regarding the allocation of investments for improving the energy performance of the Central Administration's buildings broken down by financial instruments and of the availability of funds to finance the investments provided for in the National Energy Efficiency Action Plan.

**The energy retrofitting of the central government buildings does not fall within the mandate of the competent institutions under the Energy Efficiency Law.** Therefore, there is lack of precise data regarding the resources spent for this purpose in the plans and the reporting documents. A number of different financial mechanisms with significant planned financial allocations are available, part of which may be used to support the investments in retrofitting the central government buildings; however, no planning coordination mechanism has been put in place. The majority of financial instruments do not set out criteria enabling the targeting of resources to public buildings. The investments in all financial instruments are conditioned upon the realization of energy savings and reduction of GHG emissions. **No evaluation of the efficacy of the available financial instruments has been conducted.**

**Municipalities are strongly dependent on external sources of financing** in implementing their energy saving measures, which prevents them from applying a consistent energy efficiency policy. Municipalities tend to underuse contracts with guaranteed outcomes, where the financial risk is borne by the contractor.

The system for monitoring and reporting the measures for energy efficiency of buildings in place in the municipalities is based mainly on the annual reporting to the Agency for Sustainable Energy Development. This compromises the reliability of analyses, because of the poor quality of information filed by the relevant administrations. **There is a relatively low share of buildings that possess energy performance certificates.**

During the audited period, **there was no system in place for monitoring and control of the obligation for annual renovations of the public administration buildings** and of a mechanism for collecting relevant information on that.

There is a system in place for monitoring and control of energy auditing and building certification. Against the backdrop of the increasing number of audits, through the end of 2016, the Agency for Energy Sustainable Development managed to achieve a large share of verifications of the reported data and results.

**There are efficient arrangements in place for qualification and registration of experts** authorized to perform energy auditing and certification. The liberalization of requirements for registration introduced during the period contributes to boosting competition.

The obligation for auditing and certification of buildings that are currently in use as referred to in the Energy Efficiency Law is not coupled with prescribed mandatory arrangements and timeframe and therefore **does not enable efficient application of the provisions for administrative sanctions** to help increase the number of certified public buildings around the country.



The local authorities do not use credits for the energy savings measures introduced in the administrative buildings to go against meeting their individual energy savings targets. There are no incentives for the renovation of these buildings and for certifying the energy savings.

**The Bulgarian authorities have undertaken steps towards meeting the set targets** for enhanced energy performance of state-owned buildings used by the state administration, however **additional efforts are needed to overcome the identified weaknesses.**

**Local authorities plan their energy efficient targets in line with their own strategies. In the majority of cases, administrative buildings are not among the first priorities.**

#### 4.1.4. Managing EU funded programs and projects

##### Did programming and contracting of ESF assistance in the period 2014 - 2016 contribute to meeting the goals of the National Development program Bulgaria 2020?

The key audit question was: Did programming and contracting of ESF funding in the period 01 January 2014 – 31 December 2016 contribute to meeting the goals of the National development program Bulgaria 2020?

The audited operational programs were “Science and Education for Intelligent Growth” 2014 -2020, „Human Resource Development” 2014 – 2020 and „Good Governance” 2014 – 2020.



The strategies of the three audited programs cover all four thematic areas of the European Social Fund (ESF).

The OPs' targets and priorities **were in line** with the National Development Program *Bulgaria 2020* and the Partnership Agreement and **contributed to meeting the national**

**development goals as set out in the program.** The OP objectives corresponded to and were conducive to implementing the relevant national strategies and programs.

Despite the outlined goals and the interventions implemented under the ESF financed OPs, **the following challenges are still outstanding:** economic inactivity and long term unemployment; need to ensure that the education system meets the labor market demands; unequal access to good quality education; slow progress on meeting the Europe 2020 goals on early school dropout and reduction of poverty; significant share of people facing the risk of poverty or social exclusion; slow administrative reforms and weaknesses in public procurement.

**Additional efforts are needed** for adapting the three operational programs to better address the above challenges that have been in the focus of attention of the National Audit Office in recent years.

The indicative funding necessary for the implementation of the National Development Program *Bulgaria 2020* is much larger than the programmed allocation for meeting the OP goals.

All three OPs have laid down **outcome indicators**, incl. for the interventions under the Youth Employment Initiative. The planned outcomes, performance indicators and targets under all OPs until the end of 2018 and 2023 **are relevant to the programs and policies**.

The indicative annual programs under the OPs were developed **in line with the relevant requirements**. All required appendices and checklists for verification on behalf of the OP Managing Authorities have been filled out. During the audited period, the effective Guidance for managing and implementation of the three OPs **did not contain specific and detailed provisions of the terms and conditions for amending the annual indicative programs**. The Manuals of OP Human Resource Development and OP Science and Education for Intelligent Growth **did not introduce requirements for justification and provision of specific grounds for the amendments to the annual indicative programs**.

The **numerous changes to the annual indicative programs** relating to the number of procedures, size of ESF allowances, dates for launching the procedures, deadlines for filing applications under all three OPs were necessitated on the one hand by amendments to the legislation and modified labor market conditions, while on the other hand, they are indicative of **deficiencies in the preparation for the launching of grant schemes**.

Contracting of financial resources co-financed the ESF mainly based on direct grant schemes **accelerates the processes and reduces the administrative burden** for the Managing Authority, **however, this approach may also have a negative impact on transparency, publicity and effective selection** of projects proposed by the beneficiaries. The use of direct grant schemes and project selection should be well-balanced and justified. It is necessary for ensuring accountability and publicity of the individual beneficiaries in order to guarantee compliance with the principle of equality of beneficiaries in the contracting process, among other things.

The absence of clear rules for selection and appointment of administrative managers and teams members in projects with the Ministry of Education and Science as a beneficiary, **increases the risk of taking up commitments in conflict of interests situations**, and of applying unregulated practices.

**There are no indications that projects have been prioritized** before inclusion in the annual indicative program under OP Science and Education for Intelligent Growth based on concrete analyses and assessment of the highest added value; and there is no ranking by importance and impact of the projects in the indicative programs. **The large scope of themes and interventions** in the operational programs **hampers the focusing on strategic aspects** in view of the optimum allocation of funding to ensure effective absorption of the financial resources.

OP Human Resource Development and OP Science and Education for Intelligent Growth have introduced mechanisms for selection and evaluation of applications in view of ensuring that the operations would contribute to achieving the specific goals and outcomes under the relevant program priorities.



The operations selection criteria, application documents and the annexes to them under OP Science and Education for Intelligent Growth have been approved without sufficient justification. **These deficiencies** are due to insufficient needs analysis and identification; lack of probing of the beneficiaries' opinion; failure to apply of lessons learned from previous periods and to ensure timely coordination between the MA and the beneficiaries. The weaknesses in the organization and management **give grounds to inefficient absorption and consequently failure to attain the goals of the National Development Program Bulgaria 2020**, as well as for deficiencies and irregularities.

All procedures for applying for ESF funded grants **are conducted electronically**, which helps facilitate the work of the Managing Authority and the communication with beneficiaries, speed up the process for approval and implementation of project proposal, **save time and resources** and enable the maintenance of a comprehensive database on the projects/ financial plans and the program.

**The arrangements and rules** laid down in the Manuals for OP Human Resource Development and OP Science and Education for Intelligent Growth **have been followed adequately**. The identified deficiencies and non-conformity in this area are mostly due **to lack of administrative capacity of the beneficiaries** and difficulties encountered in the preparation of project documentation, as well as to **deficits in the work of the Selection Committees**, which hamper the selection of **high quality projects**. The approved expenditure rates need to be followed strictly. Limits should be introduced on the individual types of expenditures (OP Science and Education for Intelligent Growth).

The identified mixing up of performance indicators and outcomes, and **the lack of clearly outlined project deliverables** to ensure measurability of outcomes gives grounds for the selection of low quality projects, failure to meet the strategic goals and comply with the Council's recommendations.

**Because of the absence of clear projections and justification of the planned expenditures** under the direct grant procedures (in view of the approved projects with high budget contracts), **transparency was not ensured, which poses the risk of non-cost efficient expenditures under the OP**.

**The spending of significant budgets for advertising materials** under grant procedures (incl. schemes whose specifications and operations do not need large-scale advertising) **instead of allocating larger resources to the beneficiaries** for project implementation, **is not in line with the principles of effectiveness, efficiency and economy**. Such poor practices hurt the image of the operational programs and **erode the public confidence in the management of EU funds** (OP Science and Education for Intelligent Growth).

The OP procedure manuals outline the obligations for the heads of the managing authority and the chairs of the Monitoring Committees for monitoring, control and assessment. The procedure manual of OP Science and Education for Intelligent Growth **does not define clearly the monitoring functions of the monitoring and evaluation unit**.

During the audited period, the **MA and the Monitoring Committee conducted monitoring** mainly as part of the process of approving the operations criteria and the

annual indicative program. Progress monitoring was performed mostly as part of discussing the annual progress report.

**Part of the data on long-term indicators** (some of which are laid down as specific goals) **collected based on the *Participants Microdata* statistical tables** were processed manually because of absence of the relevant automated functionality in the Management and Control Information system, **which poses the risk of errors and information loss.**

Through 31 December 2016, **the relative share of contracted funds** under the thematic goals **was relatively high (over 35%)** with the exception of Goal 11. The highest share of contracted funds were under Goal 10 (around 50%). Through 31 December 2016, OP Human Resource Development had the highest share of contracted and executed payments, while OP Good Governance had the lowest share.

Between 01 January 2014 and 31 December 2016, **the programming and contracting of ESF funding did contribute to achieving the goals of the National Development Program *Bulgaria 2020*. Additional efforts should be invested in planning and granting assistance** to ensure the overcoming of challenges related to the following: result orientation of programs and projects; priority and needs-based annual planning of procedures; balancing the procedures for direct grants and project selection; participation of partners and their contribution to the implementation of project operations; checking for double financing.

#### **Efficient and effective management of OP Innovations and Competitiveness 2014 – 2020 during the period 01 January 2014 through 30 June 2017**

The key audit question was: Were management and control of OP Innovations and Competitiveness 2014- 2020 efficient and effective in the period 01 January 2014 through 01 June 2017?

The audited entities were the Ministry of Economy as Managing Authority of OP Innovations and Competitiveness 2014- 2020, the Executive Agency on Audit of European Funding and the National Fund Directorate of the Ministry of Finance.

**During the audited period, the application of the Internal Rules and procedures in place** (as set out in the Manual of OP Innovations and Competitiveness 2014- 2020) with respect to drafting and publishing amendments to the Annual indicative work programs, drafting the guidance for application, adopting selection criteria for operations and criteria for selection and evaluation of project proposals **ensured a conducive environment for project selection and evaluation, and for contracting of EU funding** for the OP.

**The delayed launch of the OP and of part of the procedures**, and the delayed assessment by the Evaluation Committees under certain procedures **posed a risk of delayed contracting and absorption of the allocations** under the respective axes of the OP and **threatened the achieving the interim goals within the set deadlines.**

The large number of approved project proposals included in the reserve lists are indicative of the high interest to the program on behalf of the beneficiaries.

During the audited period, there **was a delay in the contracting of projects** under Priority Axis 3 - *Energy and Resource Efficiency* and Priority Axis 4 - *Overcoming the Obstacles to Security of Gas Supplies* of the OP.

After the completion of the audit and the submission of the draft audit report, the Managing Authority announced new procedures and undertook measures to ensure a significant progress regarding the number of contracted projects under Priority Axis 3.

The mechanism and procedures for verification of expenditures in the management of OP Innovations and Competitiveness **set a conducive environment for achieving the OP's goals.**

**No significant deficiencies have been identified in the timely verification of expenditures by the Managing Authority** for the sampled projects.



There are arrangements in place for the certification of costs of the OP projects. The **expenditure certification procedures in place** are adequate. The regulated control procedures in the annual closing of accounts were applied within the required deadlines.

The efficient expenditure certification is conducive to **meeting the goals** of the individual projects under OP Innovations and Competitiveness.

The certification process set out in the Procedure Manual issued by the National Fund Directorate of the Ministry of Finance, the functional and job descriptions and the control procedures in place for the annual closing of accounts **establish a favorable environment for attaining the goals of the certification process.**

The effective control procedures for the certification of the expenditures of OP Innovations and Competitiveness implemented by the Certifying Authority **contribute to the true and fair reporting of expenditures.**

**The processes for verification and certification of expenditures are conducive to meeting the goals of the OP.**

**The arrangements for administering irregularities** put in place by the Managing Authority ensure the effectiveness and compliance of the measures; however, **there have been deficiencies in the application of controls** due to poor organization and operation of controls.

The approved Audit Strategy and the Audit Manual applied for the auditing activities contribute to the adequate controls on behalf of the Executive Agency for Audit of EU Funding in its capacity of an Audit Authority.

During the audited period, **the Executive Agency on Audit of EU Funding had in place a mechanism for control over the implementation of OP Innovations and Competitiveness.** There were sufficient arrangements for effective controls in line with the requirements, which is a good prerequisite for the improvement of the program.

The **effective controls on behalf of the Audit Authority** over the management and implementation of the program during the audited period contributed to achieving the program's goals.

**In general, OP Innovations and Competitiveness 2014 – 2020 was managed effectively during the period 01 January 2014 through 30 June 2017. Additional**

efforts should be invested by the Managing Authority to optimize the evaluation and contracting of projects under Priority Axis 4 and for efficient management of the risk of failure to meet the interim goals by the end of 2018.

**Audit on the 2015 – 2017 implementation of Measure 11 - Organic Farming of the Rural Development Program 2014-2020**

The key audit question was: Was measure 11 - Organic Farming of the Rural Development Program 2014 - 2020 implemented effectively?

**No reliable arrangements were put in place for the programming, financing and implementation of Measure 11 – Organic Farming** during the audited period.

The goals, priorities and interventions for organic farming set out in the National Development Program *Bulgaria 2020* were further elaborated in the Government Program for Sustainable Development of the Republic of Bulgaria 2014-2018 and the Cabinet’s Governance Program 2017-2021.

**The goals for organic farming** outlined in the National Program **are not coupled with quantitative indicators**, which hampers the monitoring of outcomes. **Despite the declared intentions**, as of 15 October 2017, i.e. more than two years after the launch of the Rural Development Program 2014 - 2020, **there were no strategic documents in place containing clear and measurable national goals for organic farming**. As a result, this sector remained outside the national priorities.

The objectives of Measure 11 – Organic Farming are in line with the EU policy for Rural Development. Its goals are in conformity with and are instrumental to the implementation of sub-priority 4.4 of the National Development Program *Bulgaria 2020*, goals 2 and 3 of the Rural Development Program 2014-2020, and the Government Program for Sustainable Development of the Republic of Bulgaria 2014-2018.

**The absence of a national strategic goal with quantitative indicators** in the area of organic farming during the programming period 2014-2020 does not provide a reliable foundation for programming and financing of Measure 11 – Organic Farming and **hampers the monitoring of its efficiency and progress**.

Deficiencies were identified regarding the introduction of indicators for goal attainment due to the lack of clear vision and strategic documents in the area of organic farming for programming period 2014-2020. These deficiencies are as follows: the performance indicators under the measure are not linked with the quantitative measures of the national goal for organic farming; lack of performance indicators for the target set out in the ordinance on the implementation of Measure 11 – Organic Farming and for job creation based on organic farming.

The failure to comply with the projections in the ex-ante assessment of OPRD 2014-2020, the decreased concrete indicators for the “growth stimulation” target and the lack of documented official justification of the introduced quantitative indicators and planned financial resources **do not provide reasonable assurance that the measure was planned adequately in keeping with the national priorities**. As a result, midway through the programming period the audit found **that the funding under the measure was insufficient** to take up new commitments or to expand the

scope of the current ones, and a forecasted a funding deficit for the 5-year commitments till the end of the programming period.

The introduced requirements for Measure 11 – *Organic Farming* allow the beneficiaries to focus only on receiving compensations.

**The steps undertaken to ensure effective administration, authorization of payment applications and disbursement of payments** under Measure 11 – Organic Farming **were insufficient**.

The amendment to the ordinance on the implementation of Measure 11 – Organic Farming mainly target the strengthening of controls along the entire chain of organic farming. **The controls in place** for administrative checks, on-site inspections of applications for support to the beneficiaries checked in the audit sample **were applied correctly** and were adequately documented in the Integrated Administration and Control System (IACS). This helped identify non-eligible candidates for support and instances of non-conformity with the organic farming rules.

**There were also deficiencies in providing timely notification to farmers** about opportunities to apply for funding under the measures, which was in violation of the ordinance **on the implementation of Measure 11 – Organic Farming**. The audit identified significant weaknesses in the control system of organic farming in Bulgaria and a **resulting lack of assurance of compliance with the organic farming rules and of regularity of the expenditures under the measure**.

There is a need for a uniform IT system of all operators in the control network, and all production units in the country, equipped with a functionality for automatic provision of data necessary for the calculation of payments to the beneficiaries under Measure 11. Such system would facilitate the administrative checks, reduce the administrative burden and technical mistakes by the control bodies and will streamline the overall controls along the entire chain.

**The controls put in place** in relation to the calculation, authorization and payment of the annual financial support to the beneficiaries in the audit sample **were applied adequately** and documented in the IACS.

**The Ministry of Agriculture, Food and Forestry has not put in place adequate arrangements for the calculation, authorization and payment of the annual financial support:**

Part of the administrative checks for interruption in the control system and for validity of the submitted contracts for organic farming under the measure are obstructed due to **the lack of uniform system within the Ministry of Agriculture, Food and Forestry and the State Agriculture Fund – Payment Agency**. **There is no functionality for automated provision of information**, which poses a risk of delayed calculation and payments authorization under the measure.

**The high turnover of managerial and expert staff in the respective unit of the Ministry of Agriculture, Food and Forestry** competent to apply the rules for organic farming make it difficult to control implementation of the contract for developing additional functionalities to the database. This resulted in failure to meet the contract obligations through 13 October 2017. Consequently, **the database of producers, processors and vendors of organic products and food did not serve its main purpose:** to provide timely and complete information on the functioning of



operators, incl. under Measure 11 – Organic Farming, and to ensure reliable controls and processing of data regarding the development of organic farming in Bulgaria.

There is no designated staff with authorization to access the database of producers, processors and vendors of organic food and products. Therefore, personal accountability could not be pursued and it was not possible to **improve controls over the maintenance of the IT system.**

**The Certifying Authority** of the European Agricultural Guarantee Fund and the Rural Development Fund has **sustainable institutional and administrative capacity.** A specialized administration has been established following the selection of a **highly professional and well-motivated expert staff** whose skills are enhanced through adequate trainings and job appraisal. **There are arrangements in place for the development of an suitable auditing methodology,** and the Certifying Authority of the European Agriculture performs its duties adequately. **The certification audit of the European agriculture funds for 2016 was concluded successfully,** which informed the decision of the EC for clearing the accounts of the European fund for Agriculture Guarantee and the European Fund for Rural Development.

**No actions were taken** during the audited period **to ensure efficient monitoring of Measure 11 – Organic Farming.** The arrangements in place for collection, aggregation and analysis of data necessary for reporting and checking the outcomes under Measure 11 – Organic Farming create barriers and pose a **risk to the reliability, timeliness and scope of the information.** This is due to the failure to build a monitoring module in the IT system, the lack of functional link between the MA and the information system of the State Agriculture Fund – PA, the restricted access of MA's staff to the IACS, the inadequate electronic exchange of information on the progress and the absence of specialized software for data aggregation.

**MA's reporting to the EC** based on annual reports on the implementation of RDP 2014 – 2020, incl. Measure 11 – Organic Farming for the period 2015 – 2016, **was done in line with the required procedures and deadlines.** The 2016 annual report on the implementation of RDP 2014 – 2020 **contains information on the monitoring of the performance indicators for Measure 11 – Organic farming,** information on the progress on performance indicators under priority axis 4B (to which Measure 11 – Organic Farming contributes), and the overall public expenditure.

**The Monitoring Committee performed monitoring** of the financial progress of Measure 11 – Organic Farming. There was no reporting on the performance indicators, **which is why the Monitoring Committee was obstructed in making informed decisions and introducing remedies in case of identified weaknesses.**

**There was progress** during the audited period **on all areas of support under measure 11 – Organic Farming.**

**The total number of land plots/ bee families/ livestock declared under Measure 11 – Organic Farming for the 2016 campaign as compared to the 2015 more than doubled.** Despite the progress, the conducted on-site inspection informs the conclusion **that the main incentive for the majority of inspected farmers to participate in this measure was namely the eligibility for compensations, rather than the promotion of organic farming practices themselves.**

**The lack of a strategic approach to developing organic farming** with clearly formulated and measurable national goals coupled with quantitative indicators and



the failure to link the progress indicators and the support under this measure with the national organic farming target **results in establishing an unreliable foundation for programming and financing, and makes it difficult to measure the actual impact of this measure.**

#### 4.2. Summary of conclusions from the performance audits conducted by BNAO

Parallel with the positive achievements in certain areas that bring Bulgaria closer to the best European practices, the **2018 audits identified the same deficiencies of good financial governance practices as in 2017.** Some of the negative practices and their root causes date back even earlier – to 2016.

**The main weaknesses include but are not restricted to the following:**

- Unclear strategic goals and priorities;
- Lacking or inaccurately defined criteria and indicators;
- Failure to meet criteria and indicators;
- Delayed implementation and multiple postponements of deadlines;
- Lack of internal rules and/ or internal rules that are not aligned with the regulatory requirements;
- Inefficient internal control systems (also identified during the 2016 audits);
- Lack of continuity in the management and implementation of processes;
- Underfunded public needs and planned measures.

**The main generic reasons for the above irregularities are as follows:**

- Inefficient and untimely planning process (also identified during the 2016 audits);
- Deficiencies in regulating public relations through legislative acts (also identified in the 2016 audits);
- Unrealistic planning of the funding for policies, strategic national priorities, measures and activities;
- Insufficient administrative capacity for effective implementation (also identified in the 2016 audits);
- Poor coordination among the responsible institutions (also identified in the 2016 audits);
- Frequent structural and staff changes (also identified in the 2016 audits).

#### 5. Outcomes of the specific audits

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

In 2018, BNAO endorsed 12 specific audit reports, incl. audits of: the Report on the Execution of the State Budget Republic of Bulgaria, the budget execution of the Public Social Security System and the National Health Insurance Fund; management of the budget expenditures of the Bulgarian Central Bank; the operations and management of commercial companies and state-owned enterprises; control over the implementation of concession agreements; financial operations and management of the estate allocated to political parties; financing of election campaigns.

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

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

### 5.1.1. Audit assigned by the 44<sup>th</sup> National Assembly

#### Compliance audit of the supplemental transfers to the primary spending units of budgetary funds, extended based on Council of Ministers Decrees in the period 01 January 2017 – 31 January 2018.

The audit was conducted based on a decision by the 44<sup>th</sup> National Assembly dated 23 February 2018 followed by Instructions issued by the President of the National Audit Office.

During the audited period, **the Council of Ministers issued decrees for the extension of additional transfers** to budgets of primary spending units of budgetary funds, budget-funded organizations under art. 13. Paragraphs 3 and 4 of the Law on Public Finances and the public social security system amounting in total to BGN **2,734,119.7 thousand**.

**The Council of Ministers has the operational mandate to approve such additional transfers on its own.** Within the framework of its competences, the Ministry of Finance evaluates the submitted proposals for additional transfers in view



of the availability of resources and of their compliance with the Law on Public Finances. The Council of Ministers decides whether such proposals are well-founded and feasible. **There are no written criteria in place** regulating the requests by the primary spending units for additional funding; respectively no checklists are being filled out to document the reviews for compliance and availability of funding conducted by the Ministry of Finance.

The new provision in the 2016 Law on Normative Acts (paragraph 1a) repealed **the applicability of the principle of openness** and the related principles of **publicity and transparency in drafting and**

**adopting draft Council of Ministers Decrees for approval of additional expenditures/ transfers, in view of the nature of these acts.**

The guidelines and internal rules of the Ministry of Finance **do not set explicit terms and conditions for checking the financial justification of the requests for additional expenditures/ transfers by the primary spending units.** The general rules for consultations of Council of Ministers decrees apply in such cases.

The legal framework regulating the allocation of budgets to new primary spending units set up during the current year should be amended to ensure better precision.

For some of the sampled Draft Council of Ministers Decrees for approval of additional transfers, the Ministry of Finance's records (reports by the submitting agency and other documents) do not contain sufficient details and well-founded projections of the necessary budgetary funds to fund the relevant operations.

**The changes resulting from the Council of Ministers Decrees (included in the audit sample) are documented adequately in the budgets of the primary spending units and in the central budget.**

**Some of the supplemental transfers to the primary spending units are significant in relative terms compared to the initially approved allocations outlined in the Law on the National Budget for the respective year.** The uneven allocation of additional funding to municipalities (extended based on Council of Ministers Decrees) is due also to some objective factors and conditions (e.g. number of children and pupils enrolled in the municipal schools, transport costs, compensations for business trips, spending for activities delegated by the state, etc.), which served as a basis for the estimation and allocation of additional transfers to those municipalities.

The audit **identified different cases of expenditure restructuring - relocating funds to priority areas** (e.g. additional allocations to the Ministry of Regional Development and Public Works for funding of activities under the National Program for Energy Efficiency), **and transferring funds to other areas and activities at the expense of allocations planned in the central budget for a certain priority area** (e.g. restructuring of capital expenditures for defense to relocate them to other operations and entities).

### **5.1.2. Audits of the Statements on budget execution and budget-financed expenditures**

#### **Audit of the 2017 Statement on the execution of the State Budget of the Republic of Bulgaria**

The 2017 Statement on the Execution of the Republic of Bulgaria's State Budget **was prepared in line with the requirements** laid down in the relevant legislation; **however, it was submitted to the National Audit Office after the expiry of the statutory deadline.**

The income, expenditure, budgetary relations and the contribution to the common EU budget were reported in keeping with the relevant indicators set out in the Law on the 2017 State Budget of the Republic of Bulgaria.

**The revenues, support and donations planned in the Law on the 2017 State Budget of the Republic of Bulgaria were executed at 101.4 %**, which is due to over-execution of the planned tax revenues. The reported revenues to the central budget account for 92,4% of all revenues, support and donations to the State Budget in 2017.

**The reported expenditure, budgetary relations (net) and contribution to the common EU Budget** reported in the 2017 Statement on the Execution of the Republic of Bulgaria State budget **were executed at 97.5%**, i.e. they constitute 560 243.7 thousand BGN less than planned.

The reported expenditure (less transfers and the EU contribution) in the 2017 state budget was lower than the planned in the 2017 State budget Law by BGN 796 185.2 thousand. Two primary spending units of budgetary funds exceeded their projected labor costs in violation of art. 79 of the 2017 State Budget Law and the budgetary discipline.

**There was a negative budget balance - BGN 860,515.5 thousand less than planned in the 2017 State Budget Law.**

Five primary spending units of budgetary funds did not meet the requirements set out in art. 88 of the Law on Public Finances regarding the exceeding the committed expenditures in 2017 and the cap on the new liabilities accrued in 2017 (one of them reporting excess expenditures on both items).



**The 2017 Consolidated Fiscal Program reported excess revenues by 4.0% and excess expenditure by 6.1% year-on-year, and a surplus of BGN 845,536.1 thousand.**

The financial management and control systems applied in the preparation and submission of the statement on the execution of the state budget were in line with the legal framework. **There were effective mechanisms in place for control and ongoing monitoring of the planning, execution and reporting of the state budget.**

#### **Audit of the 2017 Budget of the Public Social Security System**

The Statement on the execution of the 2017 budget of the public social security system was prepared, approved and submitted to the National Audit Office and the National Assembly **in compliance with the statutory procedures and deadlines**. The statement's structure and contents were in compliance with the Law on the 2017 Budget of the Public Social Security System and the Social Security Code. The revenues and incoming transfers, expenditures and transfers out of the National Social Security Institute (NSSI) to other budgets **were in line with the legislation and were reported truly and adequately in the statement on the 2017 social security budget execution.**

There was **over-execution of the social security revenues by 5.3%** due to the larger number of participants in the system, increase of the social security contribution rate, and higher collection rate.

**The total planned expenditures in the social security budget were exceeded by 1.9%**, which is due to the higher expenditures for retirement benefits and welfare allowances.

Through 31 December 2017, the outstanding overpaid cash benefits for unemployment pending collection by the NSSI were smaller than the ones reported through 31 December 2016 **as a result of the efficient measures undertaken by the Social Security Institute** and the improved controls.

The 2017 Statement on the NSSI Budget execution reported surplus by BGN **14,595.3 thousand**; while the 2017 Budget Law did not plan for any surplus.

During the audited period, the National Social Security Institute had in place internal acts instructing the setting up of a system for financial management and control of the audited processes. The **controls** introduced by the Internal Rules **are sufficient and adequate** and were applied continuously throughout the audited period.

#### **Audit of the execution of the 2017 Budget of the National Health Insurance Fund (NHIF)**

The Statement on the execution of the 2017 NHIF budget was compiled in keeping with the structure and indicators laid down in the Law on the 2017 NHIF budget. The revenue, expenditure and transfers reported in the budget **were in line with the regulations** of the Health Insurance Law.

The Statement on the execution of the 2017 NHIF budget was approved by the NHIF Supervisory Board and submitted to the National Audit Office in line with the statutory requirements. **The provision of Art. 30, paragraph 1 of the Health Insurance Law** requiring from the NHIF Governor to submit the 2017 budget to Parliament through the Minister of Health and the Council of Ministers not later than June 30 2018 was not complied with.

The reported revenue and transfers **exceed the projections** in the Law on the 2017 NHIF budget **by 3.7%**.

**The actual revenues from health insurance contributions exceed the planned ones by 5.5%**; the surplus was relocated for health insurance payments.

The reported **expenditure and transfers exceed the projections by 3.4%**.

**The funds in the NHIF budgetary reserve** amounting to BGN 341,382 thousand were **spent** for health insurance payments **in line with the regulatory requirements**.

The 2017 NHIF budget was balanced. At year-end, the **NHIF reported a positive balance** of BGN 10,162 thousand.

The 2017 NHIF budget execution was reported in line with the indicators in the Law on the 2017 NHIF Budget. **The relocations made during the year** between the cost items and transfer items within the planned budget, and the increased revenues and expenditure resulting from the over-execution of the health insurance revenues **were in line with the regulatory requirements**.



### **Audit of the 2017 budgetary expenditures and cost management of the Bulgarian Central Bank**

The planning of budgetary expenditures and the adoption of the 2017 budget of the Bulgarian Central Bank **was in line** with the requirements of art. 48, paragraph 1 and art. 50 of the Law on the Bulgarian Central Bank (LBCB), and the internal Rules on drafting, execution and reporting on the BCB budget.

**The planned allocations for the BCB operational costs and investments were not fully absorbed.** The reported expenditure for operations was at 83.6% of the planned budget and the investments were at 17.5%.

The adjustments to the cost indicators in the 2017 BCB budget were introduced in line with the Internal Rules for drafting, execution and reporting of the BCB budget. The adjustments did not exceed the total approved expenditure under Section 1 Operational Costs and Section II – BCB Investment Programs in the 2017 budget and were introduced in keeping with the levels of competence relevant to the respective expenditure item and the adjustment scale.

**The BCB expenditures for the period 01 January through 31 December 2017 were compliant, well justified and documented** and were incurred within the limits on expenditures planned in the



2017 budget of the BCB.

**The public procurement procedures** during the audited period **were conducted in keeping with the statutory requirements.** The procedures and contracting under Chapter 26 of the Law on Public Procurement were fully compliant with the relevant requirements.

**The 2017 Annual Statement on the BCB budget execution,** as endorsed by the Managing Board, **was in line with the statutory requirements and the internal rules in all material aspects.** It was submitted to Parliament in compliance with art 51 of LBCB.

**Adequate measures and managerial decisions were adopted acting upon the recommendation** issued by the BNAO in its audit report on the 2016 budget execution.

### **5.1.3. Audits of commercial entities, state-owned enterprises and concessions**

#### **Audit of the National Railroad Infrastructure Company (state-owned company) for the period 2015-2016.**

**The management of the state-owned enterprise was in line** with the requirements laid down in the relevant legislation and the agreements **with exception of the following:**

The Board of Directors **failed to design and implement specific measures** and to designate responsible persons and deadlines to ensure meeting of the financial



goals laid down in the business plans and implementation of the necessary steps to improve the company's financial status.

The internal rules in place on ex-ante compliance controls of the financial and administrative functions **did not provide for documenting the ex-ante compliance controls** in standard checklists and the opinion reports on the public procurement procedures. This resulted in **a number of repealed decisions for launching procurement tenders** for supplementary voluntary pension schemes, telecom and insurance services on grounds of non-compliance with the statutory requirements. It also led to **incurring expenditures for such services in violation of the repealed Law on Public Procurement.**

Due to the lack of management decisions, the system for resource planning

and management SAP ERP introduced in the state-owned company is not fully functional and does not play a central role.

Regarding audited area **"Financial status of the state-owned enterprise"**, the operations were in line with the statutory requirements **with exception of the following:**

Due to deficiencies in the documentation, the audit team could not express reasonable assurance regarding the performance in relation to the main goal of the stock-taking conducted in 2015 and

2016, namely to ensure cross-matching of the data in the accounting logs with the physical assets/ liabilities in the company.

**The company does not have procedures in place for monitoring and control of the statutory deadlines** for reporting the revenues from infrastructure use fees.

The National Railroad Infrastructure Company **did not undertake the necessary steps to synchronize the agreements for access to the railroad infrastructure** signed with the Passenger and Freight Transport Services of the Bulgarian Railroad Company in line with the internal rules. The methodology for calculating penalty interest for overdue payments under agreements with licensed operators provides for illegitimate unilateral changes to the deadlines and maturity of the receivables from overdue fees for infrastructure use and services.

During the audited period, **the railroad passenger and freight service providers did not pay regularly their due fees for infrastructure use and services** in violation of the agreements; however, the Railroad Infrastructure Company **did not charge penalty interests for the delays.** The agreement for access and use of the railroad infrastructure signed with the Passenger Service Department of the Bulgarian Railroad Company was not updated to account for the actual situation and use of utilities (electricity, heating and drinking water).

In violation of the Law on State Property and the Rules on its implementation, the Railroad Infrastructure Company provided to BDZ- Holding state-owned outdoor and indoor facilities for free-of-charge use. Until the end of the audit, the overdue amounts payable by the BDZ-Holding for use of indoor and outdoor facilities that



were invoiced by the National Railroad Infrastructure Company were not paid in, and no penalty interest for delays was charged as prescribed by the Law on Agreements and Obligations.

During the audited period, the National Railroad Infrastructure Company provided to BDZ-Holding long-term storage of wagons in poor technical condition owned by the holding based on agreements that expired on 31 December 2014.

According to the annual financial statements, the largest overdue receivables to the National Railroad Infrastructure Company belong to the BDZ-Holding and its subsidiaries, accounting for over 99% of all receivables from related parties under single joint control in 2015 and 2016. The National Railroad Infrastructure Company did not impair the receivables from the BDZ-Holding and its subsidiaries that were more than 1 year overdue.

During the audited period, the National Railroad Infrastructure Company incurred additional losses **regardless of the financial goals and measures to reduce its losses as set out in the business plans.**

**In planning, awarding and implementing public procurement contracts** the National Railroad Infrastructure Company complied with the legal requirements with exception of the following areas:

**During the audited period, public procurement procedures were not planned in line with the Internal Rules** for public procurement and control on the implementation of agreements.

**Various violations of the relevant legal framework were identified** in relation to the award and implementation of public procurement contracts. During the audited period, the National Railroad Infrastructure Company incurred expenditures for services and works without conducting public procurement procedures in cases when this is mandated by law.

**In the area of Estate Management, the National Railroad Infrastructure Company complied with the relevant legal requirements with exception of the following:**

The audit team was not provided with updated lists, addresses and reports on the estate insured during the audited period, and therefore could not express reasonable assurance whether the requirements of the Law on State Property were met in relation to all publicly owned facilities managed by the National Railroad Infrastructure Company.

Part of the Rules adopted by the National Railroad Infrastructure Company **on the management and disposal with real estate** were not updated within the required deadlines, while others were not updated at all during the audited period to reflect the changes in the company's organizational structure.

The National Railroad Infrastructure Company expanded the scope of eligibility of persons to use company owned housing in violation with art. 22 and art. 32a of the Rules for Implementation of the Law on Public Property and the Rules on leasing, selling and swapping of public housing, studios, garages and parking sites managed by the company. As a result, facilities were leased to tenants who were not employees of the company in violation of the statutory requirements.

The company failed to issue titles of state ownership of public facilities under its management; while in other cases, the issued titles were not updated accordingly to reflect the amendments to the legal framework.

**The controls applied in the audited areas during the audited period were not efficient and consistent, and they failed to prevent the irregularities identified by the audit team.**

**Audit of BDZ – Passenger Service for the period 2015-2016.**

The compliance audit of the company identified several significant non-compliant elements in audit area “Management of the Commercial Entity”:

BDZ – Passenger Service **did not have an internal audit unit in place**, which was in violation of the Law on the Public Sector Internal Auditing and the Law on Financial Management and Control in the Public Sector.

The planning and reporting of the company’s operations to the single owner of capital and to the Minister of Transport, Information Technologies and Communications was only partially in line with the legal framework and the management contract of the company. During the two audited years, **the company did not meet the deadlines for submission of its business plans and financial statements.**

Some of the measures outlined in the business plans for 2015 and 2016 were only partially implemented, while others were not implemented at all, and were not aligned with the company’s capacity to implement such measures. The deadlines for some of the measures were not met; the implementation of others depended on third parties over which the company has no influence.

**Audit area “Operational revenues of BDZ – Passenger Service” identified partial non-conformity with the legal framework:**

The passenger service revenues were generated and reported in line with the relevant legislation; however, no ticketing and booking system was introduced as set out in the business plan. **The passenger service revenues were reported in line with the adopted accounting policy** and in adherence to the company’s chart of accounts.

**No compliance checks were performed for 21 of the contracts** where BDZ-Passenger service was a contractor.

The Guidelines on procedures and reporting in passenger and freight transport and the provision of rolling stock in BDZ AD were not updated.

During the audited period, the company met its obligation under the contract for public railroad transport services; however, it failed to submit within the deadlines its monthly and yearly reports on the transport services and the justified annual and tri-annual projections for compensations.

**The controls in place were not applied consistently**, which resulted in failure to prevent the identified irregularities.

**Audit area “Costs for overhaul and maintenance of the rolling stock (carriages and traction rolling stock) in BDZ – Passenger Service” identified the following irregularities:**

**The rolling stock owned by the company is in a poor technical condition and age structure**, which results in frequent breakdowns during exploitation, disruption of the Train Schedule and additional costs for ad-hoc repairs.

The programs for repairs of the rolling stock were completed only partially and there were significant discrepancies between the planned and assigned contracts for supplies and repair services. As a result, the company was incapable of ensuring a sufficient number of locomotives and carriages in good technical conditions for the Passenger Service.



The implementation and provision of resources for the repairs **was not sufficiently efficient**. As a result, BDZ – Passenger Service was incapable of providing sufficient number of locomotives and carriages in good technical condition to the Passenger Service in line with the public contract for railroad transport.

The increased number of rolling-stock breakdowns in 2016 as compared to 2015, and the registered number of delayed trains due to the lack of functional locomotives and EMUs/DMUs **had a negative financial impact on the company's costs** and led to sanctions for failure to meet the standards for punctuality of the passenger service, as outlined in the contract for public service.

**The failure to meet certain quality indicators of the transport service tarnished the reputation of BDZ – Passenger Service as a reliable operator**, which poses a risk of reduced passenger and income flow.

**The repairs of the audited carriages and locomotives were not documented in line with the relevant internal rules.**

During the audited period, the planning of public procurement contracts for repairs was only partially in line with the internal rules. The regulated deadlines were not met, which placed the company at risk of **delayed supplies and services** necessary for the repair works. **Sixty percent of the public procurement procedures for supplies and services were not initiated or contracted at all.** In 2015, some public procurement contracts were amended through memoranda of understanding in violation of the Law on Public Procurement.

**Irregularities were identified in the implementation of part of the audited contracts for repairs.**

**The controls** on the entry of all relevant data in the passports of the locomotives and carriages **were inefficient and inconsistent.**

The following irregularities were identified in audit area “Management and disposal with the real estate owned by BDZ Passenger Service”: **failure to provide titles of ownership for a significant part of the facilities** owned by the company; lack of a real estate register containing the required requisite data and names of the designated officials responsible for the maintenance; absence of provisions for guarantees of good governance in some lease agreements.

**The controls** in this audited area were consistent and continuous and **ensured compliance with the regulatory framework relevant to the management and disposal with the real estate owned by BDZ – Passenger Service.**



**Audit of the Environmental Protection Management Company for the period 2015 - 2016.**

During the audited period, environmental protection was a constant priority in the strategic and programming documents, which were coherent in general. **No National Environmental Strategy was introduced**, which was in violation of the legal requirement for adopting a strategic document as an instrument to meet the goals set out in the law and the principles for environmental protection.

The Environmental Protection Management Company operated in the absence of arrangements that were key for its operations and decision-making processes. This hampered the monitoring of the decision-making by the Managing Board and led to non-compliance with the principle of transparency. The frequent replacements of the Managing Board members indicated instability in the company's management and posed a risk to the continuity and meeting of the company's goals.

**The priorities for funding environmental projects and interventions adopted by the Managing Board of the Company were in line with the National Strategic Documents** creating prerequisites for efficient implementation of the activities and for meeting the company's goals relating to optimal use of resources and efficient care of the environment.

The organizational and management structure in place provided a clear indication of the relations between the separate units in the process of management. No structural changes were introduced during the audited period, which was favorable for the efficient implementation of the interventions for environmental protection.

**The selection of the auditing staff** through competitions and/or based on documents **was not uniform, consistent and sufficiently well regulated.**

The company complied with the financial planning requirements of the Law on Public Finances, which was conducive to ensuring the necessary funding for environmental projects. The budgetary relations between the Company and the state budget were compliant with the mid-term projections; **the upper limits on expenditures approved by the Council of Ministers were met.**

The budget allocations to the Company in 2015 amounted to BGN 219,143.5 thousand, and the level of budget execution was at 93.8%; while in 2016 the budget was at BGN 156,406.4 thousand and the company reported budget execution of 91,8% t.

The biggest expenditure items during the audited period were **water, waste management and climate change management.** There is no information of delayed payments due to insufficient financial resources.

Arrangements were put in place to ensure cooperation and coordination between the entity and the organizations administering revenues under the Law on Water. **The lack of similar regulation governing the revenues coming into the Environmental Protection Management Company based on other legislative acts** in the area of environment, hampered collection and reporting of revenues and **posed a risk to the adequate targeting of funds to finance environmental projects.**

The arrangements regarding the types of revenue sources from previous periods were not complied with, which posed a risk **of using targeted funds to**

**finance environmental projects and activities different from the ones set out in the legislation.**

During the audited period, the Company entered into 1,104 contracts amounting in total to BGN 153 million. Out of these, the extended grants were BGN 146 million under 155 contracts, while 7 million were allocated under 949 contracts for execution of the National Clean Environment Campaign for the respective year.

**The Managing Board passed decisions to finance some environmental projects for which there were negative or no positions issued by the competent authorities of the Ministry of Environment and Water** regarding the eligibility of the projects in view of the Ministry's policy/ priorities in the relevant environmental area.

The criteria and requirements for selection of applicant environmental projects approved by the Company's Managing Board were not in line with the national environmental strategies and programs. Their publication on the Company's webpage did not ensure publicity and rather misinformed the users. **The absence of coordination between the published requirements and application criteria and the Company's priorities for financing environmental projects was a prerequisite for inefficient operations.**

**The ex-ante checks of the environmental projects approved by the Company for compliance with the criteria for financing were inefficient.** The application documents for financing were incomplete. In some cases, the checklist of the ex-ante controls did not contain an opinion vis-a-vis the project's eligibility for financing. **In applying the controls, the responsible officials allowed some deficiencies**, such as lack of controls for double financing, resulting in ineffective operations. By allowing one official to perform functions relating to approval, implementation and controls, the company violated the principles of good financial governance and compliance.

No guarantees were set out in the legislation and the internal rules **to ensure transparency in the selection of the entities conducting investor's controls on behalf of the Company.**

The files of the environmental projects were not kept in chronological order; catalogs were incomplete or lacking resulting in insufficient provision of information and **posing a risk of ineffective management decisions.** There was lack of consistency in entering and processing of information on the operations of different structural units resulting in inability to ensure transparency and audit trail of the processes from initiation to completion.

**During the period 01 January 2015 through 31 December 2016, the Company's operations did not ensure sufficient effectiveness of the investment and non-investment projects for environmental protection and recovery.**

#### **Audit of the controls on the implementation of concession agreements at the Ministry of Environment and Water during 2015 – 2016**

The audit focused on the controls applied by the Ministry of Environment and Water over the implementation of 17 Concession Agreements for mineral water extraction (2 of them terminated in 2015) and 1 Concession Agreement for a protected territory. The audit team concluded that during the audited period **the Ministry's controls over the concession agreements were not sufficiently effective.**



The regulatory framework and internal documents governing the control over concession agreements were not updated in a timely manner. The internal rules in place during the audited period **had not been updated at all since their introduction leading to inefficiency of controls.**

The procedures for on-site checks on the implementation of specific concession clauses were not documented.

Steps were taken to introduce electronic files of the concession agreements. However, through the end of the audited period, there was no complete electronic register and no designated responsible persons for its development and maintenance. There was no requirement to set up an electronic register for the protected territory concession.

The Ongoing Control Committee operated in compliance with the relevant regulatory requirements. During the audited period, it only conducted planned inspections, which did not ensure adequate and effective controls by the Ministry over the concession agreements.



The outcomes of the on-site inspections were documented in protocols of findings containing no information of the actions/ controls and documents that informed the conclusion on compliance with specific provisions/ obligations in the concession agreement. There were no arrangements in place for control over the steps that the officials followed to arrive at the findings reported in the inspection protocols.

In line with the requirements laid down in the concession agreements, the ongoing controls were mainly documentary based on information submitted by the concession holders and not always backed with reliable evidence. **This led to superficial implementation of controls.** The concession files did not contain all documents regarding the implementation of concession agreements and the control over their implementation. There were no designated officials responsible for maintaining and updating the information contained in the files. The incomplete information and lack of chronological sequence in the files hampered ex-post controls.

The procedures for compiling, checking, approving and sending of electronic forms to the National Register of Concessions were documented in detail in the Internal Rules of the Water Management Directorate. **There were arrangements in place for publicity and transparency of controls** over the implementation of concession agreements. However, there were no regulations regarding the deadlines for checking the electronic forms by the Ongoing Control Committee and for submitting those to the National Register of Concessions. Electronic forms were used, however their contents was not in line with the requirements in the Rules for the Implementation of the Law on Concessions.

The absence of clauses in the concession agreements guiding the recalculation and annual updating of the concession fees, and in particular the rounding of numbers after the decimal point results in inconsistent calculation and reporting of the annual fees under different concession agreements.

**The controls by the designated officials over the financial obligations of concession holders was insufficiently adequate.** No actions were undertaken against concession holders failing to meet their obligations in full.

The regulatory framework and internal rules **lacked provisions regarding follow-up on recommendations** from the inspections on the implementation of concession agreements. There were no designated officials mandated to conduct follow-up controls; any such checks were not documented. This posed a risk of delays and/ or non-implementation of measures and had a negative impact over the timeliness and efficiency of control over the identified infringements.

#### 5.1.4. Audits of political parties, coalitions of parties and nomination committees

##### Compliance audit of the reported revenues and expenditures for the campaign leading to the 26 March 2017 elections

**All audited political entities complied with the deadlines** under the Election Code to submit to the National Audit Office reports on their revenues, expenditure and commitments for payment in relation to the election campaign. All reports followed the template approved by the National Audit Office under art. 172, paragraph 4 of the Election Code.

**Only one coalition of parties did not meet the statutory requirements** to inform BNAO during the election campaign of circumstances subject to disclosure in the Uniform Register under the Election Code.

All audited political entities **complied with the statutory requirements for fundraising for their election campaigns.**

One coalition of parties **continued to raise funds for the election campaign** after the end of the campaign in violation of the Election Code.

One party and five coalitions did not report part of their costs amounting in total to BGN 16,699; two parties and six coalitions did not report revenues amounting cumulatively to BGN 39,543.

Through the date of the audit, three coalitions of parties had outstanding payables to suppliers of goods and services.

Only one coalition of parties did not comply with the requirement to have all donations exceeding BGN 1,000 received through a bank transfer.

All audited political parties, coalitions of parties and nomination committees **complied with the legal requirements concerning the maximum limit for funding of the election campaign.**

##### Compliance audit of reported revenues and expenditures for the campaign of candidates in the 2017 by-elections for mayors.

**All audited candidates in the by-elections for mayors held in 2017 adhered to the deadlines under the Election Code** for submitting to the BNAO a report on

revenues, expenditures and undertaken commitments for payment in relation to their election campaign.

Two of the candidates **did not meet the statutory requirements** to inform BNAO during the election campaign of circumstances subject to disclosure in the Uniform Register under the Election Code.

All audited candidates complied with the statutory requirements for fund-raising for their election campaigns.

**The audit team did not identify any non-reported revenues and expenditures** by the audited participants.

All candidates complied with the requirement for receiving single donations exceeding BGN 1,000 via bank transfers.

The audited political parties, local coalitions and nomination committees **complied with the statutory maximum limit on the funds for financing of their election campaign.**

#### **Audit of the 2016 financial operations and management of property allocated to political parties.**

The 2016 annual financial statements and the relevant notes to them were submitted to the National Audit Office within the statutory deadlines.

All audited political parties prepared and submitted their 2016 annual financial statements in keeping with the requirements of the Law on Political Parties, the Accountancy Act and the applicable accounting standards. The accounting systems of the audited parties were maintained **in line with the regulatory requirements.**

The state subsidy reported in the 2016 statements of the audited political parties eligible to receive such subsidy corresponded to the amounts transferred by the Ministry of Finance. All audited political parties complied with the provisions of the Law on Political Parties concerning the prohibition of relocating the received state subsidy to finance third parties.

The audited political parties generated their revenues out of the sources stipulated in the Law on Political Parties, namely subsidies, membership fee, donations, commercial operations and interest rates. They complied with the restrictions concerning anonymous donations, donations by legal entities, sole proprietors, religious institutions, foreign government or government entities, foreign commercial companies or non-profit organizations. **One political party failed to report in its financial statements a donation of BGN 68,000 under the heading “funding of election campaign”.**

The audited revenues from membership fees corresponded to the amounts carried in the financial statements except for two political parties that reported revenues from membership fees higher than the actual ones by BGN **28,572 in total.**

**The audited expenditures incurred by the political parties were well documented,** and carried in the relevant accounts in each party’s individual chart of accounts in line with the accounting policy; they were adequately reported in the annual financial statements. **All expenditures were eligible in view of the activities of the political parties** and the requirements of the Law on the Political Parties.

The audit team identified that 11 political parties delayed their lease payments under a total of 80 lease agreements for municipal-owned premises by more than 3 months, which gave grounds to the owners to terminate the lease agreements.

The audited political parties had in place public registers on their webpages. All circumstances subject to disclosure in line with the Law on Political Parties were published in their respective registers.

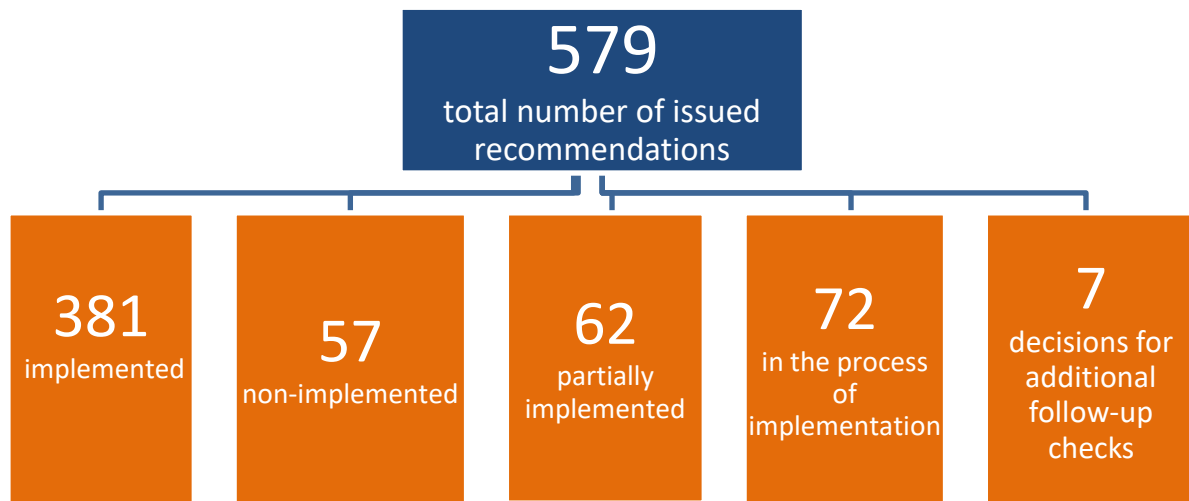
## 6. Follow-up on the recommendations by the National Audit Office

The National Audit Office issued a total of 579 recommendations for improving the accountability and operations of the public sector entities audited in 2018. The audited entities complied with 381 recommendations, 57 were not acted upon and 62 were implemented only partially, while another 72 recommendations are still in the process of implementation.

The analysis was conducted based on 43 follow-up checks on the recommendations by the SAI in 2018. The findings point to an improving trend regarding the compliance with recommendations. **In 2018, 66% of all recommendations were implemented** marking a 6-percent increase compared to 2017, and a 9% increase compared to 2016 when the audited entities complied with only 57% of the recommendations issued by BNAO. **The share of recommendations that were not acted upon declined by 4 percent – from 14% in 2017 down to 10% in 2018.** Almost half of the non-implemented recommendations were in relation to compliance audits of financial management, the majority of them concerning the need for new internal rules or amendments to the existing ones, incl. passing of acts by the Municipal Councils. The audited entities did not comply with part of the recommendations concerning the following areas: improving budgetary management (mainly revenues), property management, lease, management of contract implementation, risk assessment and public procurement.

The majority of non-implemented recommendations from performance audits have to do with the need to update internal rules or put in place arrangements for specific activities by adopting internal rules. In general, the audited entities also do not to comply with recommendations requiring joint efforts by more than one institution, and recommendations for introducing quantitative performance indicators. Audited entities also face challenges in implementing recommendations for closing down structures or defining adequately specific functions, and putting in place arrangements for collection and periodic analysis of information. Recommendations concerning the alignment of activities with the delegated mandate, conditioning funding upon the quality of services and state support or guarantees for fund raising remain pending only in isolated cases.

Recommendation from specific audits concerning amendments to internal documents or adoption of new ones and needed joint efforts by more than one institution are usually not complied with.



**The National Audit Office informs the relevant institutions – Parliament, Council of Ministers or the municipal councils of all recommendations that have not been implemented, to enable the latter to take measures for their implementation. In this respect, 20 reports from follow-up audits were sent to: Parliament (1 report), the Council of Ministers (10 reports), the Minister of Education and Science (1 report) and 1 report to each of the following municipalities - Sofia, Byala, Dimovo, Zavet, Zlataritsa, Medkovets, Popovo and Targovishte.**

In 2018 like in the two preceding years, the contacted institutions **did not take pro-active measures to ensure the implementation of recommendations.** The responsible institutions did not inform the National Audit Office of any actions undertaken by them to follow up on the recommendations, with the exception of only one case.

**When the initial follow-up on recommendations identifies non-compliance or partial compliance, the National Audit Office has introduced a possibility for further checks on the implementation** through additional arrangements in the Rules on follow-up on recommendations.

In 2018, BNAO passed **7 decisions for additional follow-up checks on recommendations;** two of them were completed: follow-up on the performance audit on Vocational Training for Employment in the period 01 January 2013 through 31 December 2014; and the Audit on the Implementation of the National Scientific Research Strategy in the period 01 August 2011 through 31 December 2014 at the Ministry of Education and Science, the Scientific Research Fund and the Bulgarian Academy of Sciences.

Two additional follow-ups on recommendations were conducted in January 2019: on the Audit of the Contribution of Horizon 2020 to attaining the goals of the National Development Program Bulgaria 2020 and the national strategic documents

in the period 01 January 2013 through 31 December 2015, and the Audit of Sofia Airport.

An unprecedented third follow-up was conducted on the implementation of recommendations contained in the audit report on the concession for the extraction of gold, copper and pyrite in the Chelopech mining site (Sofia District) extended to Dundee Precious Metals (covering the period 01 January 2011 through 31 December 2013). During the endorsement of the outcomes of the third follow-up, the National Audit Office decided to conduct a fourth check. The recommendation in process of implementation that will be subject to additional follow-up has to do with a financial and economic analysis of the concession agreement and the necessary actions to ensure cost-efficient balance between the benefits and risks for the government and the concession holder. The follow up on the other two decisions will be conducted in 2019.

| No | INDICATOR  | 2016 |      | 2017 |     | 2018 |     |
|----|--|------|------|------|-----|------|-----|
| 1. | Total number of follow-ups   | 26   |      | 53   |     | 43   |     |
| 2. | Total number of issued recommendations                                       | 180  |      | 514  |     | 579  |     |
| 3. | Implemented recommendations – number/ %                                      | 102  | 57 % | 307  | 60% | 381  | 66% |
| 4. | Non-implemented recommendations– number/ %                                   | 22   | 12%  | 74   | 14% | 57   | 10% |
| 5. | Partially implemented recommendations - number/ %                            | 21   | 12   | 57   | 11  | 62   | 11  |
| 6. | Recommendations in the process of implementation - number/ %                 | 31   | 17%  | 67   | 13% | 72   | 12% |
| 7. | Non feasible recommendations - number/ %                                     | 4    | 2    | 9    | 2   | 7    | 1   |
| 8. | Competent authorities informed of nonfulfillment of recommendations - number | 12   |      | 32   |     | 20   |     |
| 9. | Responses by the contacted competent authorities                             | 0    |      | 1    |     | 1    |     |

## 7. Administrative sanctions

In 2018, the National Audit Office implemented actions related to administrative sanctioning in line with the following legal acts:

- Election Code (EC);
- Law on the Political Parties;
- Law on Public Procurement;
- Law on Public Procurement (repealed);
- Law on Concessions.



As a result of the reviews in the area of public procurement and in implementing its mandate regarding administrative sanctioning in line with the Law on Public procurement and the repealed Law on Public Procurement, in 2018 the National Audit Office issued 38 protocols for identified administrative violations. Through 31 December 2018, the administrative body competent to impose sanctions came out with decision on 26 of these cases issuing 2 penal rulings for administrative sanctions, 13 warnings in line with art. 28 of the Law on Administrative Violations and Sanctions; and 11 resolutions for termination of proceedings. In the rest of the cases, the Penal Administrative Authority came out with decisions within the statutory deadline but later than 31 December 2018. In 2018, the authority issued 1 penal ruling, 17 resolutions for termination of proceedings and 3 warnings under the art. 28 of the Law on Administrative Violations and Sanctions in relation to 21 penal administrative proceedings launched in 2017.

In implementing its mandate regarding administrative sanctioning under the Law on Political Parties, between 01 January 2018 and 31 December 2018 the National Audit Office issued 6 protocols of identified administrative violations. The relevant penal administrative body issued rulings on all of them through 31 December 2018, namely 1 penal ruling, 1 warning under the art. 28 of the Law on Administrative Violations and Sanctions, 2 resolutions for termination of proceedings, and 2 rulings for suspension. In 2018, the body came out with one penal ruling, 2 resolutions for termination of proceedings and 1 resolution for suspension under 4 penal administrative proceedings initiated in 2017.

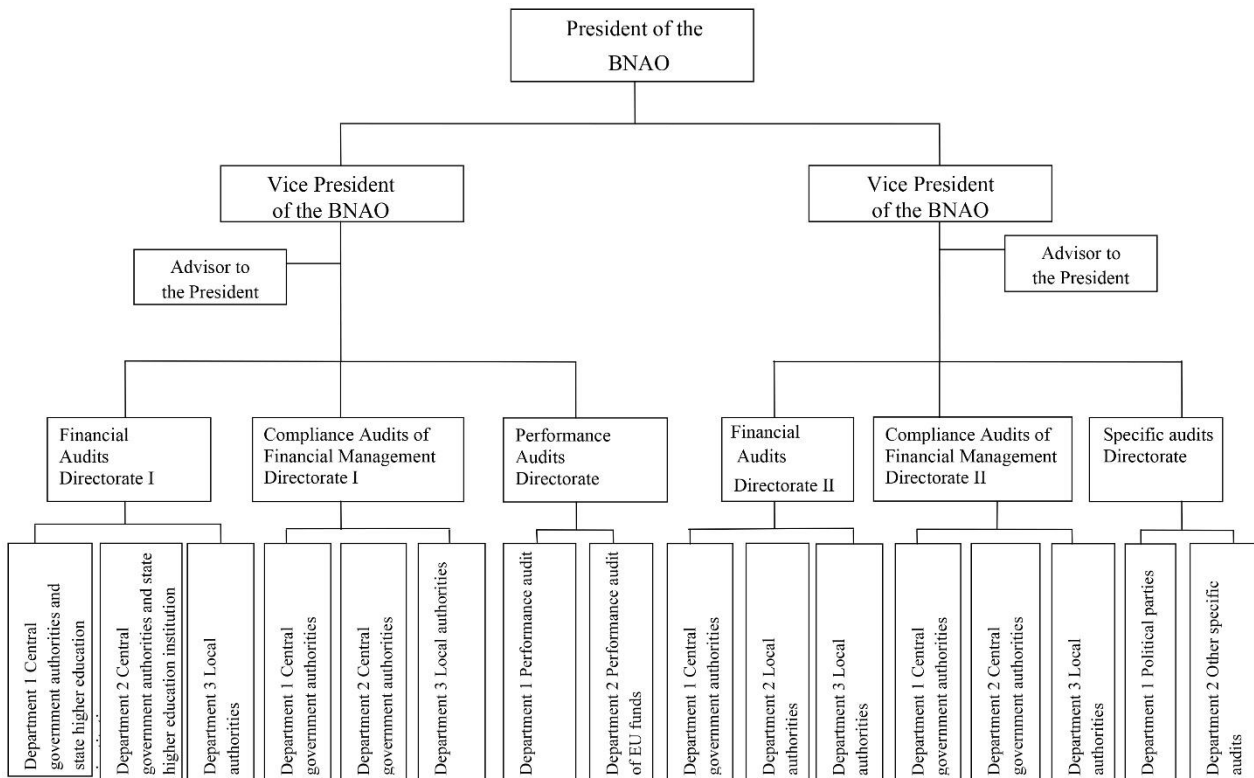
In implementing its mandate regarding administrative sanctioning under the Election Code in the period 01 January 2018 through 31 December 2018, the National Audit Office issued 2 protocols for identified administrative violations. Through 31 December 2018, the penal administrative body came out with rulings on all of them issuing 2 warnings under the art. 28 of the Law on Administrative Violations and Sanctions. In 2018, the penal authority issued 1 penal ruling, 2 resolutions for termination of proceedings and 1 warning under art. 28 of the Law on Administrative Violations and Sanctions on 4 of the penal proceedings initiated in 2017.

## **II. MANAGEMENT AND ORGANIZATIONAL STRUCTURE OF THE NATIONAL AUDIT OFFICE**

### **1. Organizational Structure**

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In 2018, the National Audit Office underwent a structural change resulting from the adoption of the Anti-Corruption and Asset Recovery Law. In line with the provisions of the Law, the Public Register Directorate of BNAO was terminated and its administrative capacity, software and archives were transferred to the Anti-Corruption and Asset Recovery Commission. The electronic register of senior public officials was also transferred to the same Commission.

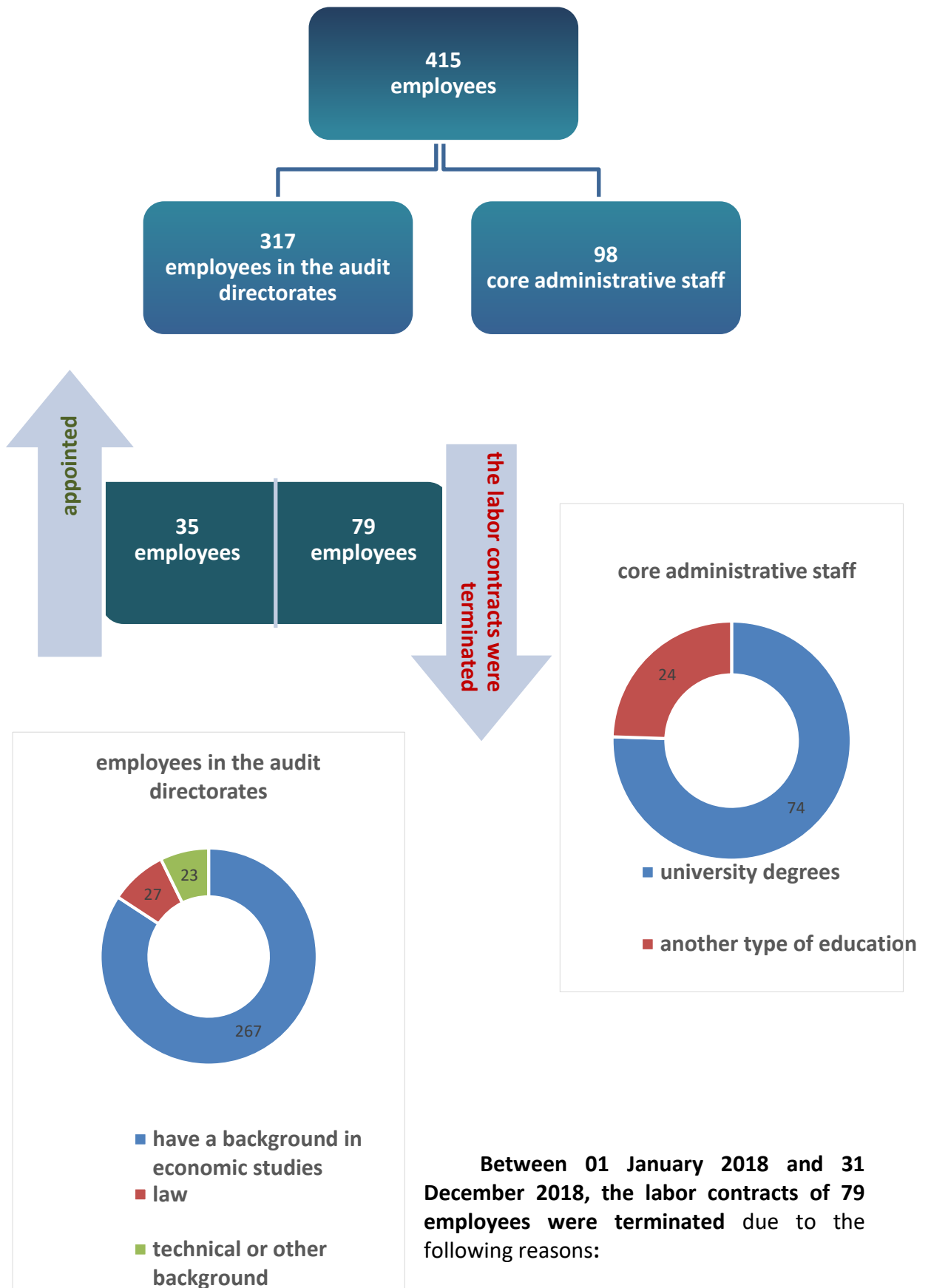


The Deputy Presidents of the National Audit Office are in charge of the organization and quality of the audit function in the respective areas as defined by the instructions of the BNAO President. The six audit directorates set up in line with the functional characteristics by types of BNAO audit engagements remain unchanged, namely: two Financial Audit Directorates; two directorates for Financial Management Compliance Auditing; one Performance Audit Directorate and one Specific Audits Directorate conducting audits in line with specialized legislation. The audit directorates consist of different central departments and regional offices around the country. Audit directorates are managed by directors.

In implementing its functions BNAO is supported by an administration structured in the following manner: Cabinet of the President, six Directorates and Departments under them and one Internal Audit Unit.

## 2. Institutional and Administrative Capacity

Through 31 December 2018, the National Audit Office had a total of 450 employees.



- ✓ Eligibility for retirement based on length of service – 28 employees;
- ✓ Upon request by the employee – 25 cases;
- ✓ Change of employer – 11 cases;
- ✓ Taking up a government office – 5 cases;
- ✓ Completion of the Career Start Program – 5 cases;
- ✓ Terminated contracts of replacement employees upon return of the incumbent – 2 cases;
- ✓ Termination during the testing period – 2 cases;
- ✓ Death – 1 case.

**Thirty-five employees were appointed in 2018** on the following positions: 3 auditors; 11 trainee auditors; 1 senior audit methodology expert; 1 senior internal auditor; 9 experts; 5 employees hired as part of the Career Start Program; 5 technical administrative staff, of which 4 occupy supplementary positions introduced in the BNAO in line with Council of Ministers Decree 66/ 1996.

Through 31 December 2018, there were 317 employees in the BNAO audit directorates occupying the following positions: head of audit directorate – 6; head of department in the audit directorate – 15; senior auditor – 121; senior auditor, second degree – 36; senior auditor, first degree – 38; auditor – 55; trainee auditor – 38; experts reporting to the directors of audit directorates – 8. BNAO has a total of 288 auditors and trainee auditors, out of which 122 work in the regional offices.

**All BNAO employees hold master's degrees**, four of them have PhDs. The majority of auditors have a background in economic studies (267), law (27), and the remaining 23 – technical or other background.

**The core administrative staff of BNAO consists of 98 employees**, 74 of them holding university degrees – 69 masters and 1 PhD.

### 3. Training and qualifications

In implementing the 2018 BNAO training program, the National Audit Office organized 69 specialized trainings for upskilling attended by 1,067 participants. The training courses covered the following areas:

- ✓ Auditing, internal controls;
- ✓ Public procurement, state and municipal property, concessions;
- ✓ Contractual, property, administrative and financial law; commercial companies;
- ✓ Administrative investigations in Bulgaria and control over the procedures for administering irregularities concerning ESIF. The role of the AFCOS in the EU. Operative, digital and coordination functions in tackling irregularities and fraud concerning ESIF. OLAF's operations in Bulgaria;
- ✓ Automated information systems/ networks and their security;
- ✓ Protection of classified information;
- ✓ Preventing and combatting corruption;
- ✓ Improving work processes in the public administration;
- ✓ Communication skills, protocol and etiquette;

- ✓ English language.

After its annual training program was approved, **BNAO identified a need for 5 additional trainings**. They were conducted in the following areas:

- ✓ Managing information resources and cyber security in the public sector;
- ✓ Performance auditing;
- ✓ Performance auditing in the EU;
- ✓ Administrative Procedure Code;
- ✓ Internal Auditing.

In addition to the planned trainings in the BNAO program, **103 BNAO employees attended 10 additional training courses under the project “Working for the people – strengthening the institutional capacity to meet the challenges of modern public policies”**. These courses were organized by the Public Administration Institute with a focus on the following areas:

- ✓ Digital transformation;
- ✓ Introduction into the General Data Protection Regulation (GDPR);
- ✓ Probative value of electronic documents;
- ✓ Planning in HR;
- ✓ Communication skills;
- ✓ Personal efficiency. Emotional intelligence;
- ✓ Performance auditing in the public administration;
- ✓ Practical challenges related to administrative violations and sanctions;
- ✓ Applying the Law on Concessions;
- ✓ Applying the Law on Public Procurement.

#### 4. Methodology

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

In 2018, BNAO updated its Manual on the Application of the International Standards of the Supreme Audit Institutions (ISSAI) and on BNAO’s auditing practices in the following aspects:

- Introducing strategic and annual planning to ensure high quality of the audits (in line with ISSAI 40) and to guarantee the application of uniform criteria in evaluating audit areas and selecting specific audit tasks;
- Introducing new templates for the financial audit reports to reflect the amendments to the Law on the National Audit Office and the ISSAIs;
- New working documents for the reviews in the area of public procurement in line with the updated indicators for reporting on public procurement

infringements and on administrative sanctions imposed by BNAO and the State Agency for Financial Inspection;

- Software-aided statistical audit sampling.

A number of internal trainings were conducted to ensure the successful application of the new methodologies and new audit techniques, incl. using audit software. The trainings were provided by Directorate Development of the Auditing Function, which is in charge of the overall development of the BNAO audit methodology.

## 5. ICT

**BNAO uses specialized audit software** based on Pentana. In 2018 the National Audit Office installed the newest version of Pentana with 315 individual packages. BNAO uses also analytical software, such as ACL - specialized software for data extraction and analytics. **There are arrangements in place for training of the new recruits** on ACL. The trainings are conducted by a team of designated trainers. Other software products used by the National Audit Office are Arbutus and EKVA Ravnenie.

In 2018, the National Audit Office continued the migration of its data to new servers to ensure that **all IT systems and databases** would be transferred to new servers.

There was also an ongoing process of **server virtualization** to ensure reduction of energy consumption and more efficient use of server capacity. As a result, at present the National Audit Office uses much less servers for its operations.

In 2018, BNAO merged its file servers, updated their operational system and introduced new policies for access to resources.

The operating regime of BNAO's IT system was updated to introduce replication. Data replication is a process of data exchange between the primary server on which the respective IT system is stored and a secondary server that maintains a system backup in real time. Thus, in case of an IT system failure, the Office may immediately resort to using the secondary server.

## 6. Implementing BNAO's strategic and operational goals

In 2018 BNAO adopted a [Strategy for its Development until 2022](#) outlining **16 strategic goals** in three priority areas to ensure independent, effective and efficient audit function, development of the HR management system, and enhancement of public sector governance and accountability through improved stakeholder collaboration.

**The outlined goals aim at overcoming the weaknesses** identified through an in-depth analysis of the needs for capacity building conducting in order to ensure **adequate targeting of resources for BNAO's modernization and development**. Specific actions have been outlined for the attainment of the set goals coupled with performance indicators. The priorities, goals, indicators and activities are



summarized in a Matrix for the implementation of BNAO's strategy. It contains responsible persons and deadlines for the implementation of the strategic actions. The aim is to use this Matrix as a tool for ensuring visible and measurable results towards the implementation of BNAO's mission, vision and goals and towards strengthening accountability, transparency and integrity of the governance and public sector organizations.

In 2018, BNAO adopted its first **Action Plan for the implementation of the strategy**, which is instrumental in ensuring consistency between the strategic horizon of its development and the operational goals of each of its structural units. The action plan contains the **activities planned for achieving the goals, deadlines and responsible persons**.

The 2018 BNAO Action Plan contains **89 activities for the implementation of the strategic goals** broken down into sub-activities. Out of these, during the calendar year **BNAO completed 54 strategic activities (61%)** and initiated or planned the implementation of another 15 (17%). **Twenty activities** or 22% have not been completed.

**The share of operative steps completed** by BNAO's structural units **is much higher compared to the finalized strategic actions** outlined in the 2018 Operational Plan. The BNAO administration completed 90% of its planned activities.

Audit directorates also demonstrate high performance rate of the operational activities, the exceptions are mainly due to difficulties in using the specialized audit software Pentana and ACL.

The progress on the activities planned in BNAO's Development Strategy is much lower compared to the implementation rate of the operational goals of the structural units.

**One of the reasons for the failure to implement** some important strategic activities **is the insufficient administrative capacity** – small number of adequately trained staff. **Other significant root causes have to do with external factors** outside of BNAO's influence, which hamper the attainment of the institution's strategic goals. Among them are the delayed publications of methodological documents by the competent international body, incl. updated versions of iCAT tools used to measure the conformity of BNAO's performance and compliance auditing practices with the ISSAIs.

BNAO carried forward the non-completed strategic actions in its 2019 Action Plan and is currently working to overcome some of the initial root-causes for the delayed implementation.

### III. COOPERATION

#### 1. Government agencies, professional and non-governmental organizations

In implementing the Law on the National Audit Office and the BNAO Development Strategy 2018-2022, the **National Audit Office collaborates with various government agencies to enhance the control effectiveness and improve anti-corruption and anti-crime practices**. It also enjoys good partnership relations

with **professional and non-governmental organizations** exchanging good practices and enhancing its professional development. The National Audit Office also initiates and takes part in numerous professional discussions.

In implementing its core mandate – reporting to Parliament and providing reliable information on public sector accountability and efficiency, the National Audit Office works to **improve its relations with the legislature**. In 2018, the Accountability Subcommittee of the Budget and Finance Committee of the 44<sup>th</sup> National Assembly discussed during its session the 2017 Consolidated Annual Report on Internal Controls in the Public Sector and the Report on the Financial Management and Control and Internal Auditing Function of the Supreme Judicial Council. BNAO's positions on the two reports were also considered. The consolidated report offers an overview of the financial management and controls in place in 312 public sector entities during 2017. BNAO submitted within the deadlines its Annual Report on the Systems for Financial Management and Control. It was also in the focus of discussions during the same session. In addition, the National Audit Office presented the outcomes of its audits on EU funds management to the Parliamentary Committee on EU Funding and Control of EU funds.

BNAO's President or other representatives participate in the sessions of the Coordination Council on Concessions under the Council of Ministers, the Consultative Board on Control and Auditing under the Ministry of Finance and the Methodological Committee set up in line with the Public Procurement Law.

**BNAO established closer cooperation with the Ministry of Finance** to ensure better efficiency and accountability in the public sector. As a recognition of the achieved outcomes, the Treasury Directorate of the Ministry of Finance received the 2018 BNAO Partner award.

Good governance, conduct of Public Business and accountability at municipal level is another important focus in BNAO's operations. Therefore, the National Audit Office values highly **its fruitful cooperation with the National Association of**



**Municipalities in Bulgaria**. During the national meeting of financial experts (organized by the Association of Municipalities) BNAO's President Tsvetan Tsvetkov gave a speech on the new governance culture and the principles of accountability, transparency and good management.

During 2018, the National Audit Office maintained good relations with the universities, participated in various forums and continued offering internships. BNAO organized a joint conference with the Accounting and Analyses Department of the University for World and National Economy to mark a remarkable anniversary – the 90<sup>th</sup> birthday of Prof. Ivan Dushanov, member of BNAO during its 1<sup>st</sup> term of office after the institution was restored (1995-2005).

**BNAO's professionalism was acknowledged by Transparency International** in its study of the Integrity of the Bulgarian Banking Sector. Transparency's report points out that the **recommendations in BNAO's audit reports contributed to improving compliant governance and functioning of the independent regulators.**

## 2. International cooperation

In 2018, BNAO's international activities were focused on implementing one of the goals contained in its Development Strategy 2018-2020 – improving cooperation and expanding the BNAO's participation in initiatives of the international audit community to enhance its institutional and administrative capacity.

**The priority areas in BNAO's international relations are as follows:** complying with the commitments and using the opportunities of Bulgaria's EU membership, BNAO's membership in the international professional organizations (INTOSAI, EUROSAI), developing bilateral and multilateral cooperation and applying best auditing practices.

BNAO continued its active participation in the work of the international professional organizations of SAIs and their structures. Representatives of the National Audit Office attended the sessions of the EUROSAI Working Group on Environmental Auditing and Task Force on the Audit of Funds Allocated to Disasters and Catastrophes.

BNAO representatives participated in the XI-th annual meeting of the INTOSAI Working Group on Key National Indicators.

As part of the cooperation within the Contact Committee of the Heads of Supreme Audit Institutions and the European Court of Auditors, representatives of BNAO took part in the working group sessions on VAT; the Network on auditing the Europe 2020 Strategy and the Network on auditing the fiscal policy. They also attended an exchange workshop on enhancing financial reporting, incl. the European Public Sector Accounting Standards (EPSAS).

BNAO continued to cooperate with ECA during its audits in Bulgaria. Auditors of the National Audit Office took part as observers in the preparation and implementation of ECA's audit missions to Bulgaria.

The President of the National Audit Office made a presentation on the active role of BNAO in using innovative communication approaches and outreach to the citizens and stakeholders during the annual meeting of the Contact Committee in Dubrovnik, Croatia.

BNAO's Deputy Presidents participated in a symposium entitled "How the adequate public administration benefits citizens – the role of the parliamentary control bodies" organized together with the Austrian Ombudsman Council and the Austrian SAI as part of the Austrian Presidency of the EU Council.

A delegation led by BNAO's President took part in a conference on SAI's Role and Impact on Restoring the Confidence in the Public Sector marking the 15<sup>th</sup> anniversary of the SAI of Kosovo, which took place in Pristina. BNAO's President delivered a presentation entitled "*Meeting the Expectations of the Public*". His main

message was that be the main focus of all SAI's audits should be to respond to the needs of the public, and the way to achieve that is through risk-based auditing.

A delegation led by BNAO's President participated in a round table on "Auditing the Funding of Political Parties' Election Campaigns" that took place in Skopje. The aim of the round table was to exchange experience between the SAIs of Bulgaria and Croatia on auditing the funding of political parties and election campaigns, and to analyze the outcomes of the review of the relevant regulatory framework in North Macedonia.

The Bulgarian National Audit Office **organized and hosted a conference** on "The Role of Supreme Audit Institutions for Enhancing Public Sector Accountability, Transparency and Integrity" as part of the calendar of Bulgaria's Presidency of the EU Council. Presidents and representatives of the SAIs of 26 European countries, among them 19 EU member states and ECA, attended the conference. The SAIs of the EU member states and candidate countries used this forum to exchange experience and best practices on implementing the principles of good governance in the public sector – accountability, transparency and integrity, ensuring a better standard of living of

the citizens and improving their confidence in public institutions.

As part of the SAI bilateral cooperation, BNAO's President and Deputy President visited the Czech Republic for exchange of experience. Among the topics of discussion were the role of the Czech SAI for strengthening tax collection; the active collaboration



between SAI and Parliament; the BIEP project of the Czech SAI for data exchange for comparative analysis; the audit of commercial entities with government shareholding; how the Bulgarian SAI ensures reliability of financial reporting; main takeaways from the conference on the *Role of SAIs for strengthening public sector accountability, transparency and integrity* that took place as part of the Bulgarian Presidency of the EU Council with a main focus on the fundamental importance of independence for modern SAIs trying to ensure effectiveness and efficiency in their audits.

A delegation of the National Audit Office led by its President visited the Romanian SAI. During the meetings, the representatives discussed the organizational



structure and functioning of the two SAIs and the opportunities for future cooperation and exchange for further enhancement of their capacity.

In their capacity as **auditors of EUROSAI**, representatives of the Bulgarian and Croatian SAIs performed an on-site audit of the EUROSAI 2017 statements and related documents in the headquarters of the organization's secretariat in Madrid.

BNAO representatives participated in the following **workshops and exchanges**: a conference on *Motivating and Preparing SAIs for Peer Reviews* in Bratislava; workshop on *Public Procurement Auditing in the EU* in Athens; meeting for exchanging experience on audit methodologies within the EUROSAI in Warsaw; conference on *The Role of SAIs in Promoting Integrity* in Budapest; training course on applying the Framework for SAI performance measurement in Madrid; training course on *Auditing State-Owned Enterprises* under the Indian Technical and Economic Cooperation (ITEC).

In 2018, the Bulgarian National Audit Office (lead partner) implemented together with the Croatian SAI (junior partner) **Twinning Project MK 13 IPA FI 01 17 R „Enhancing the Administrative Capacity and Efficiency of the Republic of North Macedonia National Audit Office”**. As part of this project, experts from the two SAIs participated in missions for exchange of experience on how the countries' EU membership helped improve their auditing practices and methodology in line with ISSAI, on strengthening the institutional capacity and capacity for performance

auditing, on introducing a cooperation mechanism with Parliament in relation to reporting; and strengthening the ICT auditing capacity. Four study tours to the Croatian and Bulgarian SAIs were organized to discuss the cooperation with Parliament; 1 study tour to the Slovenian SAI on ICT auditing, and 1 to the Bulgarian SAI on strategic planning, auditing of political parties and ICT. The project's implementation continues in 2019.



BNAO submitted **articles to the INTOSAI journal, the EUROSAI Innovations edition and the Public Finance Quarterly of the Hungarian SAI** sharing its experience with the international SAI community.

#### IV. PUBLICITY AND TRANSPARENCY

In implementing the Law on the National Audit Office and its strategic principles of publicity and transparency, **BNAO invests active efforts to keep the public informed of the results of its operations**. They are made public on the institution's webpage as its main communication platform. **In 2018, BNAO continued**

**publishing all its audit reports**, reports on follow-up on recommendations, and the notifications of submitted draft reports.

Through its webpage, BNAO discloses all its **reports on political parties and their donors**. In 2018, the National Audit Office published the annual statements of 137 political parties, together with lists of their donors and the size of all individual donations, as well as information of non-compliant political entities.

The total number of unique visits to the BNAO's webpage in 2018 was 105,535, while the total number of showings was 366,630. The number of visitors was 43,307, 77% of them unique. The number of visitors in active age (25 to 54) was 61.5%, however there was also a significant share of young visitors under the age of 24 (27%.5%). This once again demonstrates that the young generation shares an interest in the functions of the auditing institution. The number of male visitors was slightly higher – 54.15% compared to female - 45.85%. The biggest number of visitors came from Bulgaria followed by France, US, Germany, UK, Macedonia, Belgium, Luxemburg, etc.

BNAO received active coverage in a number of national dailies, weeklies and the electronic media. **In 2008, the SAI published 43 press releases on its audit engagements**, international cooperation and other activities, which received coverage in 900 publications.

**To reach out to the largest possible audience BNAO is also present in the social media (Facebook, YouTube, Twitter)**

It also provides access to public information to journalists, citizens and NGOs **in keeping with the Law on Access to Public Information**.

The internet portal of the integrated IT system (including the record-keeping system) ensures real-time access of all BNAO employees to the institution's decisions, internal documents, internal and external official information, incl. information from the mass media. **The portal is used also for sharing good practices that BNAO constantly introduces in its operations**. In general, the integrated information system and Internet portal helped improve significantly BNAO's internal communications.

To ensure good motivation of its employees and the sense of belonging to the institution, in 2018 BNAO introduced for the first time awards for employees who demonstrated high professionalism during the year. The auditor of the year award<sup>6</sup> goes to auditors with exceptional professional qualities, initiative, contribution to improving the auditing process and teamwork. The audit team of the year award<sup>7</sup>

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<sup>6</sup> The award was handed to Vangel Vangelov – chief auditor of the Financial Audit Directorate;

<sup>7</sup> The 2018 Audit Team of the Year was the team that conducted the audit entitled Development, Supervision and Control over Production of Organic Food and Products. Members of the team were: Ventsislava Tomova- Shilegarska (senior auditor), team leader; Anton Antonov – senior auditor; Ilonka Hristova - auditor; Tsvetelina Nikolova - trainee auditor;





recognizes the exceptional contribution to achieving significant outcomes in audit engagements ensuring improved public sector governance and stakeholder impact. The Leader of the Year Award<sup>8</sup> is presented to heads of directorates or department with exceptional leadership skills, who are capable of innovating and inspiring others and enjoy the trust of their colleagues thanks to their professional integrity.

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<sup>8</sup> The 2018 Leader of the Year Award went to Tanya Kostadinova, Director of the Performance Audit Directorate

In 2018, BNAO continued to develop as a modern institution conducting independent external audit of public funds and activities in keeping with the provisions of the Law on the National Audit Office and the International Standards of Auditing.

The audits of the National Audit Office and its efforts to implement its mission, vision and strategic goals contribute to enhancing accountability, transparency and integrity of the government and public sector entities. We firmly believe that through strengthening the institutional environment in Bulgaria, we will be able to achieve our ultimate goal – making a difference to the lives of citizens.





