



**2023**

**Bulgarian National  
Audit Office  
ANNUAL REPORT**

сътрудничество *дове* независимост  
**безпристрастност** почитеност  
добросъвестност **прозрачност** последователност  
ПРОФЕСИОНАЛИЗЪМ  
ОБЕКТИВНОСТ **последователност** прозрачност  
КОНСТРУКТИВНОСТ добросъвестност  
*независимост* обективност  
**ПОЧТЕНОСТ** **ДОВЕРИЕ**  
ПРОФЕСИОНАЛИЗЪМ  
сътрудничество ПОСЛЕДОВАТЕЛНОСТ **ПРЕДВИДИМОСТ** добросъвестност  
добросъвестност **БЕЗПРИСТРАСТНОСТ** **ПОЧТЕНОСТ** **ДОВЕРИЕ**  
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**ОБЕКТИВНОСТ** прозрачност  
последователност **прозрачност**  
КОНСТРУКТИВНОСТ добросъвестност

# **2023 Annual Report**

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

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### **ESTEEMED MEMBERS OF PARLIAMENT,**

*I hereby submit the 2023 Annual Report of the Bulgarian National Audit Office.*

*I believe that the institution has fulfilled its main mission successfully – namely to review the reliability and validity of the annual financial statements of public sector entities, and to ensure compliant, effective, efficient and economical management of public funds and conduct of public business.*

*Following the principles of publicity and transparency, partnership and constructive spirit, the National Audit Office provides the National Assembly with objective and reliable information regarding the situation of public finances.*

*In 2023, the Board of the National Audit Office signed off 423 audit reports, an increase of 114 year-on-year. Twenty of them were referred to the Speaker of Parliament and some Parliamentary Committees.*

*The present report contains summarized information of the most important findings and conclusions of the audits completed during the year and outlines the current state-of-play of the public sector entities and some topics of concern for the public.*

*In the course of the audits of the 2023 annual financial statements, a number of misstatements were corrected accounting for 6.73 billion BGN (compared to 2.75 billion in 2022). Thus, the National Audit Office contributed even during its audits to the significant improvement of the public sector organisations' financial reporting, ensuring that their statements provide a true and fair representation of their financial situation and serve as a reliable basis for decision-making.*

*After a review, BNAO's Board identified 57 delayed audit engagements planned in the 2016-2021 audit programmes, and took immediate action to ensure their completion within 2023.*

*BNAO launched a new routine of regular reporting to the general public on the findings referred to the Prosecutor's Office and reported back as representing or not representing grounds for the initiation of pretrial proceedings. For the first time BNAO's web page published 19 executive summaries of a total of 16 reports referred to the Prosecutor's Office.*

*The National Audit Office invested serious efforts in overcoming its issues with staff shortage and turnover (especially of audit professionals), which was due to the unattractive salaries offered by the SAI. The need for increasing these remunerations finally met the understanding and support of Parliament and was reflected in the 2023 budget.*

*For the first time, after a 10-year gap, BNAO organised and successfully conducted an auditor exam, thus complying with the legal requirements and taking yet another step towards overcoming its administrative capacity issues. Such auditor exams offer opportunities for*

*the career growth and active participation of the youngest BNAO staff in the audits, thus increasing their loyalty to the institution.*

*The National Audit Office contributed to the publicity and transparency of the election campaigns during the year (for the Parliamentary elections held on 2 April 2023, and local elections - on 29 October 2023) through the effective maintenance and software upgrade of the Uniform Register under the Election Code, and by providing adequate guidance, template documents and tutorials for the election participants, as well as through auditing the declared campaign revenues and expenditure.*

*On behalf of the BNAO's Board, I can assure you that the Supreme Audit Institution of the Republic of Bulgaria will remain an independent and reliable source of information to Parliament, a guarantor for the improved management of public funds and conduct of public business, and a guardian of Bulgarian citizens' money.*

*In compliance with the Act on the Bulgarian National Audit Office, I hereby submit to Parliament BNAO's 2023 annual report.*

**BOARD OF THE NATIONAL AUDIT OFFICE**

**ABBREVIATIONS:**

AA – Accountancy Act  
ACC – Anti-Corruption Commission  
AFCOS – Directorate for protection of EU financial interests  
AFS – Annual Financial Statement  
ARACHNE – risk assessment instrument developed by the European Commission  
BD – Board of Directors  
BDGF – Bank Deposits Guarantee Fund  
BES – Budget Execution Statement (cash-based)  
BNAO Act – Act on the Bulgarian National Audit Office  
BNB – Bulgarian National Bank  
BP EAD – *Bulgarian Postal Services EAD*  
CAFM – Compliance Audit of Financial Management  
CPPS – Contract for public passenger service  
EC – Election Code  
ECA – European Court of Auditors  
EUROSAI – European Regional Organisation of Supreme Audit Institutions  
EU – European Union  
EUFA - Accounts of EU funds  
FMCS – Financial Management and Control System  
GIS – Geographic information systems 103  
IACS 2020 – Integrated Administration and Control System for EU Funds in Bulgaria  
IDI –INTOSAI Development Initiative  
INTOSAI – International Organization of Supreme Audit Institutions  
ISAC – Integrated System for Administration and Control  
ISSAIs – authoritative standards on public sector auditing  
LACAR - Law on Anti-Corruption and Asset Recovery  
LAVS – Law on the Administrative Violations and Sanctions  
LB – Law on Bankruptcy  
LBDG – Law on Bank Deposits Guarantees  
LBNHIF – Law on the Budget of the National Health Insurance Fund  
LIFA – Law on the Independent Financial Audit  
LPF – Law on Public Finances  
LPP – Law on Political Parties  
LPSIA – Law on Public Sector Internal Auditing  
LSBRB – Law on the State Budget of the Republic of Bulgaria  
MB – Managing Board  
MF – Ministry of Finance  
MTS EAD – Metropolitan Transport Service EAD  
NHIF – National Health Insurance Fund  
NRA – National Revenue Agency  
OAO – Other accounts and operations  
OLAF – European Anti-Fraud Office  
OSCE – Organisation for Security and Cooperation in Europe

PFIA – Public Financial Inspection Agency  
PISE – Port infrastructure state enterprise  
PP – Public Procurement  
PPA – Public Procurement Agency  
PPL – Public Procurement Law  
PPR – Public Procurement Register  
PSCA – Public Sector Chart of Accounts  
PSSS – public social security system  
PU – Public Universities  
RIPPL – Rules on the Implementation of the Public Procurement Law  
SAI – Supreme Audit Institution  
SMC – Sofia Municipal Council  
SOC – sole owner of capital  
TFP – Transition and Final Provisions  
TSI – Three Seas Initiative  
UBC – Uniform budget classifier  
UIST – Uniform Information System in Tourism





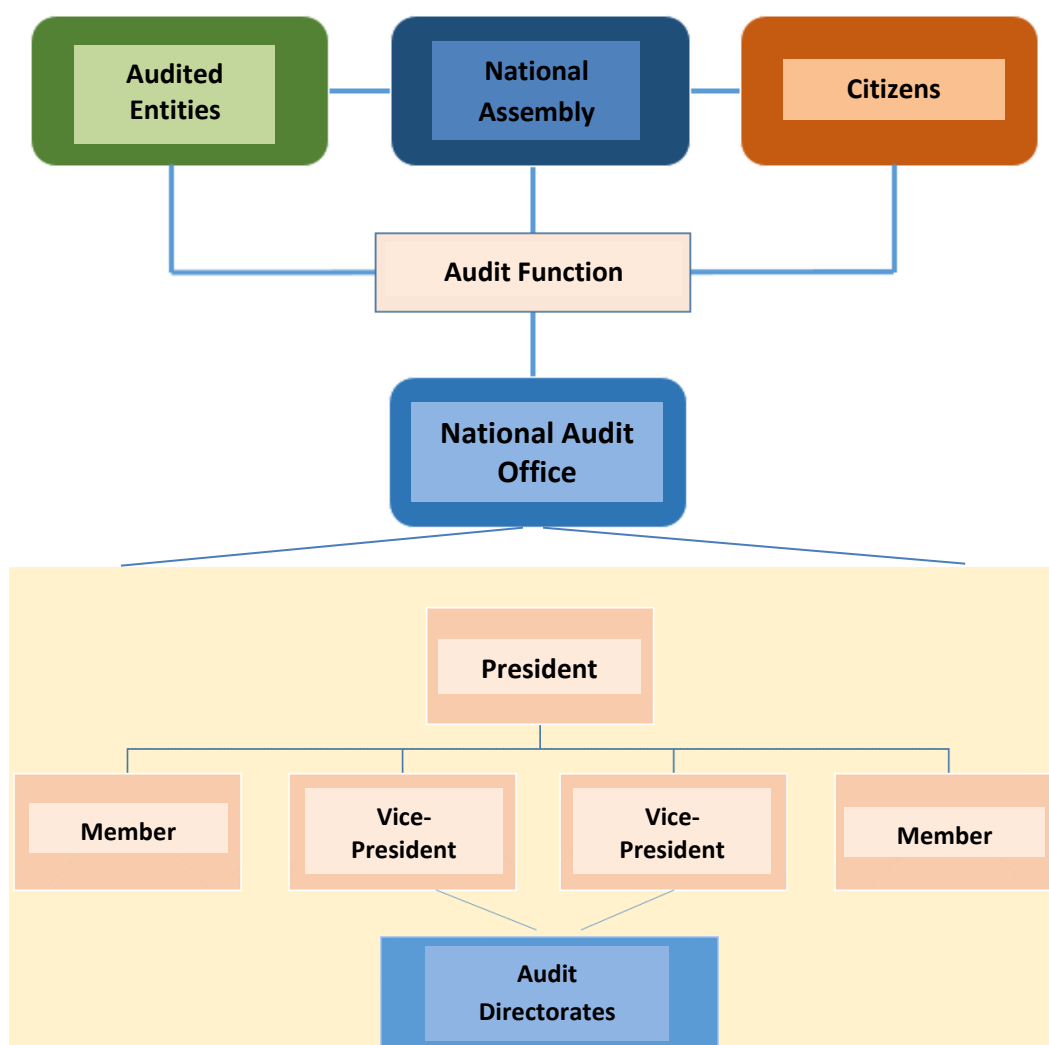
## **ACTIVITIES**

## I. I. ACTIVITIES OF THE NATIONAL AUDIT OFFICE

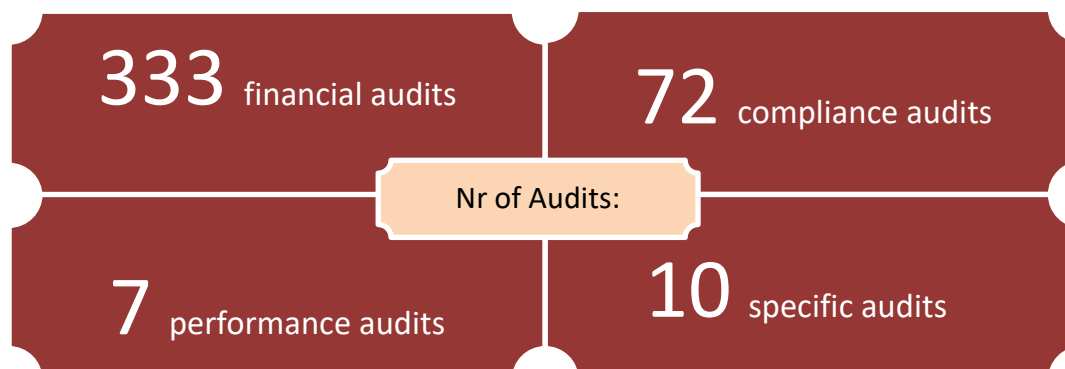
### 1. BACKGROUND

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

The collegian body of the National Audit Office consists of a President, two Vice-Presidents and two Members nominated by Parliament. The President manages and organises the conduct of BNAO's operations, while the Vice-Presidents are in charge of organising the audit function and of the quality assurance. The Members are representatives of professional organisations – the Institute of Chartered Accountants and the Institute of Internal Auditors in Bulgaria. They take part in BNAO's Board meetings and in the endorsement of the audit reports. The National Audit Office passes its decisions through open vote where a majority of 4 votes is required.



Between 01/01/2023 and 31/12/2023, BNAO's Board held 48 sessions passing in total 612 decisions, endorsing 72 compliance audit reports, 7 performance audit reports, and 10 specific audit reports. The Board also signed off a total of 333 reports on the audits of annual financial statements of public sector entities.



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

- Agriculture, Food and Forestry Committee – 2 reports;
- EU Affairs Committee – 1 report;
- Budget and Finance Committee – 1 report;
- Agriculture Committee – 1 report.
- Committee on EU, Schengen and Eurozone Affairs – 3 reports;
- E-government and IT Committee – 1 report;
- Committee on Tourism– 1 report;
- Health Care Committee – 2 reports;
- Transport and Communications Committee – 1 report;
- Environment and Waters Committee – 1 report.

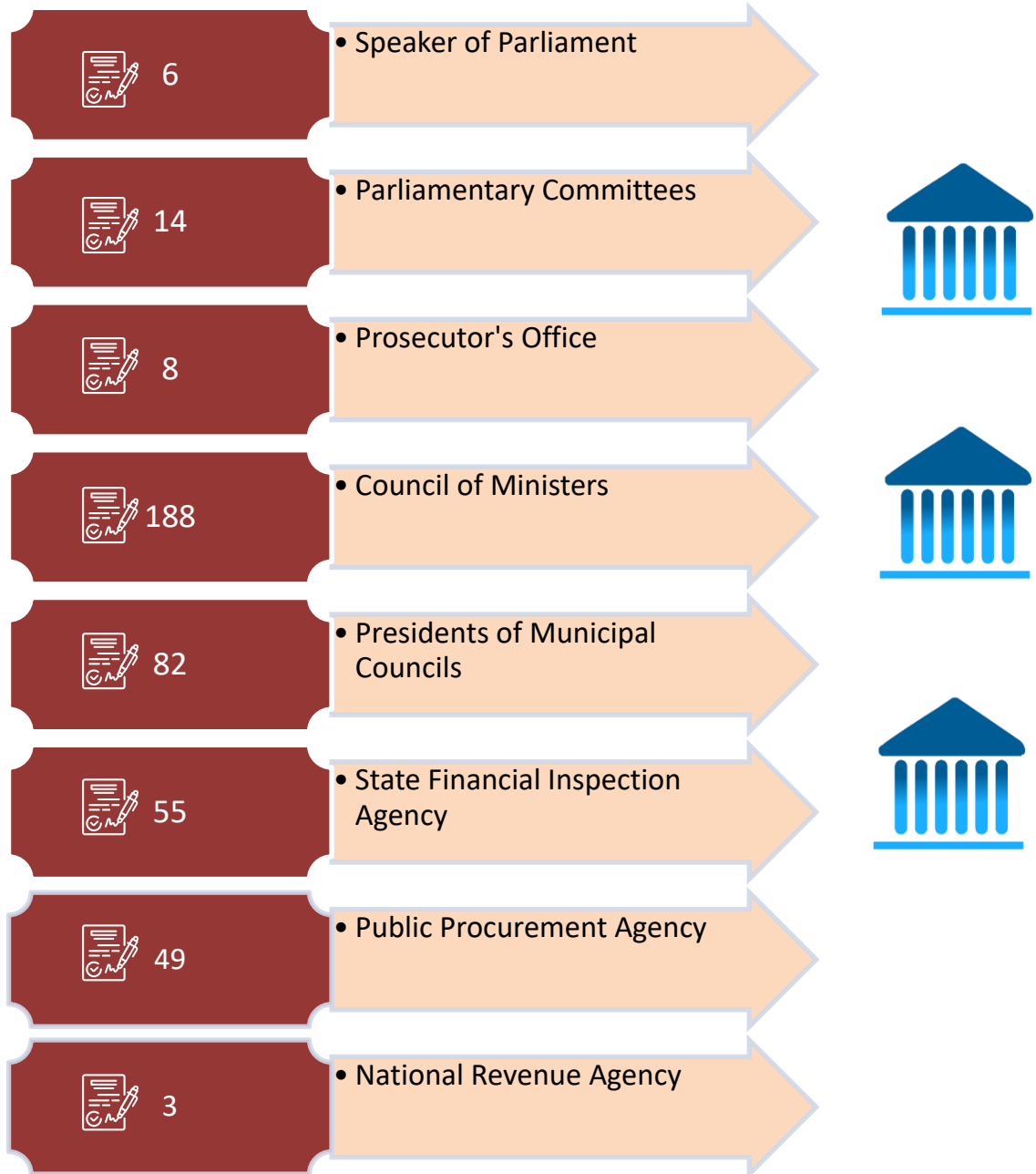
Through this process BNAO provided the National Parliament with reliable information for the purposes of parliamentary control.

Eight<sup>1</sup> audit reports were referred to the Prosecutor's Office of the Republic of Bulgaria. A total of 188 audit reports were submitted to the Council of Ministers, while another 82 were presented to Presidents of Municipal Councils. Based on indications of infringements, the State Financial Inspection Agency received 55 reports; the Public Procurement Agency -49 reports, and the National Revenue Agency – 3 reports.

The above numbers exclude the follow-up reports.

<sup>1</sup> Six audit reports based on art. 58, paragraph 1 of the BNAO Act and 2 audit reports based on art. 44 of the BNAO Act.

### Number of audit reports referred to Parliament, the Prosecutor's Office and other authorities



## 2. OUTCOMES OF THE FINANCIAL AUDITS

In 2023, BNAO conducted audits of the 2022 annual financial statements of public sector entities. Financial auditing is **an expression of an independent audit opinion with a reasonable degree of assurance** on whether the annual financial statements of public sector entities are in line, in all material aspects, with the generally applicable financial reporting framework. Therefore, the audit opinion on them does not express certainty about the future viability of the public sector entity, or the efficient and effective conduct of its business. It **helps increase the users' confidence** in the information contained in the financial statements.

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

BNAO's Board signed off a total of **333 reports on the financial audits of the 2022 statements of public sector organisations – 16% more compared to 2021**. The largest number of issued opinions were unmodified, i. e. 81% of all opinions expressed on the financial statements.

This is due to the fact that the audited entities were offered the possibility to introduce corrections of **the misstatements identified by the auditors** in their AFS in the course of the financial audits. The purpose of these corrections is to ensure **that the annual financial statements provide a true and fair representation of the financial position, financial performance and cash flows** of the public sector entities, and serve as a **reliable basis for**

**informing the managerial decisions at institutional, regional and national level.** The number of unmodified opinions is an indication **of the rate of compliance** with the applicable financial reporting framework. However, they are **not indicative of the quality of public sector reporting, which depends to a large extent on the nature of the financial reporting framework.**

In 2023, there was a smaller number of modified opinions issued on the AFS of municipalities compared to the previous year (from 30 % on the 2021 AFS down to 21 % on the 2022 AFS), the main reason being once again the possibility to introduce corrections of the identified misstatements in the course of the audits. *Figure 1 and Figure 2*

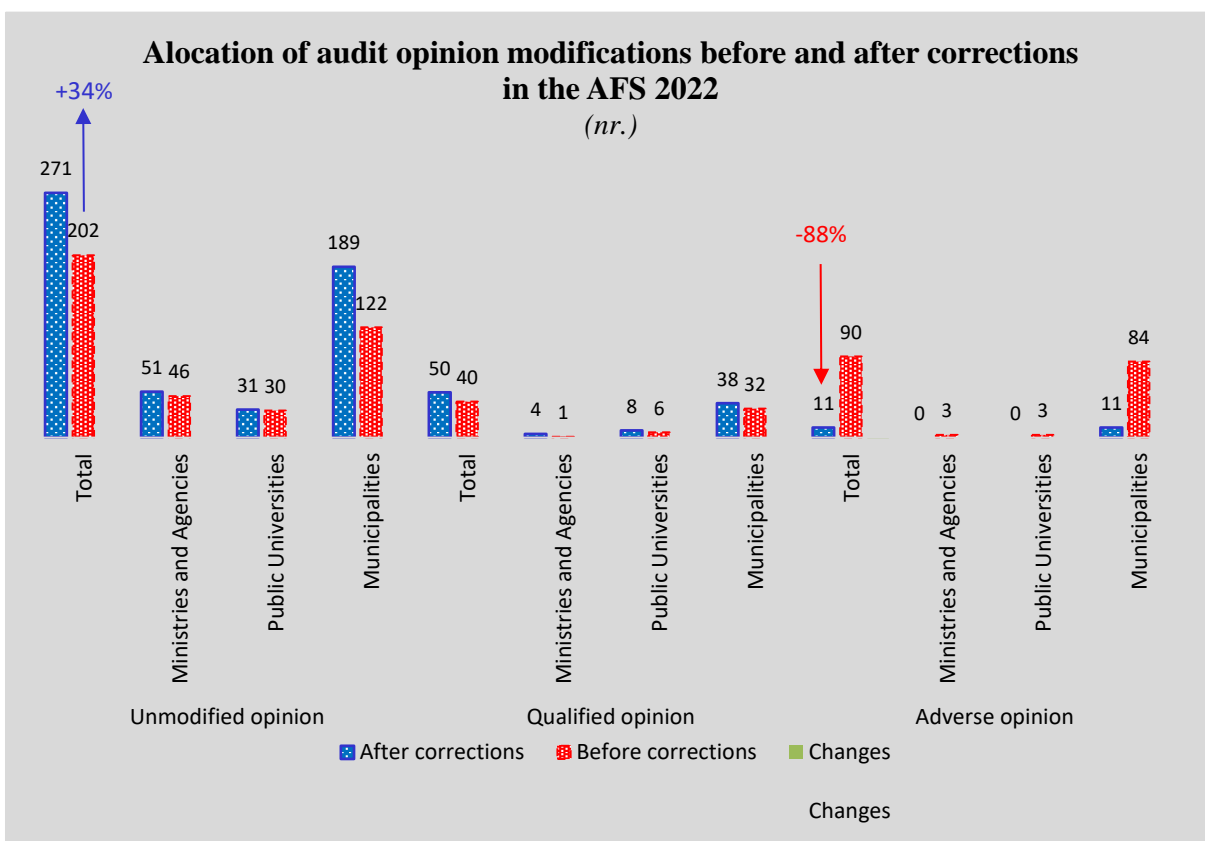
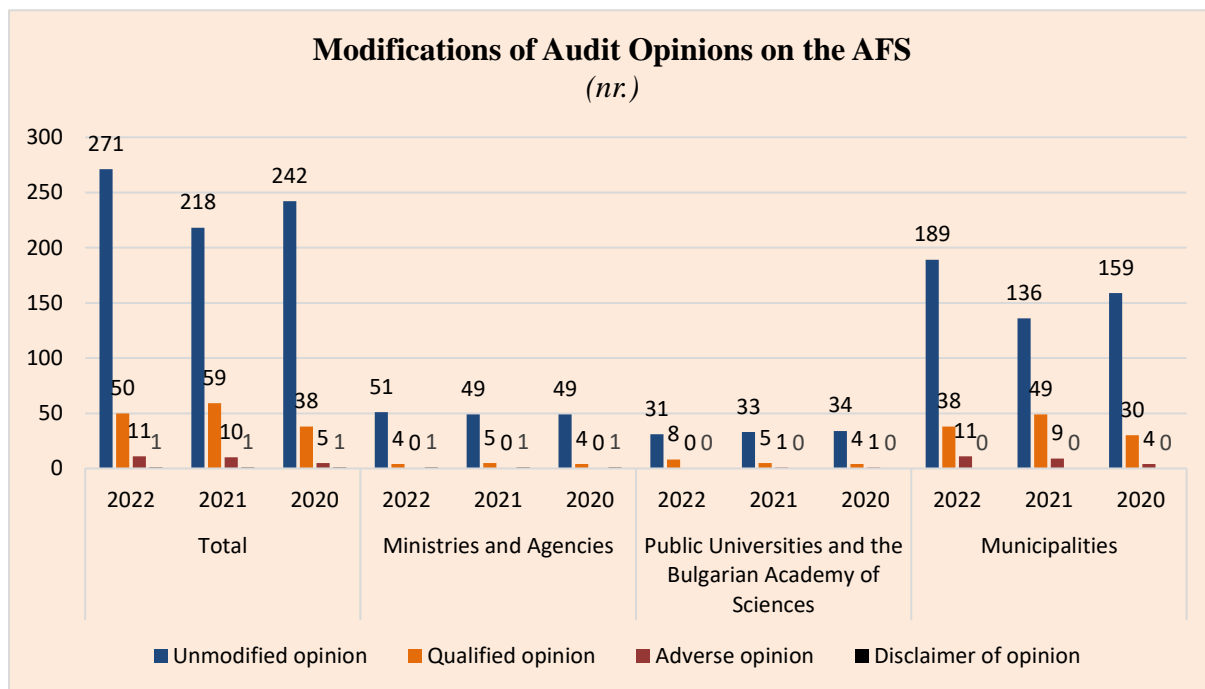
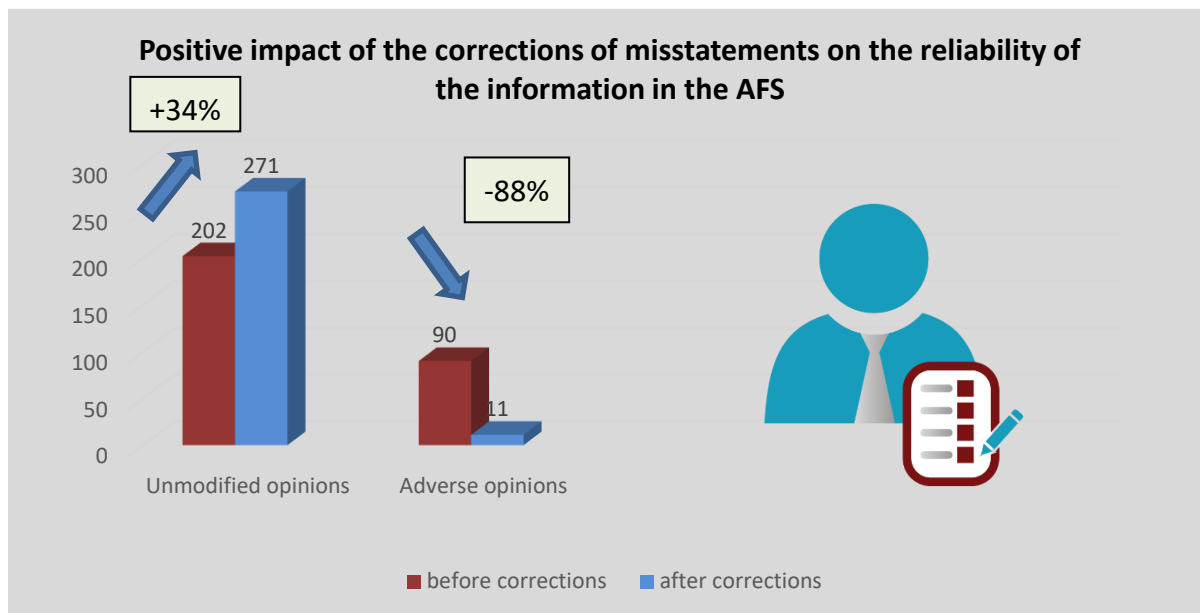


Figure 3



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

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

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

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

- **Wrong application of accounting principles**, incl. the accrual basis principle (also identified during the audits of the 2021 AFS). E.g. incorrect accrual of the interest on receivables and payables at the time of their payment, and not at the time of their occurrence.
- **Miscalculation of amortisation costs** after the occurrence of events resulting in changes to the amortisation schedule (overhaul, impairment, etc.). This affects both the amortisation costs and the carrying value of non-current non-financial assets (also identified during the audits of the 2017 – 2021 AFS);

- **Incorrect classification of assets, liabilities, revenues, expenses and transfers** within the Public Sector Chart of Accounts and the Uniform Budget Classification (also identified during the 2016-2021 AFS audits) resulting in misstatements in the balance sheet, income statement and budget execution statement;
- **Incorrect reporting of bank guarantees and commitments** (also identified during the 2016-2021 AFS audits), resulting in under- or overstatement of off-balance sheet assets and liabilities.
- **Failure to disclose the changes of the holdings of public sector entities in the capital of commercial entities** (also identified during the 2016-2021 AFS audits). This results in misstatements of equity and related revenues in the annual financial statements.
- **Incorrect recognition of advance payments** as current expenditure (also identified during the 2018-2021 AFS audits), resulting in understating the public entity's receivables for the respective period and overstating its expenditure.
- **Failure to provision the receivables** on loans extended by the public sector entities, advance payments, sales and other projections that are subject to provisioning for possible non-performance resulting in understating the provisioning costs (also identified during the audits of the 2021 AFS).
- **Incorrect recognition of the funds received and spent under EU-financed programmes** - advance payments, off-balance sheet statistical reporting of the funds at the expense of the beneficiaries, the EU and other donors. Delayed transfer of the acquired assets from the *EU reporting group* into reporting group *Budget* and/ or *VAT* resulting in misstatements in the AFS, namely the Balance Sheet, Income Statement and Budget execution statement positions;
- **Incorrect adjustments of previous period errors** resulting in misstatements in the Income Statement.

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

- ✓ Correction of amortisation expenses to ensure fair representation of the carrying amount of depreciable assets (also corrected in the course of the audits of the 2018 - 2021 annual financial statements);
- ✓ Approved unreported assets, liabilities, income and expenses (adjusted in the audits of the annual financial statements during the period 2016-2021. This adjustment contributes to fair presentation by ensuring the completeness of the information in the financial statement;
- ✓ Correction of errors (mainly technical) in filing out the templates provided by the Ministry of Finance to ensure fair representation of the information (also corrected in the course of the 2017 – 2021 AFS audits);
- ✓ Revising the classification of assets, liabilities, revenues, expenses and transfers in the Public Sector Chart of Accounts and the Uniform Budget Classification (also adjusted in the course of the 2016 – 2021 AFS audits), thus ensuring adequate disclosures in the Balance Sheet, Income and Budget Execution statements.



In 2022, roughly 96% (333,596 thousand BGN) of the misstated expenditure in the Income Statement were due to misstatements made by three central government agencies, while 98% (228,568 thousand BGN) of the misstated revenues in the Income Statement can be attributed to two central government agencies. Misstated revaluations and other events in the Income statements accounting for some 88% (262,662 thousand BGN) were identified in three central government agencies.

In 2022, over 99% (696,853 thousand BGN) of all misstated transactions with financial assets and liabilities were identified in one central government agency.

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

In 2023 BNAO applied article 49, paragraph 3 and art. 53, paragraph 1 of the National Audit Office Act, and referred some of its audit reports to other competent authorities for information or for taking the necessary measures (to the Ministry of Finance – concerning two central government agencies).

Figure 4

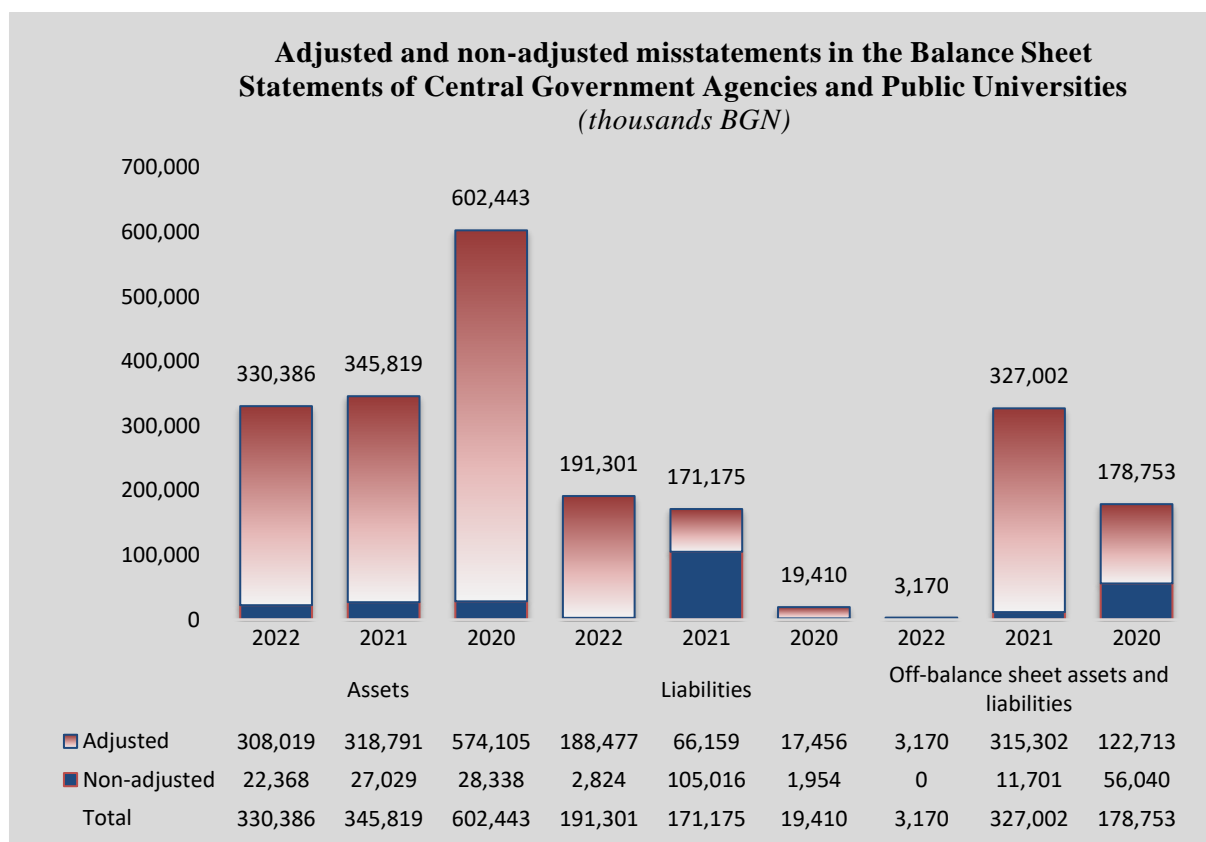


Figure 5

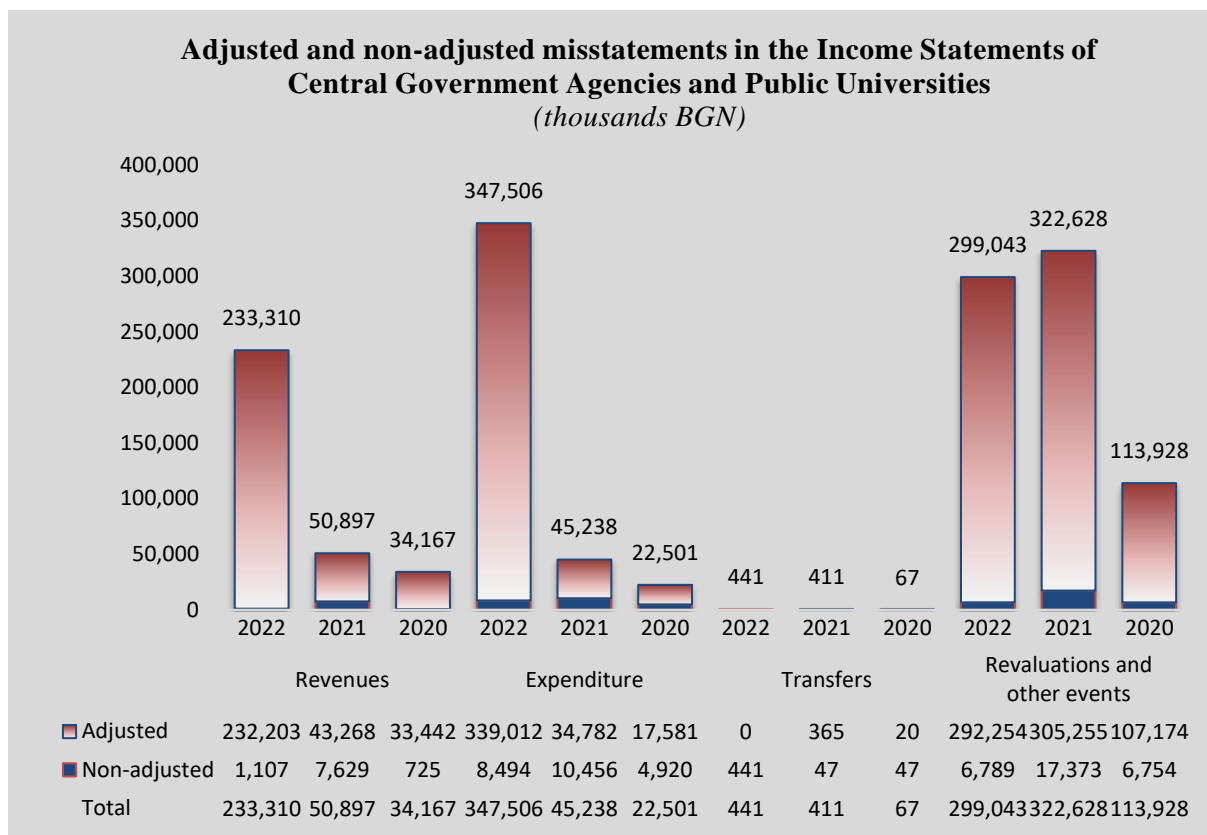
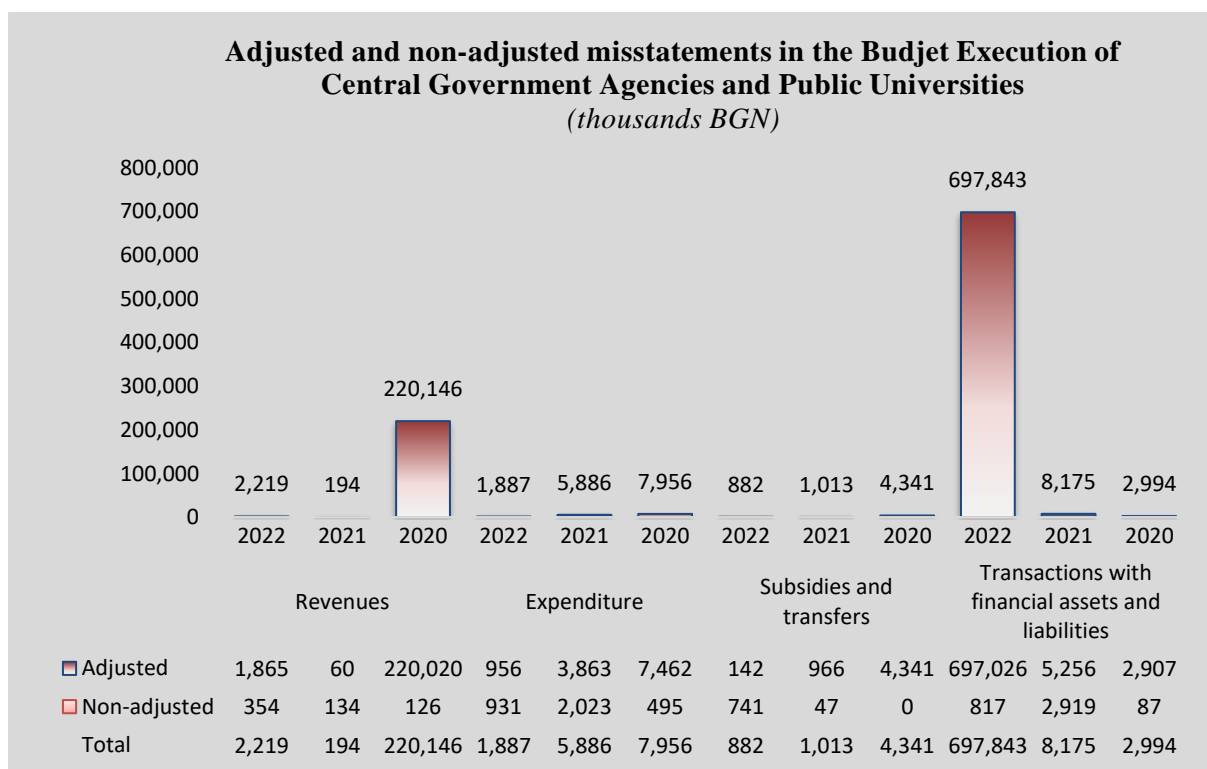


Figure 6



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

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

- Miscalculation of depreciation costs following events requiring a revision of the depreciation schedule (overhaul, impairment, etc.). Failure to perform depreciation of depreciable noncurrent non-financial assets, and failure to write off the accrued depreciation of assets that have been sold or written off. Incorrect depreciation of noncurrent non-financial assets resulting from the miscalculations of their useful life (not taking into consideration the year of acquisition, the physical wear and tear, and obsolescence), and miscalculation of the assets' residual value. Incorrect identification of parameters in the depreciation schedule and/or application of non-generally accepted approaches in selecting measures within the approved depreciation policy. This affects both the depreciation expenses and the carrying values of noncurrent non-financial assets (also identified during the audits of the 2017 – 2021 AFS).
- Incorrect classification of assets, liabilities, revenues, expenses and transfers in the Public Sector Chart of Accounts and the Uniform Budget Classification (also identified during the 2016 – 2021 AFS audits), which results in misstatements in the Balance Sheet, P&L and Budget Execution Statements;
- Misrepresentation of municipal holdings in commercial entities and failure to disclose the changes therein (also identified during the 2016 – 2021 AFS audits) resulting in unfair disclosure of such investments and the related revenue.
  - No or partial stock-taking of assets and liabilities, incl. costs for assets whose acquisition was pending during previous reporting periods (also identified during the 2019 – 2021 AFS audits), pointing to inability of internal controls to validate the information contained in the financial statements.
  - Non-disclosed or misstated commitments (undertaken or implemented) and new obligations for expenditure, which usually results in understating of expenditure and balance-sheet and off-balance sheet liabilities (also identified during the 2019 – 2021 AFS audits).
  - Incomplete disclosure of the current positions and changes regarding the assets, liabilities, revenues, and expenditure thus preventing the users of financial statement from making well informed decisions (also identified during the 2019 – 2021 AFS audits);
  - Misrepresentation of changes to the purpose of municipal-owned estate recognized during earlier reporting periods. Incomplete reporting in the accounting registers and the Balance Sheet Statement of all estate and assets. Recognizing municipal-owned estate at tax value rather than at fair value, oftentimes disclosing significantly lower values, and thus understating the assets (also identified during the 2020 – 2021 AFS audits).
  - Misrepresentation of funds received and spent under EU-funded programmes – advance payments and off-balance sheet statistical reporting at the expense of the beneficiaries, the EU and other donor organizations. Delayed transfer of acquired assets from reporting group “EU Funds” into reporting group “Budget and/ or VAT”. This results in misstatements in the Balance Sheet, P&L and Cash Flow Statements (also identified during the 2021 AFS audits).
- Capital expenditure for construction works and overhauls of fixed tangible assets have not been recognized in the relevant accounts in accordance with the degree of completion of the works (respectively as assets and/ or construction in progress, production

or overhaul). Such assets have been written off without solid grounds or justification thereof (in the absence of analysis or managerial decision). Some financial statements contain positions of long-term assets in the process of acquisition in the absence of reliable data for their disclosure in the balance-sheet statement. Misstated expenditures for overhaul of long-term assets reported on accrual or cash basis. Failure to capitalize infrastructure sites under the “*Other Accounts and Operations*” reporting group. All this results in understatement or overstatement of assets in the Balance Sheet and misstatement of the depreciation costs (also identified during the 2019 – 2021 AFS audits).

- No or superficial reviews for impairment or revaluation of long-term assets. Inadequate approaches applied to the impairment reviews using the carrying value of the long-term assets for comparison purposes, rather than their carrying value. Absence of adequate approach for follow-up revaluations of long-term assets in the accounting policies.

- Failure to apply the linear method in recognizing revenues generated from the rights of use of assets provided under the agreements with the Water Supply Operators in line with article 198o, paragraph 1 of the Waters Act. This results in misstatements of positions in the Balance Sheet and Income Statements (also identified during the 2021 AFS audits).

- Non-compliance with fundamental accounting principles laid down in the Accountancy Act (also identified during the 2021 AFS audits).

- Absence of analyses of the advance payments to contractors for the purposes of drawing up estimates of the acquisition costs. Absence of accounting estimates for construction works in progress, which usually results in understating the assets and overstating the receivables (also identified during the 2021 AFS audits).

- Failure to write off expired bank guarantees (also identified during the 2021 AFS audits).

- Failure to classify loans and debt based on remaining time to maturity as short-term and long term, as well as the present share of long-term loans (also identified during the 2021 AFS audits).

- Missing underlying documents for the economic transactions resulting in disclosure of non-corroborated amounts in the annual financial statement (also identified during the 2018 - 2021 AFS audits).

- Non-compliance with the requirements contained in the approved and generally accepted policies for provisioning of receivables on direct loans, advance payments, sales and other estimates made by the public sector entities and subject to provisioning for default (also identified during the 2021 AFS audits).

- Errors in consolidating the annual financial statements in the system of first-line budget entities and in transferring the data into the templates of the Ministry of Finance (also identified during the 2021 AFS audits).

Without prejudice to the audit opinion, the reports on the AFS audits of some municipalities contain emphasis of matter regarding the use of short-term interest-free loans out of third-party accounts contrary to the legal provisions.<sup>2</sup>

When the audits identified some instances of infringements of the legal framework,

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<sup>2</sup> Art. 147 of the Law on Public Finances prohibits the use of third-party accounts to perform or report any activities other than the administration of third-party funds and enforcement or asset recovery actions taken by the respective government authorities and the subsequent asset management and allocation in line with the relevant legislation.

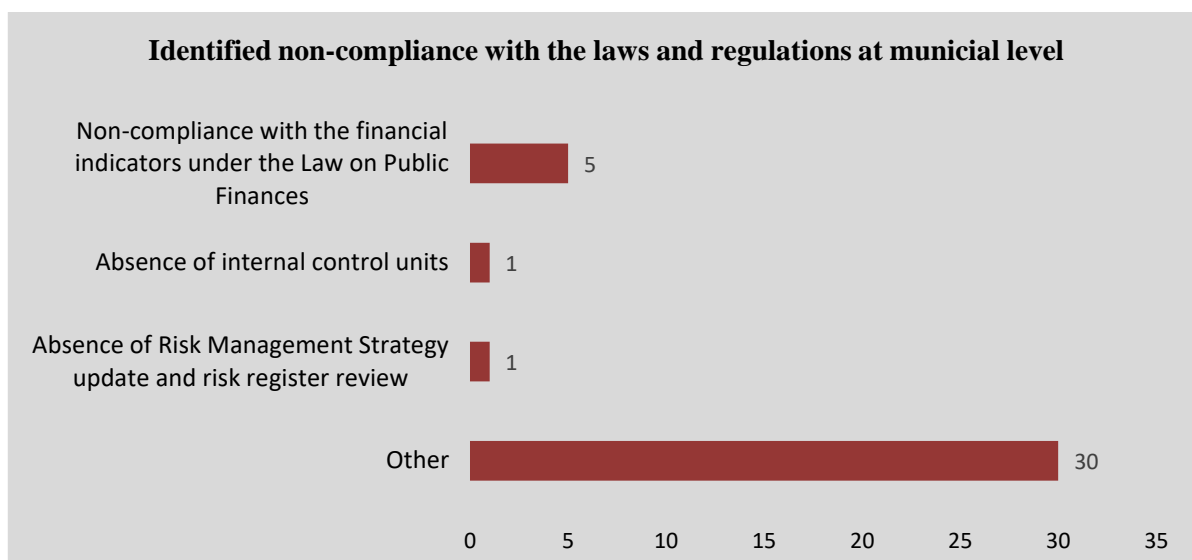
BNAO applied article 57, paragraph 1 of the National Audit Office Act, and referred the cases to the relevant competent authorities /State Financial Inspection Agency – regarding 34 municipalities for taking action/- (also identified during the 2019-2021 AFS audits). Some examples are:

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

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

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

Figure 7



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

In line with article 49, paragraph 3 and Article 54, paragraph 16 of the National Audit Office Act, in 2023 BNAO referred some of its audit reports to other competent authorities for information or for taking competent action (Ministry of Finance – concerning 116 municipalities, the National Revenue Agency – concerning 1 municipality, Municipal Councils – concerning 9 municipalities, the National Association of Municipalities – concerning 35 municipalities).

In cases of findings pointing to potential unlawful collection or spending of budgetary funds or other public money, and findings pointing to infringements, BNAO's auditors applied the provisions of article 44 and article 58, paragraph 1 of the National Audit Office Act and referred the cases to the Prosecutor's Office (concerning 6 municipalities).

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

✓ Adjustments of depreciation costs to achieve fair representation of the carrying value of depreciable assets (such adjustments were also introduced in the course of the 2018 – 2021 AFS audits);

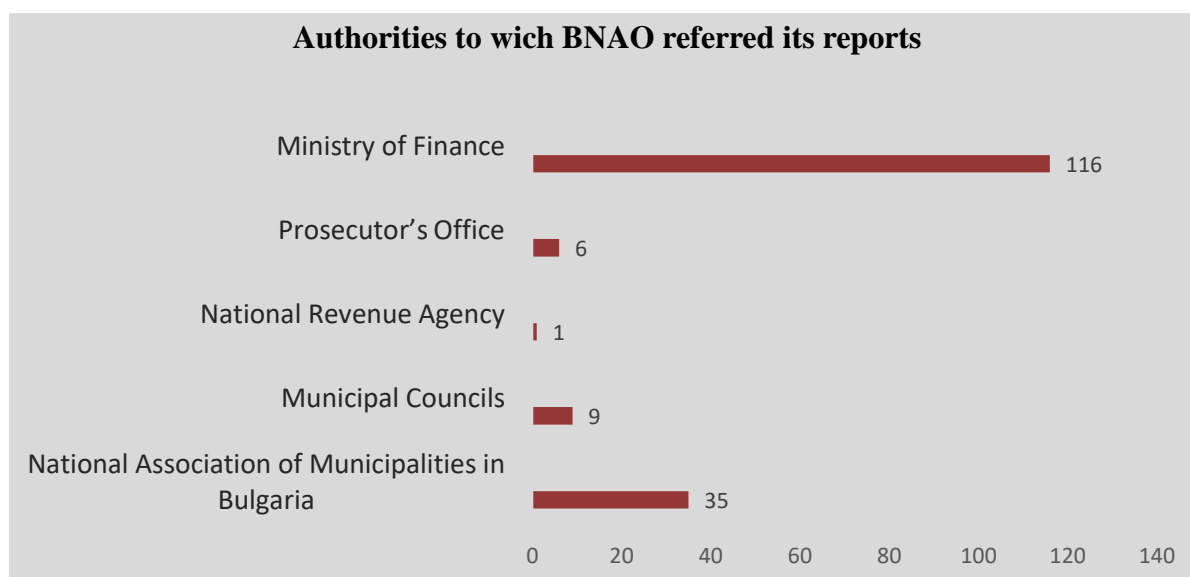
✓ Disclosing the changes in the municipal shareholdings in commercial entities to achieve fair representation of the investments and the related revenue (such adjustments were also introduced in the course of the 2016 – 2021 AFS audits). Roughly 95% (639,951 thousand BGN) of the misstated revenues in the Income statements are due to misrepresented shareholdings in the financial results of commercial companies where municipalities have majority shareholdings.

✓ Disclosure of commitments (taken and implemented) under contracts and bank guarantees (such adjustments were also introduced in the course of the 2016 – 2021 AFS audits). These corrections helped achieve fair representation and complete disclosure in the financial statements of off-balance sheet assets and liabilities.

✓ Recognition of non-disclosed assets, liabilities, revenues, and expenses (such adjustments were also introduced in the course of the 2016 – 2021 AFS audits). These corrections ensured fair representation and completeness of the financial statements. Roughly 68% (966,058 thousand BGN) of all misstated assets in the 2022 balance sheet statements are attributable to misstatements occurring in 7 municipalities.

✓ Correction of errors (mainly technical) made during the consolidation of the financial statements in the system of first-line budget entities; the aim being to ensure fair representation (also adjusted in the course of the 2018-2021 audits). In 2022, some 75% of the misstated revenues (accounting for 11,807 thousand BGN), were due to technical errors made by three municipalities in compiling their Budget Execution Statements.

✓ Adjusting the classification of assets, liabilities, revenues, expenses and transfers into the Public Sector Chart of Accounts and the Uniform Budget Classification (also corrected in the course of the 2016-2021 audits) resulting in true representation in the Balance Sheet,



P&L, and Budget Execution Statements. In 2022, roughly 80% (1,825,672 thousand BGN) of the misstated revenues in the Income Statements were attributable to misstatements in five municipalities.

Figure 9

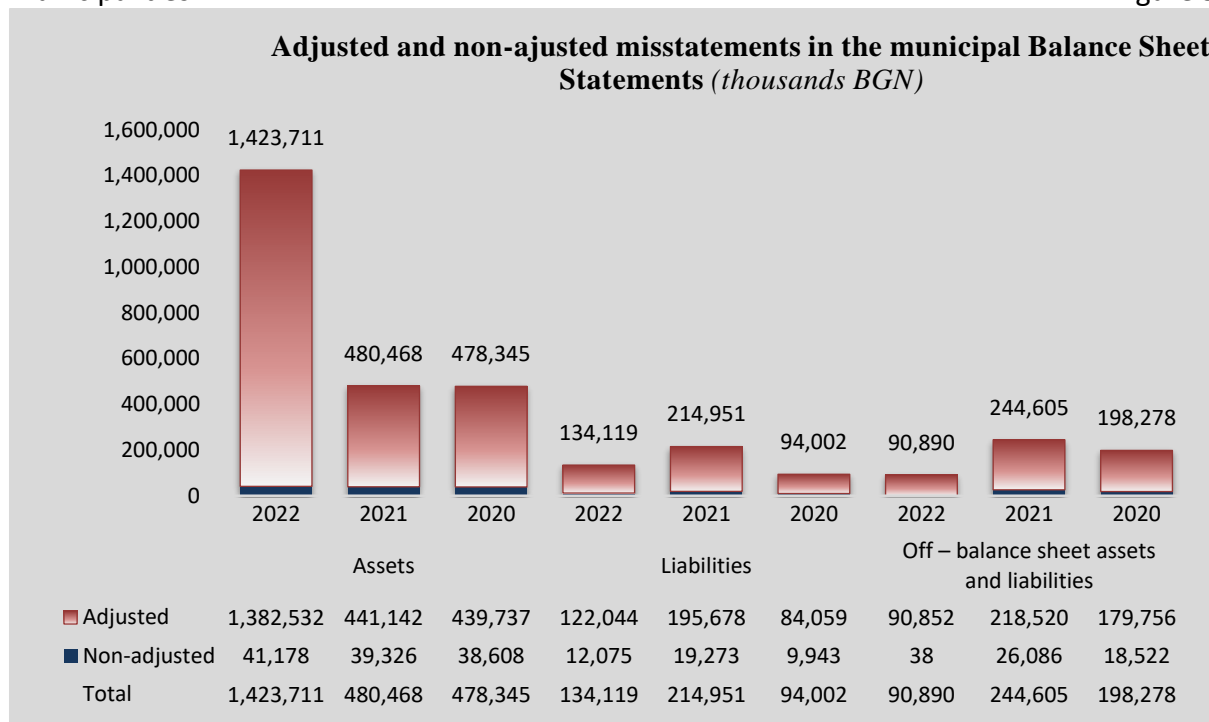
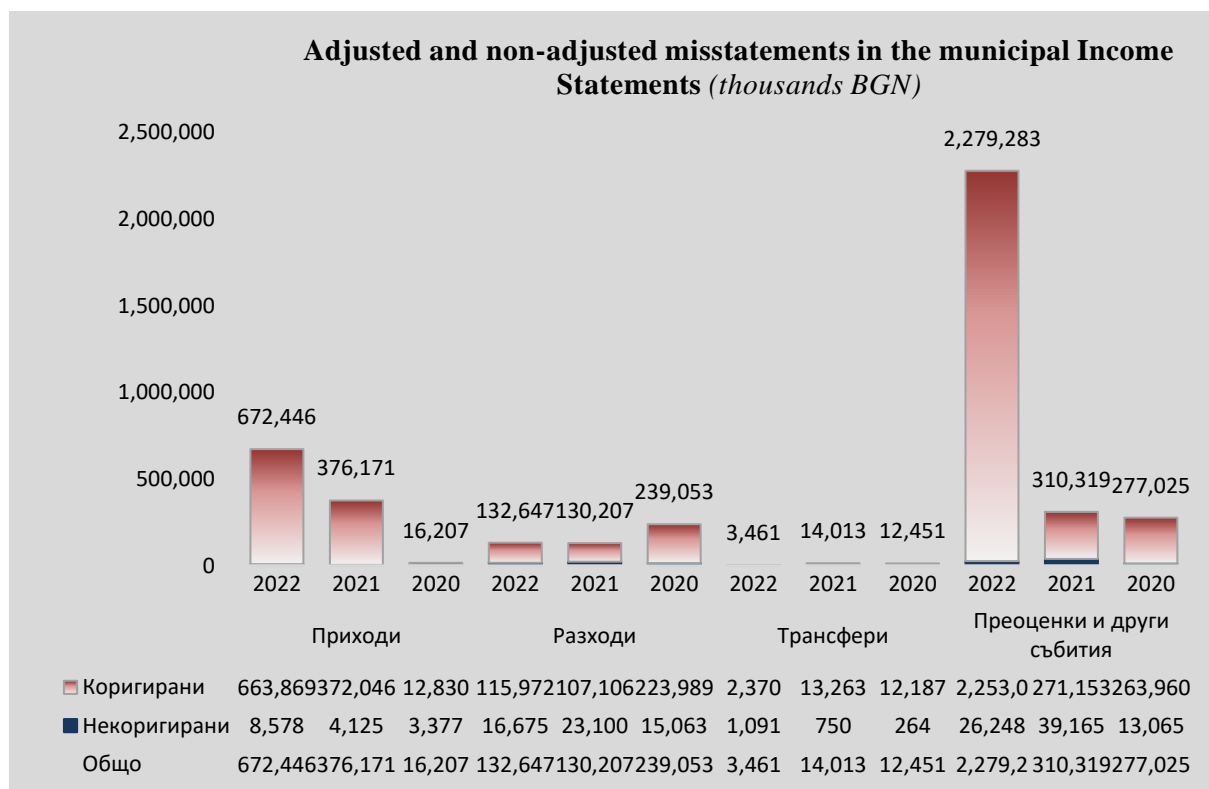


Figure 10



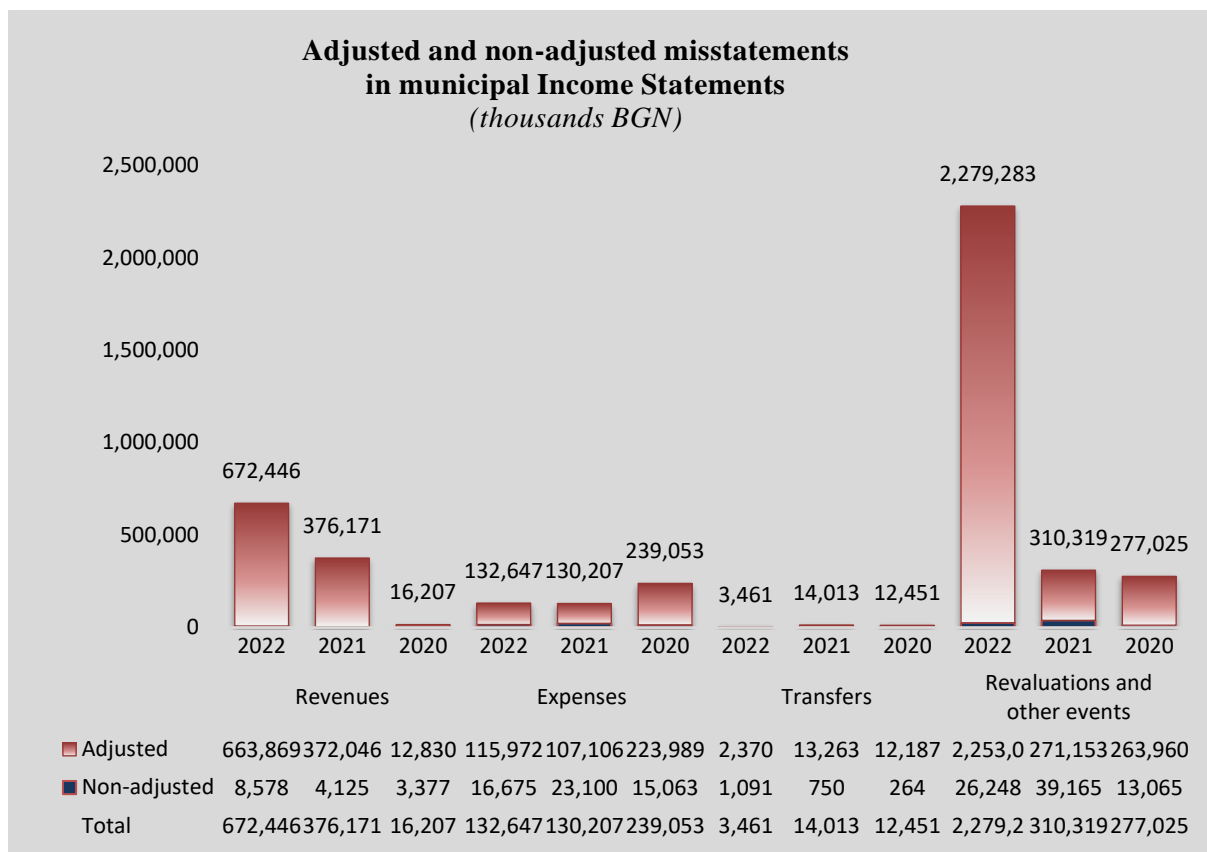
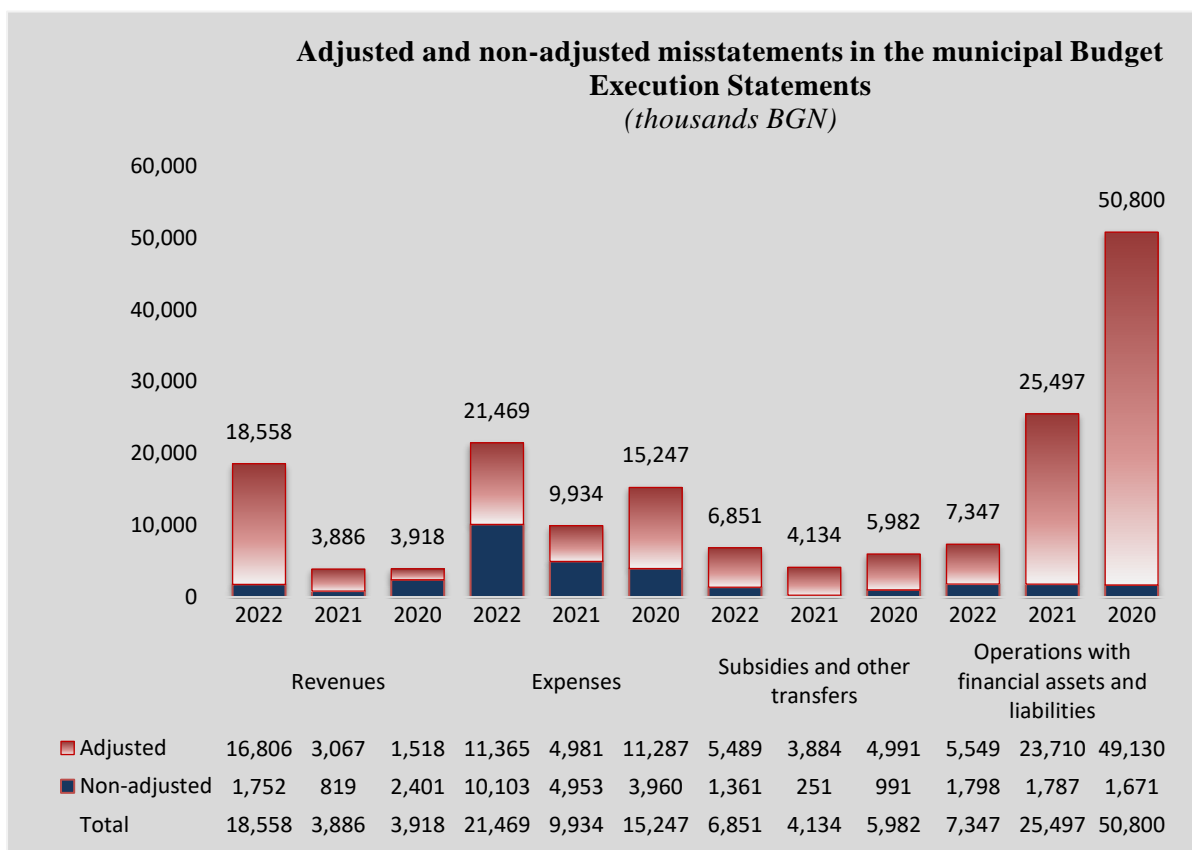


Figure 11 and Figure 12





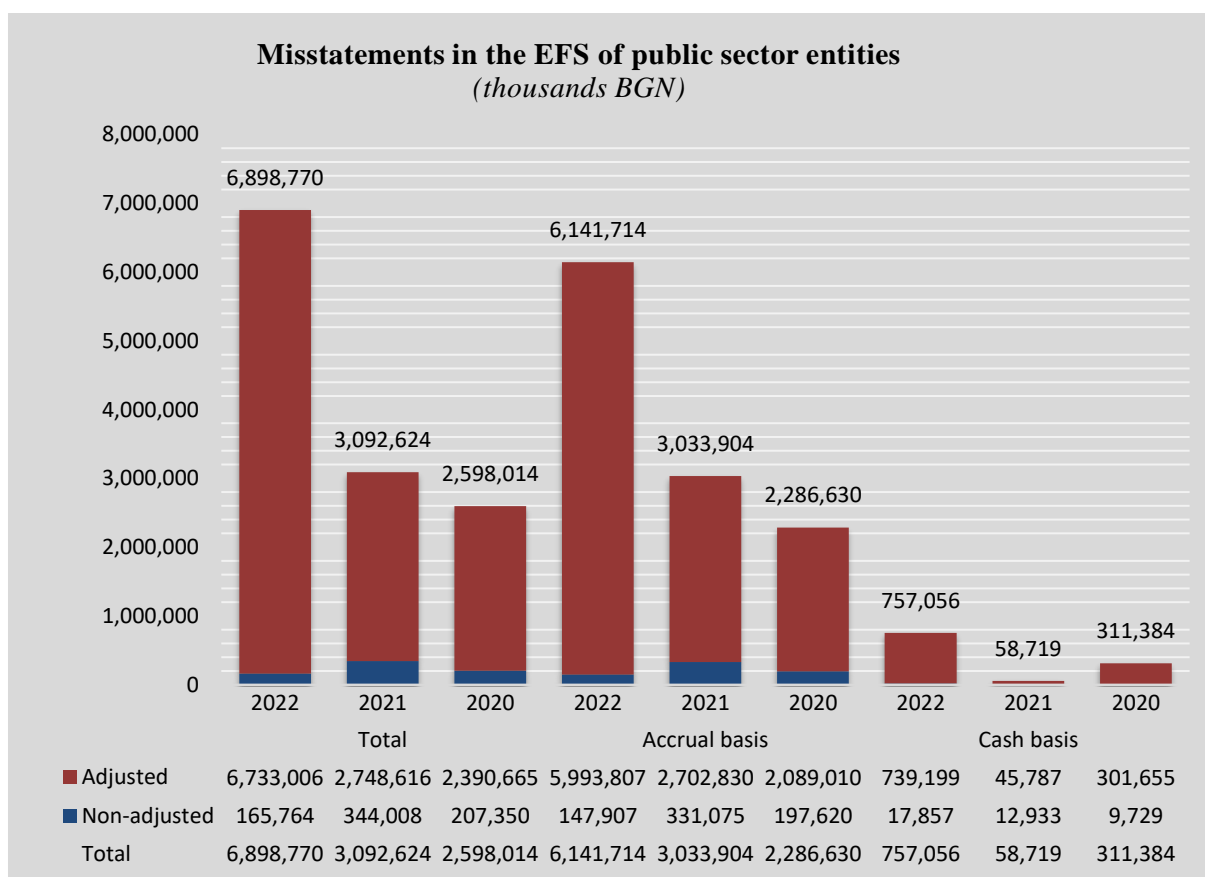
## 2.3 Main conclusions from the audits of the 2022 Financial Statements

The financial audits of the 2022 Annual Financial Statements resulted in adjustments of misstatements made by public sector entities amounting to 6,73 billion BGN (compared to 2.75 billion in 2021), constituting an almost 2.5 increase year-on-year.

Some of the reasons for misstatements that remained unadjusted were:

- Differences of opinion between the auditors and the management of public sector entities regarding the accounting treatment and reporting of specific events, transactions, and operations.
- Impossible corrections of errors from previous periods that continue to affect the financial statements of the current reporting period.
- Insignificance of the misstatements and no impact on the audit opinion.

Figure 13



### 2.3.1. Weaknesses in drawing up the annual financial statements

- All three groups of audited public sector entities (central government bodies, public universities, and municipalities) make similar misstatements due to **wrong classification of revenues and expenses, assets and liabilities in the accounts of the Public**

**Sector Chart of Accounts, and respectively in the relevant paragraphs and sub- paragraphs of the Uniform Budget Classification.** We are of the opinion that the root cause for this issue are the frequent amendments to the financial reporting framework, incl. insufficient and incomplete guidance on its implementation issued by the Ministry of Finance (e.g. the definition of land adjacent to premises and facilities, classification of certain groups of non-current assets, etc.). Some individual additional instructions issued by the MF may also have a negative impact, since very often they introduce exceptions to the general rules.

- Non-compliance with the MF guidance regarding the mandatory **reviews for impairment of non-current assets**.
- Non-compliance with the MF guidance regarding **off-balance sheet disclosure** of the undertaken or implemented commitments and/ or new commitments for expenses, contingent claims and liabilities.
- Difficulties in identifying and applying the relevant principles of the Accountancy Act.

The above weaknesses in the financial reporting were also identified during the audits of AFS in the period 2017-2021 r.

### **2.3.2 Weaknesses regarding the organisation of the accounting process**

- The highest relative share of modified opinions (qualified and adverse) were issued in relation to audit reports on the annual financial statements of municipalities and public universities. This is an indication of their **insufficient administrative capacity**.
- There is no official requirement for the audited public sector entities to introduce an **adequate uniform electronic database** of all accounting records (both accrual and cash basis) in the system of the **first-line budget spending entities**. On the one hand, this is a prerequisite for mistakes in compiling and summarizing the information in the consolidated AFS, and on the other – it limits the possibility for computer-based audits. The introduction of an Integrated financial information system for the municipalities and for the ministries and other public sector entities will be a lengthy process. However, using uniform databases when drafting the financial statements will reduce the risk of technical errors in summarizing the information for these statements; it will provide an **audit trail**, and **will remove the limitations regarding the scope of the computer-based audits**.
- **Inefficient internal controls** of the first-line budget entities concerning the accounting practices and the budget discipline of their subordinate entities.
- With regard to the obligation of the first-line budget entities to draw up consolidated financial statements and ensure fair representation in them, the management of public sector entities **has failed to implement effective controls** of the completeness and validity of the information included in the financial statements of their subordinate lower-level public entities. **The possibility for conducting internal audits** on compliance with the applicable financial reporting framework **is underused**, incl. in the cases when modified opinions have been expressed, while fully relying on the audits of the National Audit Office.

All weaknesses in the organisation of the accounting process listed above were also identified during the 2018-2021 audits of the annual financial statements, while the first two of them were identified in the period 2015- 2017.

### 3. OUTCOMES OF THE COMPLIANCE AUDITS

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



**In 2023, BNAO's Board of endorsed 72 compliance audit reports.** The focus of these audits was on the Financial Management and Control Systems, budget execution, awarding and execution of public procurement contracts and estate management of ministries and agencies, municipalities and public universities. The reviews also delved into the collection of local fees and taxes by municipalities. Based on the findings, the auditors came up with assessment and conclusions regarding the management of public funds and conduct of business in the audited entities, and issued recommendations for improvements thereof.

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

##### 3.1.1 Financial management and control systems

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



##### 3.1.1.1. Ministries, agencies and public universities

###### **Control environment:**

✓ *Failure to ensure timely update of the Internal Rules aligning them with the amendments in the relevant legal framework* and with the changes in the administrative structure of public entities (also identified during the 2020 - 2022 audits). Therefore, the effective internal rules do not provide clear and detailed regulation of the operations and do not reflect the specificity of the public entities; they do not ensure adequate allocation of functions and do not introduce arrangements for timely and compliant implementation of activities, for monitoring and ex-post performance reviews; and do not provide for effective controls (also identified during the 2021-2022 audits);

- ✓ *Absence of internal acts setting out the requirements concerning reappointments and promotions; absence of internal regulations concerning recruitment and appointment;*
- ✓ *One Minister did not authorize a designated staff member to maintain the main registers and sub-registers of state-owned estate managed by the respective ministry;*
- ✓ *Some Internal Rules concerning the remuneration do not contain provisions for basic salary calculation: habilitated staff appointed with supplementary labour contracts; the deputy rector, assistant rector and other positions filled by staff members based on supplementary labour contracts with the same employer.*

**Risk management:**

- ✓ *Absence of periodic review for identification and assessment of risks to the goal attainment (also identified during the 2019-2022 audits);*
- ✓ *Failure to update the Risk management strategy in line with the requirements of the Law on the Public Sector Financial Management and Control.*

**Control Activities:**

- ✓ *Ex-ante compliance controls are not thorough, continuous and consistent (also identified during the 2019 - 2022 audits); absence of ex-ante compliance controls of revenues due to the absence of arrangements for the implementation and documentation of such controls (also identified during the 2022 audits); ex-ante compliance controls are not applied in all cases prior to taking up liabilities or incurring costs (also identified during the 2020- 2022 audits);*
- ✓ *Absence of rules and designated personnel controlling the implementation of contracts and signing off of services;*
- ✓ *Absence of policies and procedures for ex-post performance evaluation in line with the requirements laid down in the Methodological Guidance regarding the Elements of Financial Management and Control adopted by the Ministry of Finance;*
- ✓ *The controls in place were not applied consistently and continuously. The absence of ex-ante compliance controls, while applying ex-post controls after the signing of contracts, precludes the possibility for preventive control (also identified during the 2020-2022 audits);*
- ✓ *Absence of adequate procedures for documenting the processes and controls, thus precluding transparency and audit trail (also identified during the 2020-2022 audits).*
- ✓ *Failure to apply the double signature principle consistently and continuously for the signing of contracts throughout the audited period (also identified during the 2022 audits).*

**Monitoring:**

- ✓ *Absence of performance monitoring for the audited activities (also identified during the 2021-2022 audits);*
- ✓ *The financial management and control systems failed to ensure efficient identification, prevention, and correction of non-compliance with the legal framework (also identified during the 2021-2022 audits).*



### 3.1.1.2. Municipalities

#### Control environment:

✓ The Internal Rules of certain municipalities *were not aligned with* the updated financial management and control methodology adopted by the Minister of Finance in March 2020 (also identified during the 2022 audits).

✓ *Absence of arrangements* concerning the administration, checks, and collection of local taxes and fees; no arrangements in place for the management of municipal estate (also identified during the 2022 audits) and for current controls over the implementation of commitments and contracts.

#### Risk management:

✓ *Failure to identify and assess* all significant risks at municipal level that might affect the attainment of municipal goals (also identified during the 2017-2022 audits).

#### Control activities:

✓ *Absence of ex-ante compliance controls* prior to concluding contracts and generating expenditure and payments under public procurement contracts and procedures for leasing of municipal-owned estate (also identified during the 2020 - 2022 audits);

✓ *Absence of adequate effective controls* to prevent, identify and rectify infringements/non-compliance with the legal framework (also identified during the 2018 - 2022 audits);

✓ The controls in place were not implemented consistently and continuously, they were not sufficiently adequate and effective and were not reviewed and updated (also identified during the 2017-2022 audits).

#### Monitoring:

✓ *Absence of monitoring of the financial management and control activities* to assess their adequacy and ensure timely revision in case of changes in the environment (also identified during the 2017 - 2022 audits).

## 3.1.2. Budget



### 3.1.2.1. Ministries, agencies and public universities

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

#### Ministries and agencies:

✓ *Incomplete internal rules concerning the budgetary process* (not covering all activities; not designating responsible persons; not ensuring process documentation; absence of arrangements for document flow and storage; not aligned with the specificity of functions of the respective agency; in case of second-line budget spending entities - no harmonisation

with the rules in place in the respective first-line entity (also identified during the 2021-2022 audits);

✓ *No identification and evaluation of the significant risks in managing the budgetary process, which resulted in poor planning, delayed budget updates, failure to collect the statutory revenues and inadequate allocations of expenditure;*

✓ *Budget planning was based on the historic principle resulting in failure to take into consideration the current needs of the public sector entities and posing a risk to good financial management and progress (also identified during the 2022 audits);*

✓ *The procedures in place for budget planning and review do not ensure adequate funding of operations and discharging of the statutory functions and activities (also identified during the 2022 audits). Inconsistent application of program-based budgeting – failure to set relevant goals, performance indicators and target values by budget programs (also identified during the 2022 audits);*

✓ *Absence of official internal rules/ procedures concerning the arrangements, responsible persons and control procedures for the administration of revenues; the existing written arrangements are not backed with adequate controls, which poses a significant risk to the correct identification and collection of revenues (also identified in the course of the 2021-2022 audits);*

✓ *Absence of clear and detailed regulation of the processes for expenditure planning, initiation, authorisation and disbursement, while the controls in place are inefficient and inconsistent resulting in failure to mitigate the risks to compliant spending of public money (also identified during the 2019-2022 audits);*

✓ *The approved personnel structure does not ensure the necessary administrative capacity (also identified during the 2022 audits). Some key administrative functions have been subcontracted without guarantees for the effective implementation of the functions and for the protection of interests in case of poor and/ or delayed performance. Personnel appointment without ensuring full compliance with the statutory requirements concerning the terms and procedures, publicity and documentation of the process.*

✓ *Incorrect calculation and payment of salaries, benefits and social security contributions;*

✓ *Absence of adequate controls for extending budget allocations for the financing of projects resulting in failure to ensure transparency in the allocation of funds and control over the reporting of expenditure;*

✓ *Advance payment of the full price of contracts for construction works enabling the contractors to use large public financial resources prior to the completion of the construction (also identified during the 2022 audits).*

#### **Public universities:**

✓ *The review of expenditure for scholarships paid to Bulgarian and foreign students in one university identified non-compliance with the applicable legal framework;*

✓ *The tuition fee approved by the Academic Board is smaller than the statutory fees set out in the Law on Higher Education;*

✓ *In one university the Academic Board did not approve the budgets of the main structural units for the respective year in violation of the requirements set out in the Law on Higher Education.*



### 3.1.2.2. Municipalities

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

✓ *Some municipal ordinances* regarding the triannual municipal budget projections and regarding the drafting, endorsement, execution and reporting of municipal budgets *have not been updated* to reflect the amendments to the Law on Public Finances; certain Ordinances on introducing and administering local taxes, fees and tariffs for services *are partially or fully non-compliant with the relevant primary legislation* (also identified during the 2019 - 2022 audits);

✓ *The ordinances on the terms and conditions for public consultations* under the Law on Municipal Debt *were not updated as required* (also identified during the 2022 audits);

✓ *The cost estimates for solid household waste does not cover all statutory activities*. They do not include the waste collection fees for non-residential estate owned by natural persons and the costs are not broken down by types of estate;

✓ *With respect to the costs for remunerations of staff that is not on the payroll, the audits identified the following* (also identified during the 2022 audits): absence of documents justifying the need for subcontracting certain activities outside the responsibility of the municipal administration by signing civil contracts under the Law on Obligations and Contracts; signing of civil contracts after the expiry of the period for the relevant subcontracted activities; signing civil contracts with members of the municipal administration for the completion of activities that fall within the job description of the respective staff members; some civil contracts do not contain provisions on the type and scope of the subcontracted activities, their reporting, signing off, and deadlines for paying the relevant remuneration; absence of acceptance protocols for the activities under these contracts;

✓ *Some negative practices were identified in relation to expenses for materials, external services, maintenance and overhaul of non-current tangible assets and the acquisition of non-current tangible assets*, such as: the acquired assets are included in the cost estimates for financing capital expenditure without decisions thereof by the Municipal Council, presentation of guarantees for advance payment and contract implementation whose validity is not in line with the contract deadlines; failure to notify the National Revenue Agency and the Customs Agency of contracts amounting to over 30,000 BGN, while others were registered following the expiry of the statutory deadline (also identified during the 2020-2022 audits); presentation of guarantees for contract implementation whose validity is not in line with the deadlines under the contracts; disbursing payments without sending a notification for registration in the RMS – Payments Information System of the Ministry of Finance in order to check for absence of public liabilities of the contractors; failure to claim default charges from contractors for delayed implementation; failure to submit timely notifications to the Public Procurement Register regarding the completion of contracts (also identified during the 2022 audits); absence of designated officials responsible for the control of contract implementation and signing off of the contracted works;

✓ The following findings were made *concerning subsidies paid out to non-profit legal entities*: some municipal councils did not adopt annual programmes for the promotion of physical education, sports and social tourism; absence of contracts with sports clubs

regulating the financial support, expenditure and reporting of the granted allocations; some mayors did not sign contracts with the local community centres- for financing their operations (also identified during the 2022 audits); the appointed committees for allocating the state subsidies to community centres did not prepare the relevant protocols.

✓ *Inefficient control by the municipal administrations* over the household waste collection, transport to the landfills or other facilities, waste treatment, and cleaning of public spaces;

✓ *Expenditures for winter maintenance and snow ploughing not in line with the legal framework and the contracts:* the plans for winter maintenance, snow ploughing and maintenance of the municipal roads and the urban streets do not contain all statutory information (also identified during the 2022 audits); absence of mayoral orders for coordination of activities between the municipality, the company maintaining the municipal roads and the agencies of the Ministry of Interior in relation to the traffic organization and control during winter months (also identified during the 2022 audits); absence of operational plans for wintertime maintenance; payment of excessive costs for snowploughing of the municipal roads under some public procurement contracts;

✓ The audits identified breaches of the budgetary discipline in case of costs for business trips of members of the municipal administration and lack of controls over the reporting of expenses for business trips and the allowances for office vehicles fuel; the storage and safekeeping of assets and information;

✓ *Significant under-collection of the planned revenues* from local fees and taxes, income from leased estate and concession contributions (also identified during the 2022 audits).

### 3.1.3. Public procurement



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



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

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

✓ *Some internal acts regulating the public procurements cycle do not reflect adequately the organisational structure of the public entities* (also identified during the 2021-2022 audits), and *do not provide for effective regulation of control activities* to ensure adequate planning of the needs and compliant procurement procedures (also identified during the 2021 – 2022 audits);

✓ The needs planning process does not ensure complete and timely information regarding the actual needs, thus precluding the possibility for selection of adequate procurement procedures and their compliant implementation;

✓ The designed schedules for awarding public procurement contracts do not contain the mandatory requisites in line with the Rules on the Implementation of the PPL (also identified during the 2022 audits).



### ***Disclosure of information***

- ✓ Failure to publish in the Public Procurement Register and in the buyer's profile all documents required by law, or failure to comply with the deadlines for publication (also identified during the 2021-2022 audits);
- ✓ Failure to publish notifications for the award and termination of public procurement contracts;
- ✓ The protocol of the evaluation committee approved by the contracting authority is sent to the tenderer on the same date, while it is published in the PP Register and the buyer's profile almost two years after its approval in violation of the PPL;
- ✓ Incomplete and untimely publications of information in the buyer's profile and the PP Register.

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

- ✓ The call for proposals in the public procurement procedure does not list the required underlying documents to prove compliance with the criteria, a requirement for performance guarantee and its rate;
- ✓ Some requirements to the bidders in the public procurement procedure *introduce illegitimate barriers for participation* (also identified during the 2022 audits);
- ✓ Applying a reverse order to filtering and evaluation of the bids (in open procedures), while such information is not contained in the call for proposals;
- ✓ The calls for proposals (the technical and professional requirements) contain conditions that are not compliant with the subject matter and scope of the public procurement contract, which is a violation of the PPL;
- ✓ Some decisions for launching direct contracting procedures do not contain the criteria for non-mandatory exclusion of participants. Instead, these are listed in the call for proposals;
- ✓ The approved evaluation methodology contains indicators without detailing the rules for the evaluation of tenders;
- ✓ Some contracting authorities did not apply procedures for reserving a percentage of PP contracts for award to specialized entities or cooperatives of people with disabilities, although there were grounds for such procedures.

### ***Contracting***

- ✓ The contents of some contracts signed under the procedures outlined in Chapter 26 of the PPL do not contain the minimum requisites set out in the Rules for the implementation of the PPL;
- ✓ Some contracting authorities failed to meet the 30-day statutory deadline for contract signing following the selection of contractors;
- ✓ Signing of contracts before the enforcement of the decisions for contractor selection.

### ***Contract implementation***

- ✓ Some PP contracts do not contain provisions ensuring sufficient protection of the contracting authority's interests in case of incorrect and/or delayed implementation; while the agreed default charges for non-compliance were not applied resulting in opportunity costs.



### 3.1.3.2. Municipalities

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

✓ *Failure to update the internal rules* governing the public procurement cycle to reflect the amendments to the Public Procurement Law and the Rules on its implementation (also identified during the 2019 - 2022 audits);

✓ *Absence of schedules for public procurement.* The public procurement schedules in place do not contain the minimum information requisites required by the Rules on the Implementation of the Public Procurement Law (also identified during the 2018 - 2022 audits).

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

✓ Some contracting authorities did not perform market surveys or consultations to determine the current estimates of the procurement contract before launching public procurement procedures;

✓ The contents of some calls for proposals is not compliant with the minimum information requisites required by the Public Procurement Law (also identified during the 2018 - 2022 audits), and they do not list the documents required to prove compliance with the selection criteria;

✓ Some calls for proposals contain requirements concerning the technical and professional capacities of the participants thus restricting the competition and the possibilities for participation of some economic entities (also identified during the 2020 - 2022 audits);

✓ Failure to list the grounds for elimination of participants in line with article 55, paragraph 1 of the PPL;

✓ The technical specifications for the public procurement contracts require specific standard for the contract implementation without a clarification that other equivalent standards are also admissible;

✓ One evaluation committee failed to identify incorrect information filled out in the European Single Procurement Document (ESPD) and did not apply the statutory means for validation;

✓ Failure to provide ex-officio the necessary information to be included in the contracts;

✓ Failure to meet the deadlines for submitting the notifications for signed PP contracts to the PP Agency;

✓ Selection of suppliers for water, fuel and electricity by following a simplified procedure without a public procurement tender, and failing to ensure the principles of free competition, publicity and transparency.

**The audits identified the following irregularities concerning the award of public procurement contracts through the submission of bids under Chapter Six of the Public Procurement Law:**

- ✓ Some contracting authorities did not perform market surveys or consultations before launching public procurement procedures;
- ✓ Some calls for proposals contain requirements concerning the technical and professional capacities of the participants restricting the competition and the possibilities for participation of economic entities;
- ✓ Some calls for proposals do not list the statutory criteria for elimination of applicants and the required guarantees for contract implementation;
- ✓ Some calls do not contain the minimum statutory requisites; they require the submission of specific documents, while the contracting authority has the possibility to glean this information ex-officio;
- ✓ Publication of notifications for public procurement contract in the PP Register later than the statutory deadlines.

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

- ✓ Some contracting authorities failed to claim default payments for delayed implementation of the contracted works;
- ✓ Failure to comply with the deadlines for contract implementation;
- ✓ Non-compliance with the agreed deadlines for releasing the performance guarantees (also identified during the 2021-2022 audits);
- ✓ No designated staff members responsible for the control over the PP contract implementation.
- ✓ Absence of official procedures for signing off of the completed works under PP contracts and inefficient implementation controls;
- ✓ Delayed or no publication of the required information in the PP Register and the buyer's profile (also identified during the 2021-2022 audits).

### 3.1.4. Estate

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



#### 3.1.4.1. Ministries and agencies

- ✓ Failure to maintain updated information regarding the management of state-owned estate (also identified during the 2022 audits);
- ✓ Absence of rules on the maintenance, management and disposal of the state-owned estate, and no designated officials responsible for compiling and archiving the estate files;
- ✓ Public state-owned property and private state-owned property not registered in the Registry Agency;
- ✓ Absence of criteria for identifying and prioritising the housing needs of individuals in line with article 22 of the Rules on the implementation of the Law on State-Owned Property;

providing public housing to non-eligible public sector employees in violation of the statutory procedures;

- ✓ Violation of the procedures for leasing estate with private state ownership when signing contracts for short-term use of premises;
- ✓ Failure to issue new ownership titles for state owned estate following the effect of the new cadastre maps, which is an infringement of the Law on State-Owned Property.
- ✓ Incomplete internal rules regulating the management and disposal with estate. Some rules do not reflect the specific arrangements in place and the functions of the respective public agency/ directorate, and do not provide for effective controls over the actions and decisions of the responsible officials;
- ✓ No or inefficient controls over the functioning of committees (tendering committees and others) concerning the signing of contracts and monitoring of their implementation. Incomplete and incorrect documentation of the tendering procedures. Signing contracts after the expiry of the statutory deadlines; contracts not signed by the renters; non-compliance with the statutory requirements for notarised signatures; non dated documents, and no registration in the Registry Office contrary to the legal requirements;
- ✓ Lease contracts do not contain deadlines for rent payments, provisions on default payments in case of delays and non-payment of other agreed costs.



#### 3.1.4.2. Municipalities

- ✓ *Enforced provisions, which are contradictory to the legal framework, incl. acts adopted by some Municipal Councils:* ordinances on acquisition, management and disposal with municipal estate (also identified during the 2017 - 2022 audits); ordinances on identifying the housing needs and leasing of municipal housing; and ordinances on exercising municipal ownership rights over the municipal holdings in commercial entities (also identified during the 2019 - 2022 audits), ordinances on the use of municipal pastures and meadows, and ordinance on the municipal woodlands.
- ✓ *Some municipal administrations failed to adopt:* strategies on the management of municipal estate; action plans on municipal concessions; policies regarding municipal shareholdings in public entities; (also identified during the 2022 audits);
- ✓ *The following documents adopted by the municipal councils were not made publicly available:* strategies on the management of municipal estate; programmes on the management and disposal with municipal estate and reports on the current conditions, management and disposal with municipal estate (also identified during the 2022 audits);
- ✓ *Failure to issue reports* on the condition of municipal estate and the outcomes of its management by types and categories of municipal sites (also identified during the 2022 audits);
- ✓ *Failure to designate officials responsible for* compiling ownership titles for municipal estate, maintaining the general registers of public and private municipal property and the public register of the sales of municipal owned estate. Registering ownership titles for municipal estate with the Registry Service after the statutory deadline. Non-compliance with the deadlines for sending copies of the ownership titles to the Registry Service, the District Governor's office and the occupants.

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

- ✓ Municipal councils failing to identify the private municipal estate subject to mandatory insurance; mayors failing to list the movables subject to mandatory insurance (also identified during the 2018 - 2022 audits);
- ✓ Absence of insurance coverage for public municipal estate subject to mandatory insurance. Non-compliant clauses on deductibles in the insurance policies; paying insurance for estate that is not municipal-owned. Insurance policies of leased estate paid by the municipalities instead of the tenants/ occupants; failure to claim the reimbursement of the insurance costs from the tenants.

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

- ✓ Leased property not included in the Annual program for management and disposal with municipal estate (also identified during the 2020-2022 audits);
- ✓ Leasing public municipal owned estate without conducting tendering procedures;
- ✓ Absence of decisions by the municipal councils instructing the conduct of public tenders for leasing private municipal estate;
- ✓ *The following findings concern public tenders/ competitions for leasing municipal estate and agricultural land:* conducting tendering procedures in the absence of municipal council decisions thereof and initial bidding prices; introducing restrictive requirements to the participants in the tendering procedures/ competitions and to their representatives;
- ✓ *In open tenders:* absence of identified bid increments; signing contracts at the initial bidding price in procedures with single candidates;
- ✓ *In some public tenders/ competitions for leasing and disposal with municipal estate the audits identified:* infringements of the Administrative Procedure Code in disclosing the mayoral orders on the selection of candidates to the stakeholders, and in signing contracts prior to the effect of the mayoral orders on the selection of candidates. This made the said orders void, since they were enforced before the expiry of the statutory period for their appeal;
- ✓ Failure to ensure reimbursement/ balancing of the deposits against the lease payments by the winning bidder;
- ✓ Signing contracts whose contents differ from the original contents outlined in the tendering documentation;
- ✓ Borough mayors or their representatives not included among the members of tendering committees, although the leased estate is located on their territory (also identified during the 2020 – 2022 audits);
- ✓ Members of some committees did not sign declarations of non-disclosure of commercial and business information regarding the participants in the tendering procedures;
- ✓ Paying rent after the expiry of the deadlines set out in the mayoral orders;
- ✓ Signing of lease contracts prior to the effect of mayoral orders for identification of the winning bidders and prior to disbursement of the due payments (also identified during the 2021 – 2022 audits);
- ✓ Failure to register lease contracts with the relevant Registry Service (also identified during the 2020 – 2022 audits);
- ✓ Absence of acceptance protocols to certify the transferring of leased estate to the tenants (also identified during the 2020 - 2022 audits);

✓ Failure to take the necessary steps for collecting outstanding lease payments for municipal housing through the court; non-disclosure of the lease arrears in the accounting registers (also identified during the 2022 audits).

✓ *The audits established the following findings regarding the implementation of lease contracts for premises/ terrains:* failure to claim default charges in case of delayed lease payments for all kinds of municipal property leased with or without tendering procedures, resulting in opportunity costs and violation of the prudent person rule for managing municipal estate in the best interest of the municipality; failure to terminate the lease contracts of delinquent tenants; failure to ensure reimbursement by tenants of electricity and water bills covered by the municipality.

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

✓ Sales of property that is not included in the Annual program for management and disposal with municipal estate (also identified during the 2020-2022 audits);

✓ Calls for tendering procedures that are not published in local newspapers, while there is no commercial and business information thereof on the official municipal webpage either;

✓ Borough mayors or their representatives not included among the members of tendering committees, although the tendered estate is located on their territory (also identified during the 2020-2022 audits);

✓ Members of some committees did not sign declarations for non-disclosure of commercial and business information regarding the participants in the tendering procedures;

✓ Signing of contracts prior to the effect of the decision identifying the winning bidder (also identified during the 2022 audits);

✓ Absence of acceptance protocols documenting the actual transfer of the estate to the new owners; failure to write off sold estate from the municipality's register (also identified during the 2020-2022 audits);

✓ Setting restrictive criteria to the eligibility of participants in tenders for sales of municipal estate;

✓ Selling estate at prices based on expired tax or market appraisals in violation of the law.

**The audits identified the following regarding the award and implementation of municipal concessions:**

✓ Failure to designate officials responsible for forwarding information to the National Concessions register (also identified during the 2022 audits), and failure to register the statutory information;

✓ Some municipal councils did not receive annual reports on the implementation of concession contract;

✓ Non-insured concessioned facilities (also identified during the 2022 audits);

✓ Some concession holders did not pay their concession fee, while the municipal administration failed to take action to ensure collection (also identified during the 2022 audits);

✓ Missing information on the implementation of the investment programs and the costing of the activities performed by the concession holders;

- ✓ Some municipal mayors did not apply controls on the implementation on concession contracts;
- ✓ Some concession agreements were not listed in the title deeds for public municipal estate and in the General register of the public municipal property;
- ✓ Some municipal administrations did not adopt official control systems on the implementation of the obligations of concession holders (also identified during the 2022 audits) and did not ensure publicity of the implementation of the concession agreements.

### 3.1.5. Local fees and taxes

In 2023, there was an increase of the average collection rate of local fees and taxes from 60-65% to 70%. This positive trend is partially due to BNAO's audits. Irrespectively, some municipalities planned a lower collection rate resulting in incorrect reporting of over-execution of revenues at year-end.

In 2023, there was a continuous trend towards increasing payments in arrears for local fees and taxes, rent and concession fees.

**The following significant irregularities and deficiencies were identified in relation to administering revenues from local taxes and fees:**

- ✓ *Absence of effective internal controls* in administering revenues from local taxes and fees. *Lack of risk assessment and controls* to ensure the timely identification of outstanding payables; no notification of the debtors and no preliminary measures for collection. In all audited municipalities, the size of outstanding payables for local taxes and for garbage collection was significant (also identified during the 2022 audits);
- ✓ Concerning the planning of revenues *from local fees and taxes and the collection of arrears*: some municipal budgets contained lower estimates for the planned local fees and taxes, that did not correspond to the actual receivables for the current year plus the receivables in arrears; in contradiction to the legal provisions, some adopted municipal budgets did not contain estimates of the receivables in arrears for local fees and taxes planned for collection during the reporting year; reporting of unrealistic execution/ over-execution of the revenues from local fees and taxes in the municipal budget;
- ✓ Failure to apply the key methods for tax control through inspections and audits for identifying the receivables in arrears for real estate tax, vehicle tax and waste collection tax, thus creating prerequisites for increased non-collection (also identified during the 2021-2022 audits);
- ✓ Some municipalities did not refer their protocols for identification of tax payments in arrears to the National Revenue Agency and to public bailiffs for collection; failure to publish lists of the debtors on the official municipal webpage;
- ✓ Significant amounts of outstanding public receivables in arrears accumulated by legal entities and sole traders undergoing insolvency procedures and liquidation and by entities deregistered from the Commercial register, making these receivables difficult to collect.

✓ Lack of controls over the operations of the municipal revenue authorities to ensure legality and objectivity in line with the Tax Procedure Code and the Law on Local Fees and Taxes (also identified during the 2021-2022 audits).

✓ Concerning the administration of real estate taxes: non-compliance with the statutory deadlines for identifying the liabilities for real estate tax; failure to collect the necessary information for the purpose of correct real estate appraisals; wrong allocation of tax liabilities to owners instead of users of estate; inconsistencies between declared data, presented underlying documents, data entered in the system and miscalculated real estate taxes, defined less or more liabilities of persons for vehicle tax; failure to impose sanctions on taxable persons in the presence of grounds thereof; issuing tickets to taxable persons in the absence of grounds thereof;

✓ *Concerning the administration of Motor Vehicle Tax:* lower tax rates entered in the IT system for local fees and taxes; uploading information in the IT system for local fees and taxes based only on documents presented by the taxable persons or their lawful representatives without the submission of tax returns; miscalculating the liabilities of the taxable persons regarding motor vehicle taxes; imposing fines in the absence of legal grounds thereof; failure to issue acts for sanctions or impose fines in case of filing tax declarations past the statutory deadlines;

✓ *Regarding the administration of patent tax:* some filed tax returns did not comply with the template approved by the Minister of Finance; failure to impose sanctions on taxable persons for filing tax returns after the statutory deadlines; reduction of patent tax rate in the absence of grounds for that;

✓ *Regarding the administration of tourist tax:* absence of a strategy and programme for the development of tourism; absence of annual reports on the spending of revenue from tourist tax; absence of controls by the municipal administrations for compliance with the Law on Tourism and failure to conduct inspections by the municipal administration of the hospitality sites; failure to enter data on the accommodated tourists in the Uniform system for information in tourism; failure to sanction taxable persons for not filing or delayed filing of annual tourist tax returns; calculation of excessive tourist tax rate; inconsistency between the summarized monthly reports on the number of accommodated tourists in the Uniform system for information in tourism, the software and the journals in the hospitality sites; discrepancies between the data entered in the Uniform system for information in tourism and the declared number of nights spent by tourists accommodated locally;

✓ *Concerning the administration of waste collection tax:* charging waste collection tax without notification of the taxable persons for the taxes due; failure to set separate annual rates for tourist tax by type of business operations and to include the remaining amounts carried forward when endorsing the annual rate; overcharging or undercharging individuals for household waste collection; unfounded waste tax exemption for specific individuals; failure to impose sanctions on taxable persons for late filing of tax returns; lower carrying value of real estate and incorrect calculation of waste collection tax; some municipal administrations did not verify the facts declared by individuals who filed for waste collection and transport tax exemption resulting in non-compliant exemption; non-compliant granting of tax exemption of estates after the expiry of the statutory deadlines for that; planning revenues based on the approved costs in the cost projections and not on the expected revenues based on the effective waste collection rates and the receivables in arrears expected to be collected during the year;



✓ *Concerning the administration of fees for technical services:* incorrectly defined rates of technical service fees; failure to pay in fees for technical services; failure to collect fees for requested but not provided technical services; non-compliance with the deadlines for technical services; failure to reduce the fees for technical services rendered after the expiry of the statutory deadline; collection of fees for technical services in the absence of such provisions in the relevant Ordinance of the Municipal Council; collecting fees for services exempt from charges;

✓ *Concerning the administration of fees for use of market places, fairs, sidewalks, town squares and street lanes for commercial purposes:* absence of approved designs by the chief municipal architects for placing tables in front of restaurants; some applications for permits contain designs that are not approved by the chief municipal architects; issuing permits for outdoor trading operations by placing stands in front of stores in violation of the arrangements adopted by the Municipal Councils; absence of a register of permits for outdoor economic activities; illegitimate issuance of permits for outdoor trading activities in the absence of valid certificates of the traders' categorisation and collecting of fees for the use of market places, fairs, sidewalks, town squares and street lanes for commercial activities; collection of fees from traders for periods shorter than the actual duration of use of the outdoor trading places and/ or for using areas different than the permitted ones without pre-notice; collection of fees from traders for periods outside the permitted duration; failure to impose sanctions in the presence of legal grounds for that; absence of accountability for the fees collection for the use of outdoor municipal spaces for trading purposes and the receivables from fees collected for the use of municipal market places, fairs, sidewalks, town squares and street lanes;

✓ *Concerning the payment of real estate and household waste taxes for municipal owned estate:* Some municipalities failed to declare their entire estate (in their capacity as taxable entities) or failed to pay real estate and waste taxes for some private municipal property and garbage tax for public municipal property; some programme applications for local fees and taxes do not contain updated information on the carrying value of the municipal owned real estate; some municipalities paid at their own expense real estate and waste collection taxes for real estate provided for free of charge use to third parties; failure to ensure reimbursement of the waste collection fees by tenants of leased municipal estate; failure to file information of importance for the collection of the rate of real estate taxes and waste collection fees; incorrect data regarding the parameters of municipal real estate in the relevant programme application; failure to collect waste fee from tenants/ users or of leased municipal estate or parts thereof provided for free of charge use (also identified during the 2019-2022 audits);

✓ *Failure on behalf of the local revenue authorities to take timely action and to apply all measures set out in the Tax and Social Security Procedure Code to ensure collection of payment in arrears for real estate, motor vehicle and waste collection taxes, resulting in reduced revenues in the municipal budget.* As a result of the local revenue authorities not taking timely statutory measures for collection of receivables in arrears, some receivables (of real estate, motor vehicle and waste collection taxes) were written off due to expiry of the 10-year prescription period. Some significant receivables for local taxes were written off because of expired statute of limitation (also identified during the 2019-2022 audits)

✓ *Failure to designate in writing arrangements and officials responsible for collection of local taxes and waste fees in the villages under the umbrella of some local municipalities (also identified during the 2022 audits).*

#### 4. OUTCOMES OF THE PERFORMANCE AUDITS

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



In 2023 BNAO's Board endorsed 7 final performance audit reports.

Currently the report of one performance audit assigned at the end of 2022 and completed during the second semester of 2023 is at the stage of drafting the final justified conclusion by one of the Vice-Presidents following the receipt of feedback from the audited entity's management. The final report is expected to be signed off at the beginning of 2024. In 2023, BNAO **continued the implementation of 4 audits carried forward from previous periods, and started 4 new audit engagements** based on the 2023 Audit Programme, that will be carried forward into 2024.

The conducted audits may be grouped in the following areas:

Audit report signed off in 2023.	Outstanding audit engagements that started during 2023	
<b>Education, science, and culture</b>		
	<b>Implementation of national policies and programmes</b>	<b>Management of EU funded programs and projects</b>
	1. Quality assurance of school education; audited period 01/01/2019 through 30/06/2023	2. EU funding for scientific research, innovations and digitalisation - audited period 01/01/2020 through 31/12/2022.
<b>Agriculture and environment</b>		
	<b>Implementation of National Policies and Programmes</b>	<b>Management of EU funded programs and projects</b>
1. <a href="#">Report No 0300201020 on performance audit engagement "Management, control, and monitoring of funds under the Maritime Affairs and Fisheries Programme 2014 – 2020 " – audited period 01/01/2016 through 31/12/2020.</a>	2. "Preservation, restoration and sustainable management of forests – audited period 01/01/2021 through 31/12/2023.	3. Contribution of Priority Axis 1 – "Water" of OP Environment 2014- 2020 to meeting the national goals in the area of waste water treatment – audited period 01/01/2014 through 31/12/2023.

2. <a href="#">Report No 0300201021 on performance audit “Streets Procedure – Construction of new, reconstruction and/ or rehabilitation of existing streets, sidewalks and adjacent infrastructure – sub-measure 7.2. of measure 7 – Basic services and renovation of villages in rural areas – Rural Development Programme 2014 – 2020, audited period 01/01/2018 through 31/12/2021.</a>		
3. <a href="#">Report No 0300100921 on the audit “Effective management of Vitosha National Park”- audited period 01/01/2018 through 31/12/2021.</a>		
<b>Health care</b>		
	<b>Implementation of national policies and programmes</b>	<b>Management of EU funded programs and projects</b>
	2. Implementation of the National programme for improving maternal and child health care 2021-2030 – audited period 01/01/2021 through 31/12/2022.	
<b>Economy, energy, tourism</b>		
	<b>Implementation of national policies and programmes</b>	<b>Management of EU funded programs and projects</b>
4. <a href="#">Report No 0300200920 on the audit “Effective and transparent use of public funding for overcoming the COVID-19 pandemic consequences – economic measures for micro, small and medium enterprises” – audited period 01/02/2020 through 31/03/2021.</a>	1. “Achieving energy-efficiency through the refurbishment of multi-family residential buildings” in the period 01/01/2015 through 31/12/2022	
5. <a href="#">Report No 0300101121 on the audit “Effectiveness of measures for support in tourism towards overcoming the consequences of the COVID-19 pandemic crisis” – audited period 01/02/2020 through 31/12/2021.</a>		
<b>E-government. Digitalization and digital transformation</b>		
	<b>Implementation of national policies and programmes</b>	<b>Management of EU funded programs and projects</b>
6. <a href="#">Report No 0300201421 on the audit Management and Control Information System (01/01/2016 through 31/12/2021.</a>	1. Optimising the organisation of the Public Administration Register – audited period 01/01/2019 through 31/12/2022	
<b>Management of EU funding</b>		

	Implementation of national policies and programmes	Management of EU funded programs and projects
7. <a href="#">Report No 0300201720 on performance audit entitled “Administration of Irregularities” – audited period 01/01/2017 through 31/12/2020.</a>		1. “Measures for prevention and tackling corruption in the management and absorption of EU funding” – audited period 01/01/2021 through 31/12/2023.

#### 4.1. Conclusions of the performance audits whose final reports were signed off by BNAO’s Board:

##### 4.1.1. Agriculture and Environment

##### 4.1.1.1. Management, control, and monitoring of funds under the Maritime Affairs and Fisheries Programme 2014 – 2020” – audited period 01/01/2016 through 31/12/2020

**Audited area:** the management, control and monitoring of funds under the Maritime Affairs and Fisheries programme 2014 – 2020 for the audited period 01/01/2016 through 31/12/2020.

**Audited entities:** Ministry of Agriculture and Food, State Fund for Agriculture and Executive Agency Certification Audit of EU Agricultural Funds.



**Key audit question:** Was there effective management, control and monitoring of Maritime Affairs and Fisheries programme 2014 – 2020 in the period 01/01/2016 - 31/12/2020?

##### **Audit conclusion:**

The delayed launch of the Maritime Affairs and Fisheries programme 2014 – 2020, the replacement of the bodies responsible for the management and control of the programme, and the delayed evaluation of specific

procedures by the evaluation committees resulted in failure to meet the interim targets of the programme for 2018 under five of the six EU priorities funded by the Programme.

The Managing Authority of the Maritime Affairs and Fisheries Programme 2014 – 2020, the State Fund Agriculture in its capacity as Payment Agency and as a Certifying Authority implementing the monitoring functions delegated to it by the MA, and EA Certification Audit of EU Agricultural Funds **have put arrangements in place for effective management, control and monitoring of the funds** under the Maritime Affairs and Fisheries programme 2014 – 2020 and the implementation of the EU’s Fisheries single policy goals by:

- ensuring sustainable administrative capacity of the Intermediary Unit, the Certifying and Audit Authorities of the Programme;

- ensuring good collaboration and coordination among the bodies involved in the management, control and monitoring of the Programme;
- putting in place mechanisms and detailed procedures for expenditure verification as a result of which no deficiencies were identified with regards to the verification of costs and meeting the verification deadlines in the projects within the audit sample;
- putting in place a process and procedures for certification (as provided in the Operational Rules on the Implementation of the Maritime Affairs and Fisheries Programme 2014 – 2020) within the expenditure certification unit under OP Fisheries, and introducing adequate functional characteristics, incl. control procedures for the year-end closing of books;
- Approving an audit strategy that is subject to annual updates thus ensuring the introduction of adequate controls.

In the period 2016-2020, the Managing Authority of the Maritime Affairs and Fisheries Programme 2014 – 2020 **did not build sufficient administrative capacity**, and did not fill in all its vacancies.

The Rules and Procedures approved by the head of the Managing Authority as part of the Handbook of the Maritime Affairs and Fisheries Programme 2014 – 2020 **contain some omissions, the most significant among them being:**

- failure to meet the deadlines for publishing the draft indicative annual programme for public consultations in violation of article 26, paragraph 3 of Council of Ministers Decree No162 from 2016;
- lack of a detailed procedure for the evaluation of project proposals and contracting to ensure compliance with the regulatory deadlines;
- insufficiently detailed processes of allocation, implementation and documentation of the required actions for validating the facts and circumstances outlined in whistleblowing alerts;
- absence of approved control procedures for ensuring reliable reporting on the progress in the Programme; implementation for the purposes of the current and interim monitoring.

The Managing Authority of the Maritime Affairs and Fisheries Programme 2014 – 2020 **did not ensure compliance with the legal requirements concerning the following:**

- publication within the statutory deadlines of information on the drafting and public consultations of the indicative annual programmes;
- evaluation of project proposals within the statutory deadlines;
- minimum required requisites of the contracts signed and funded under the Programme;
- administration of the alerts for irregularities.

Through 31/12/2020, the Managing Authority of the Maritime Affairs and Fisheries Programme 2014 – 2020 reported 89% contracting of the financial resources under the programme by signing 453 contracts for grant financing amounting to 269,109 thousand BGN; 32.54% of these were in the form of co-financing. Out of the 38 planned indicators for deliverables used to measure the attainment of the Programme goals under six of the seven EU priority axes, by the end of 2020 the MA had measured only 7 indicators, i.e. 18 percent.

**4.1.1.2. Audit of “Streets Procedure – Construction of new, reconstruction and/ or rehabilitation of existing streets, sidewalks and adjacent infrastructure – sub-measure 7.2. of measure 7 – Basic services and renovation of villages in rural areas – Rural Development Programme 2014 – 2020, audited period 01/01/2018 through 31/12/2021.**

**Audited area:** implementation of a procedure for grant financing through project selection No BG06RDNP001-7.001 – Streets “Construction, reconstruction of new and/ or rehabilitation of existing streets, sidewalks and adjacent infrastructure – sub-measure 7.2. of measure 7 – Basic services and renovation of villages in rural areas – Rural Development Programme 2014 – 2020” for the audited period 01/01/2018 through 31/12/2021. The aim of the procedure was encouraging social inclusion, reducing poverty and boosting the economic development in rural regions. The eligible beneficiaries were municipalities.

**Audited entities:** Ministry of Agriculture and Food and State Fund for Agriculture.

**Key audit question:** Was there effective implementation of the procedure for grant financing through project selection No BG06RDNP001-7.001 – Streets “Construction, reconstruction of new and/ or rehabilitation of existing streets, sidewalks and adjacent infrastructure – sub-measure 7.2. of measure 7 – Basic services and renovation of villages in rural areas – Rural Development Programme 2014 – 2020” for the audited period 01/01/2018 through 31/12/2021?



**Audit conclusion:**

The arrangements put in place by the Ministry of Agriculture and Food and the State Fund for Agriculture in the period 01/01/2018 through 31/12/2021 were not sufficient to ensure the effective implementation of procedure No BG06RDNP001-7.001 – Streets:

- the planned financial resources were not justified adequately and were not linked to the needs of the applicants, which resulted in the need for its increase in three consecutive years resulting in almost doubling the funding in 2021;

- the planned performance and outcome indicators are in line with the ones planned in the Rural Development programme 2014 - 2020 by areas, however they do not contain target values for assessing the progress and level of attainment of the procedure’s goals, namely encouraging social inclusion, reducing poverty and boosting the economic development in the rural regions.

The arrangements for selection and evaluation of project proposals under the procedure do not provide reasonable assurance and may not be considered timely and adequate, because:

- the Managing Authority of the Rural Development Programme 2014 - 2020 laid down selection and evaluation criteria for project proposals that were clear, simple and user-friendly, however they were not sufficient to ensure the selection of the best projects against the backdrop of limited financial resources. They lack criteria regarding the *substance and quality* of project proposals;

- non-compliance with the statutory requirements for adoption of an Ordinance by the Minister of Agriculture, Food and Forestry to enable the identification of artificially introduced conditions in the applications for grant financing under the EU Agricultural Guarantee Fund and the Rural Development Fund; and omissions in the application criteria;

- the evaluation process took place over almost three and a half years, while the project proposals were evaluated by four evaluation committees;

- in auditing the project proposals in the audit samples, the auditors identified deficiencies in the actions taken by the officials of the State Fund for Agriculture in evaluating the project proposals.

The actions by the Ministry of Agriculture and Food and the State Agriculture Fund **do not contribute to the effective implementation and monitoring of the administrative contracts under the procedure**, in view of the following:

- untimely and incomplete arrangements for the implementation of the administrative contracts;

- inefficient controls by the State Fund for Agriculture regarding the contract implementation.

- the on-site checks identified isolated omissions directly related to the quality of construction works and the maintenance of the financed investments in good physical condition. Through the end of 2021, the total span of the refurbished and/ or rehabilitated streets was 647,427 square meters accounting for investments of 38,256 thousand BGN. The average unit price for the reconstruction works of street lanes in the rural regions is 59 BGN per square meter, 27% lower than the reference price identified for this investment of 81 BGN.

The total span of new and rehabilitated sidewalks through the end of 2021 was 108,751 square meters amounting to 4,509 thousand BGN. The average unit price for the construction works was 41 BGN per square meter, which is roughly 14% lower than the planned reference value of 48 BGN.

Economy under the budget procedure was achieved as a result of: the market-based mechanism for competitive selection of contractors; non-verified expenditure and/ or non-implemented construction works. Part of the financial resources were freed and reallocated to new contracts under the procedure contributing to improving the standard of living in additional rural regions, however, this makes the quality of construction works questionable in view of the growing inflation rate. Collection and reporting of data regarding contract/ procedure implementation **is not sufficiently reliable, adequate and effective**, because by 31/12/2021:

- the implementation of an IT module for monitoring the functioning of the Rural Development Programme 2014 – 2020 as part of the Integrated Administration and Control System (IACS) was delayed by eight years;

- the Information System for Management and Monitoring (instead of IACS) was the main tool used for the processing of project proposals and disbursing the authorised grants.

#### 4.1.1.3. „Effective management of Vitosha National Park in the period 01/01/2018 through 31/12/2021

**Audited area:** management of Vitosha National Park.

ЕФЕКТИВНОСТ ПРИ УПРАВЛЕНИЕТО НА ПРИРОДЕН ПАРК „ВИТОША“ ЗА ПЕРИОДА 2018 - 2021 Г.

Природен парк „Витоша“ се управлява с план от периода 2005-2014 г.

Постигнато е само 75 на сто изпълнение на заложените в този план мерки

От отговорните общини са извършени незначителен дял дейности по контрол



За още четири природни парка няма приети актуализирани планове въпреки изтеклия 10-годишен период, а за други два парка изобщо няма планове за управление

**Audited entities:** Ministry of Environment; Ministry of Agriculture, Vitosha National Park Directorate, Sofia, Pernik and Samokov Municipalities on whose territory Vitosha National Park is located.

**Key audit question:** Was Vitosha National Park managed effectively in the period between 01/01/2018 and 31/12/2021?

**Audit conclusion:**

The specific regulatory requirements for the national park designating it as a protected territory provide an adequate legal framework for the effective management of Vitosha National Park. There are arrangements in place for the development, introduction and update of the management of Vitosha National Park, however there is no requirement for periodic reporting. The Law on Protected Territories contains a clear provision designating the Minister of Environment and Water as the responsible authority for the management and control of protected territories, and outlines the relevant authorities for the management and control of national parks. However, there is no clear regulation regarding the financing of the drafting and implementation National Parks' Management Plans.

There are clear regulatory requirements in place concerning the contents of the plans for protected territories, the awarding procedures and the terms and conditions for approval, however there are no requirements concerning the annual reporting and accounting of the programs and activities covered by them.

The Minister of Environment and Water and the administration did not put in place the necessary arrangements for the implementation of their responsibilities concerning the award, approval and adoption of the national parks managements plans, resulting in systemic delays and non-compliance with the provisions of Section II Management plans of the Law on Protected Territories. The Ministry of Environment and Water did not fulfil the obligation of organising public consultations on the implementation of the management plan for Vitosha National Park. Also, the deadlines set out in the Ordinance on the Development of Management Plans of Protected Territories were not met.



The regulated control activities implemented by *Vitosha* National Park Directorate were also not subject to planning which precludes any guarantees for their effective and efficient implementation.

There is a large number of institutions responsible for the control activities on the territory of *Vitosha* National Park. These institutions have functions regulated by the Law on Protected Territories and the Forestry Law in line with their competencies. The responsible municipalities have implemented an insignificant portion of the control activities within their mandate.

Through 31/12/2021, i.e. seven years after the expiry of the statutory deadline, the audit identified that only 75% of the awarded activities and tasks for the implementation of the Management Plan for 2005-2014 were fulfilled. There was no review, interim and periodic reporting on the implementation. There were no annual action plans/ budgets for the activities implemented by *Vitosha* National Park Directorate in the period 2018-2021.

#### 4.1.2. Economy, Energy and Tourism



##### 4.1.2.1. „Effective and transparent absorption of public funds for overcoming the consequences of the COVID-19 Pandemic – economic measures for micro, small and medium enterprises in the period 01/02/2020 through 31/03/2021

**Audited area:** the absorption of public funding for overcoming the consequences of the COVID-19 Pandemic through the implementation of economic measures for support of micro, small and medium

enterprises.

**Audited entities:** Ministry of Economy as a Managing Authority of OP Innovations and Competitiveness 2014-2020, the Bulgarian Development Bank and Ministry of Finance regarding the activities of the Fund for Managing Financial Instruments in Bulgaria.

**Key audit question:** Were public funds used effectively and transparently for overcoming the consequences of the COVID-19 Pandemic – economic measures for micro, small and medium enterprises in the period 01/02/2020 through 31/03/2021?

**Audit conclusion:**

The Ministry of Economy took proactive measures to outline adequate interventions for support of micro, small and medium enterprises in the conditions of COVID-19 Pandemic, to ensure equal access to funding for these enterprises and balanced allocation of the financial resources available under OP *Innovations and Competitiveness 2014-2020*.

The specifications of the conditions for filing applications in the selection procedures under the programmes BG16RFOP002-2.073 – “Support for micro and small enterprises to overcome the economic consequences of the COVID-19 Pandemic” and BG16RFOP002-2.077

- Support for medium enterprises to overcome the economic consequences of the COVID-19 pandemic” implemented by the Managing Authority of OP Innovations and Competitiveness 2014-2020 do not contain detailed description of non-eligible economic activities under the Regional Development Fund. Therefore, there were a number of applications filed by non-eligible candidates and risk of non-compliant absorption.

The Managing Authority of *OP Innovations and Competitiveness 2014-2020* made efforts to speed up the allocation of support to the beneficiaries by applying different steps and approaches for: shortening the deadlines for calls for proposals and filing of applications; evaluation of the project proposals by a single evaluator; shortening the deadlines for correction of the submitted project proposals, etc. However, the shortening of deadlines for corrections in the applications by the candidates resulted in an increased number of rejected project proposals in one of the procedures for grant financing through project selection, which in turn led to the need of their re-evaluation.

**Identified deficiencies** in the approval and evaluation of applications for support were as follows:

- Control weaknesses resulting in the approval of project proposals containing non-eligible activities, and of groups of related entities with identical or similar business operations;
- Delays in the evaluation of project proposals due to insufficient administrative capacity of the Managing Authority;
- Omissions in the documentation and provision of a reliable audit trail in the Management and Monitoring Information System (ISUN 2020) regarding the candidate eligibility checks conducted by the evaluators, and regarding the conflict-of-interest declarations by the evaluators in part of the evaluation sessions and procedures.

The procedural handbook of the Operational Programme (Chapter 7) does not contain detailed provisions of the requirements for monitoring and control, and checks of the final beneficiaries under the contracts for grant schemes.

The financial instruments implemented by the Fund for Managing Financial Instruments in Bulgaria were introduced roughly seven months after the lockdown onset. Therefore, they cannot be considered timely. One of the instruments was an adaptation of an existing facility, and there was no need for selection of new financial intermediaries.

The decisions of the Government to offer state aid to SMEs through the Bulgarian Development Bank were timely. The decisions to increase the capital of the Bulgarian Development Bank enable the allocation of funds out of the central government’s budget for the implementation of measures for economic support in relation with the COVID-19 pandemic. However, they do not outline the specific economic support interventions and their parameters. The latter were planned for adoption upon proposal by the Minister of Economy in their capacity of an administrator of the support – either directly or through the Bulgarian Development Bank. The actions of the Minister of Finance (as a representative of the state in the General Assembly of the Bulgarian Development Bank) in relation to the targeted increase of the bank’s capital were not supported by sufficient justification thus posing a risk to the effective and transparent management of public resources.

The financial instruments implemented by the Fund for Managing Financial Instruments in Bulgaria were introduced roughly seven months after the onset of the emergency situation in the country and may not be considered timely. Through 31/03/2021

the total number of SMEs that received financial aid under OP Innovation and Competitiveness 2014-2020 for overcoming the consequences of the COVID-19 pandemic (excluding procedure BG16RFOP002-2.092 - support for entities registered under the Law on Tourism as tour operators or tourist agents) was 29,703. The total amount of disbursed funding was 317,534 thousand BGN accounting for 59.26% of the total contracted funds under the procedures for financial aid covered by the audit scope. The average rate of the contracted financial aid per enterprise calculated based on the sum total of all procedures for SME support was 18,038.85 BGN, while the rate of the actual disbursed assistance through 31/03/2021 was 10,682 BGN.

In the period between 01/02/2020 and 31/03/2021 the largest number of supported entities were micro enterprises – 22,881. Statistically, these enterprises form the largest share among the SMEs in the country, while according to the 2019 statistical data of the National Institute of Statistics, the supported enterprises account for *only 6 percent* of all micro enterprises in the country. Support was extended to roughly 20 percent of all small enterprises (according to statistical data for 2019 their number was 25,204), while 36 percent of all medium enterprises also received support.

Part of the beneficiaries of OP *Innovations and Competitiveness 2014-2020* under the procedures for turnover financing as a support measure for overcoming the consequences of the Pandemic also received assistance for workforce retention under the Employment Retention facilities. Roughly 40% of the beneficiaries of the support scheme for medium enterprises and the procedure for support of bus line operators also used assistance under the employment retention schemes. The analyses of contracted and disbursed funding under the financial aid scheme of the OP shows that the biggest number of supported entities come from the following sectors: processing industry, trade and maintenance of motor vehicles and motor cycles, hospitality and transport, warehousing and postal services.

The insignificant number of SMEs in liquidation/ insolvency or deregistered SMEs, which received financial aid through 31/03/2021 is an indication that the support measures ensured their short-term viability.

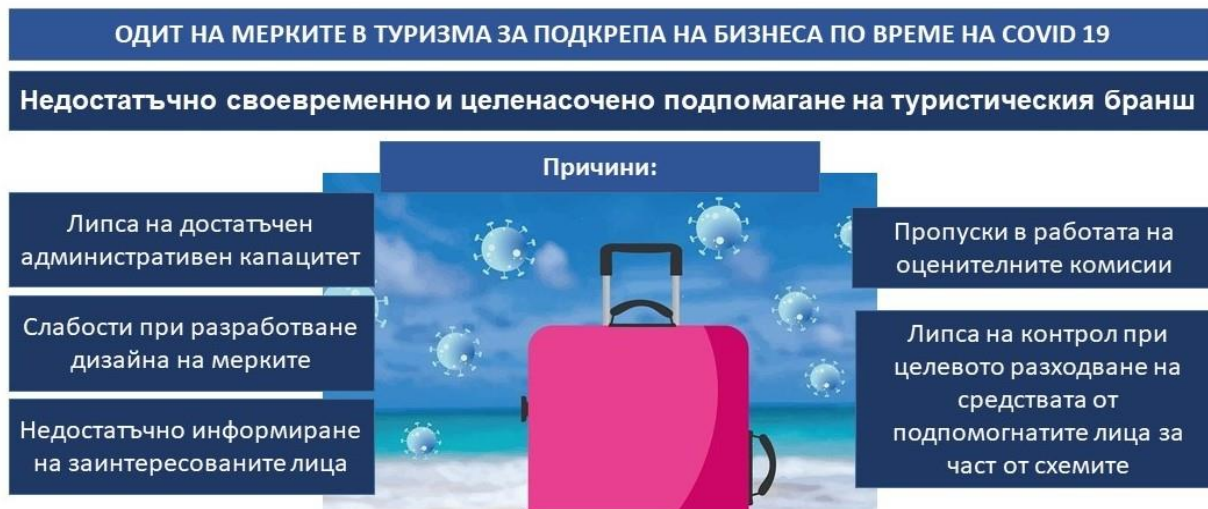
#### 4.1.2.2. [„Effectiveness of measures for support in tourism towards overcoming the COVID-19 pandemic crisis” – audited period 01/02/2020 through 31/12/2021](#)

**Audited area:** implementation of measures for support in tourism towards overcoming the consequences of the COVID-19 crisis.

**Audited entity:** Ministry of Tourism.

**Key audit question:** Has public funding been used effectively and transparently for overcoming the consequences of the COVID-19 pandemic in tourism in the period 01/02/2020 through 31/12 **Audit conclusion.**

In the period 01/02/2020 through 31/12/2021 the actions taken by the Ministry of Tourism for identifying, developing and approval of adequate measures for support during the



COVID-19 Pandemic were not sufficiently timely and adequate, due to the following:

- The administration of the support for the tourism sector and the drafting of guidance for filing applications for financing was implemented on ad hoc basis using the expertise available at the Ministry of Tourism. No actions were taken to put in place terms and procedures to ensure the clear allocation of duties and define the activities relating to the design of the state aid schemes, their sequence and deadlines for implementation. The new Internal Rules of the Ministry of Tourism adopted in May 2022 regulate the functions of the Minister of Tourism as an administrator of state aid and de-minimis aid, however no arrangement were put in place and there was no specification of clear responsibilities and activities for planning, designing, implementation, monitoring, and reporting of the outcomes of these schemes;

- there was no situational analysis to determine the sectors in tourism that were in greatest need of additional resources in support of their liquidity. As a result, the majority of procedures/ schemes for support in tourism introduced and implemented by the Ministry of Tourism *were not initiated* by the Ministry itself;

- absence of timely analysis of the need for targeted financial support of tour operators and tourist agents. As a result, the schemes for compensations for cancelled trips were introduced between six and nine months after the onset of the lockdown in the country, while the financial aid under these was received by the beneficiaries twelve months after the start of the lockdown;

- Lack of timely measures in support of entities offering auxiliary tourist services such as tourist guides, mountain guides, etc.

**Various deficiencies, delays and sometimes non-compliance with the requirements** were identified with respect to the measures' design, such as: contradictory wording in the guidelines for application; inconsistency between the guidelines for application and the rules for financial aid extension with respect to the eligibility of candidates; absence of requirements to ensure that the assistance extended to tour operators is proportionate to the share of tourism-related operations in their total turnover; identifying inadequate outcome

indicators and indicators for measuring the impact of the schemes implementation; lack of requirements for project Implementation reporting under part of the schemes, etc.

**Identified weaknesses** in the implementation and monitoring of measures:

- delayed publication of calls for proposals under part of the support schemes/ procedures resulting in delayed disbursement of the support to the beneficiaries affected by the COVID-19 pandemic;
- insufficiently targeted communications to the stakeholders concerning the support measures, placing the potential beneficiaries in unfavourable position when applying for assistance;
- no sufficient and timely administrative capacity for evaluating the administrative compliance and eligibility of the project proposals under the procedures/ schemes for financial aid resulting in delays in the evaluation process;
- insufficient traceability of the checks conducted by the members of the evaluation committees resulting in inconsistent implementation and documentation of the project proposal evaluations under the support schemes;
- no requirements for filing of conflict-of-interest declarations by the members of the evaluation committee in one of the schemes administered by the Ministry of Tourism, and deficiencies in the declarations filed by the evaluators in other schemes and procedures, which is an indication of weaknesses in the mechanism for risk management for conflict of interests for financial aid management;
- no control of the extent to which the scheme beneficiaries used the financial aid to reimburse their clients for cancelled travel arrangements; delayed monitoring of the reported costs under some schemes, and lack of follow-up on the implementation, which precludes the introduction of corrective measures;
- inconsistencies in the information used as financial justification of the measures and misstatements in the approved official annual reports on the implementation of the state aid schemes. This is an indication of weaknesses in the monitoring and administration controls for the state aid schemes managed by the Ministry of Tourism.

Fifty-nine percent of all financial aid in the area of tourism were granted under the employment retention measures managed by the Ministry of Labour and Social Policy, and not under the targeted support administered by the Ministry of Tourism, because staff retention was a key priority for the employers. The predominant part of the support extended in tourism went towards paying out compensations in the Horeca sector, tour operators and agents, while the measures for tourist and mountain guides and other auxiliary operators were not implemented, although these sectors were among the worst affected by the Pandemic due to the cancellation of travels.

#### **4.1.3. E-government. Digitalisation and digital transformation**

##### **4.1.3.1. [Audit of the Management and Monitoring Information System \(MMIS\) – audited period 01/01/2016 through 31/12/2021](#)**

**Audited area:** The Information system for Management and Monitoring of EU structural and investment funds in the period 2014-2020 – (MMIS 2020) and its management during the audited period 01/01/2016 through 31/12/2021.

**Audited entities:** Council of Ministers, Ministry of Innovations and Growth, Ministry of Economy through 13/12/2021, Ministry of Labour and Social Policy, Ministry of Environment and Water, Ministry of Regional Development and Public Works, Ministry of Transport and Communications<sup>3</sup>, Ministry of Education and Science, Ministry of Finance, Ministry of Agriculture and Food<sup>4</sup> and the State Fund for Agriculture.

**Key audit question:** Does the Information system for Management and Monitoring of EU structural and investment funds in the period 2014-2020 – (MMIS 2020) support the effective management of EU Structural and Investment Funds?



#### Audit conclusion:

In the period 2016-2021, the management of the processes for maintenance and development of the Management and Monitoring Information System (MMIS 2020) did not achieve the necessary level of effectiveness, although there were numerous arrangements in place contributing to the **adequate process management and to improving effectiveness**, such as:

- Availability of resources (financial and human) for the maintenance, optimisation and development of MMIS 2020 based on a 5-year contract with a subcontractor;
- Availability of all critical supporting systems enabling the management of business continuity based on an agreement for the adequate and continuous functioning of the MMIS 2020 in the State hybrid private cloud;
- Designing a solution for disaster recovery of MMIS 2020 to ensure reliability of the IT infrastructure in the main information centre;
- Introduction of a backup procedure to ensure the retrievability of information in case of emergencies and regular generation of reports on the system backups;
- Regular testing for integrity of the archived data ensured through official arrangements thereof;
- Introducing requirements for documenting all changes;

<sup>3</sup> Ministry of Transport, Information Technologies and Communications through 16/09/2021;

<sup>4</sup> Ministry of Agriculture, Food and Forestry through 13/12/2021 and Ministry of Agriculture in the period 13/12/2021 through 06/06/2023;

- Improvements in the system functionalities (modules) ensuring electronic filing of project proposals, evaluation, contracting, reporting and verification of projects, certification, online inspections, audits, etc;
- Regular, adequate and timely implementation of the requests for changes enhancing the effectiveness of change management;
- High satisfaction of the users with the service provided by the Help Desk and with the constant improvements introduced in the system.

Higher effectiveness could be achieved in managing the information technologies used for the administration of funds from external sources with respect to the following:

- Functional competence of the unit responsible for managing MMIS 2020 by positioning it at a high level in the public administration, and ensuring the necessary human resources and support function for it;
- Enhancing the effectiveness of the periodic reviews of the key system resources that could potentially provide the necessary framework for monitoring of the IT operations supporting the management of funding from external sources. These should be updated to achieve compliance with the changes in MMIS management and maintenance and by adding a system of progress indicators for the individual IT operations and procedures;
- Ensuring availability of procedures for generating and storing the IS and applications documentation and assigning roles to the personnel. These need to be reviewed and updated periodically to ensure adequate audit trail and management of the changes introduced in the information system;
- Ensure availability of procedures for compliance checks of the documents concerning the information security. These need to be reviewed and updated periodically.

The MMIS 2020 management is ineffective with respect to the administration of funds coming from external sources, namely:

- No strategic planning and weak short-term planning, lack off arrangements for strategic and operational planning of the IS management resulting in higher risk of non-detection of present and future needs regarding the IT administration of external funds. No guarantees that the development and maintenance of the information system will contribute to achieving the goals of this management;
- No adequate monitoring and analysis of the capacity of the unit responsible for the administration of the MMIS to inform the assessment of the need for additional human resources and justification of an eventual necessity for change;
- Introduction of arrangements for the documentation of all MMIS management processes in the absence of an overall mechanism for their reporting. This precludes the adequate tracking and management of changes in the information infrastructure;
- No policy for subcontracting that defines which operations could be subcontracted. No procedures for setting out the terms and conditions for subcontracting. As a result, there is no assurance that the acquisition of the necessary IT assets is done in the best possible way;
- Omissions in risk management for MMIS 2020 and deficiencies in the Internal Rules for risk management introduced in the Central Coordination Unit Directorate;
- Deficiencies in the guidelines and handbooks for the use of MMIS 2020, incl. the video-guidance;

- Ineffective procedures for checking compliance with the information security documents in the Council of Ministers' administration.

**The management of the MMIS 2020 maintenance and development processes is ineffective, because of a number of weaknesses** in the administration of important elements, such as ensuring business continuity, response to incidents and the introduction of changes, and incorrect outputs.

#### 4.1.4. Management of EU funding

##### 4.1.4.1. Administration of irregularities in the period 01/01/2017 through 31/12/2020



**Audited area:** management of the processes for administering irregularities at national level and managing authority level during the audited period 01/01/2017 through 31/12/2020.

**Audited entities:** Council of Ministers, Ministry of Interior, Ministry of Economy, Ministry of Labour and Social Policy, Ministry of Environment and Water, Ministry of Regional Development and Public Works, Ministry of Transport, Information Technologies and Communications, Ministry of Science and Education.

**Key Audit question:** Has the prevention of irregularities been managed effectively (at national level and at the level of managing authorities)?

**Audit conclusion:**

The management of irregularities prevention at national level did not achieve the required effectiveness, despite the availability of all necessary conducive factors, such as:

- Good coordination among the responsible institutions engaged in administering irregularities;
- Availability of policies and operational arrangements for this process;
- Risk analysis conducted during the implementation of the National Strategy for prevention and overcoming of irregularities affecting the EU financial interests in the period 2021-2027;
- Availability of resources for administrative controls by the Directorate for protecting EU financial interest of the Ministry of Interior; availability of adequate rules and procedures thereof; good control coverage over of the OP Managing Authorities; annual analyses, etc.

However, the **factors precluding the effective administration of irregularities are prevalent:**

- lack of good foundation for identifying the national goals and priorities due to the absence of: official rules and procedures for the development of a National Strategy on the prevention and overcoming of irregularities and fraud affecting the EU financial interest; incomplete evaluation of the current state-of-play of the system for prevention of irregularities in Bulgaria; no arrangements for evaluation and no actual evaluations of the implementation of national strategic documents in this area; weaknesses in the monitoring



and reporting mechanisms due to the lack of specific performance indicators and absence of guidance on the introduction of indicators by activities in the action plans under the strategic documents;

- lack of good information and analytical resources for the administration of irregularities due to the poor guidelines for using the management and monitoring information system (MMIS 2020); no methodological guidance; absence of metadata of the generated reports from the system; restricted system functionalities and incorrect data uploaded in it; absence of or poor quality of the summarized information on the whistleblowing reports for irregularities at national level; lack of structured data on the ongoing criminal or administrative procedures and no overarching system analysis;

- the generic nature of the proposals for overcoming the identified weaknesses in the administrative controls, and the lack of methodological guidance on the administration of irregularities result in inconsistent practices and recurrent deficiencies pointing to inefficient controls;

- the delayed transposition of the Directive on the protection of whistleblowers reporting breaches to Union law will preclude the timely introduction of such forms of protection in the national legislation.

The policies for combatting fraud introduced purportedly by the Managing Authorities, the internal rules for administration of irregularities, the arrangements for whistleblowing and the application of the ARACHNE instrument for outlining proportional measures to combat fraud are some of the preventive measures that were put in place and have a potential for reducing to an acceptable level the infringements affecting the national and EU budgets. However, there is a need for a significant improvement in the audited preventive measures, such as: ensuring completeness of policies and their publication; publication of the internal rules for the administration of irregularities and raising the awareness of beneficiaries concerning all possible channels for whistleblowing.

The procedures in place for administering alerts of irregularities and responding to irregularities do not enable adequate identification of the irregularities, which have negative financial impact, due to **weaknesses in the:**

- registration of whistleblowers' reports of irregularities coming through all possible channels and sources in the MA's record-keeping systems due to the absence of arrangements for verification of the minimum required requisites for identifying an alert as an irregularity alert in part of the MAs;

- uploading of information concerning the irregularities alerts in the MMIS 2020 due to the absence of specific guidance concerning the system registers in which such information should be entered and consequently relayed to AFCOS and the EU Anti-fraud service, and due to the lack of arrangements for uploading information concerning the circumstances identified at later stages;

- conducting checks on the alerts due to the lack of specific guidance on the verification of the reported circumstances, incl. on-the-spot checks;

- initiating casefiles regarding the irregularities – due to the absence of specific requirements regarding the contents of the file, and on the documents that need to be uploaded in the MMIS 2020;

- issuing of preliminary assessment in writing – due to the lack of guidance when to issue instructions for financial corrections v. s. issuing of preliminary assessment in writing, and due to the lack of templates thereof and the lack of ongoing monitoring;
- reporting to the competent authorities in case of breaches to the budgetary discipline and suspected criminal offences, and in case of closing or reopening of irregularity procedures – due to lacking or formalistic procedures not providing guidance for their implementation by the Managing Authorities;
- introducing corrective measures, follow-up and additional corrections where necessary – due to incompletely detailed procedures;
- ongoing monitoring of the different stages and analysis and evaluation of the administration of irregularities– due to incomplete or lacking procedures. Absence of arrangements for analysing intentional breaches.

The weaknesses listed above raise concerns regarding the adequacy of the arrangements for effective, timely and complete implementation of MA's obligations with respect to irregularities administration. This is corroborated by the deficiencies identified in the performance of procedures, such as: incomplete information regarding the irregularity alerts; incomplete documents in the irregularity files and in reporting irregularities in the MMIS 2020, etc. The absence of internal analyses of the current state of play during the reporting period also precludes the possibility for identifying the difficulties and introducing improvements in the irregularities administration system.

#### 4.2. Summary of the performance audits conclusions

As a result of the seven performance audits completed in 2023 whose reports were signed off by the BNAO's Board:

- The SAI has issued a total of *88 recommendations* for improving the management of the audited activities and processes. These recommendations were sent to the management of the audited organisations. The predominant number of recommendations contain between 2 and 5 sub-recommendations subject to individual analysis and evaluation;
- In line with article 49, paragraph 3 of the BNAO Act, *all final audit reports were sent to the chairs of the relevant permanent Parliamentary Committees;*
- In line with article 61 of the BNAO Act, *6 out of the 7 final audit reports were sent to the European Court of Auditors and the European Commission, because of their focus on the analysis and evaluation of EU funds management;*
- A summarised information on all endorsed performance audit reports *was published in EUROSAI's Audit Database;*
- The outcomes of *4 out of the 7 audits were reported or are about to be reported within the annual working meetings and/ or the specialized newsletters of the relevant permanent working groups of EUROSAI and INTOSAI of which BNAO is a member – WGs on Environmental Auditing and Information System Auditing, as well as the project WG on auditing of governmental measures aimed at overcoming the consequences of the COVID-19 Pandemic;*
- The outcomes of *3 out of the 7 audits were broadly covered by the mass media due to the significant public interest;*
- Last but not least, *the Audit of the Information System for Monitoring and Management of EU Funds was conducted as an Information systems audit applying the methodology approved by INTOSAI's Development Initiative. Thus, the Bulgarian National Audit Office demonstrated its preparedness and willingness to introduce and develop this type of auditing against the backdrop of the development of e-governance in Bulgaria.*

## 5. OUTCOMES OF THE SPECIFIC AUDITS

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

**In 2023, BNAO's Board endorsed 10 specific audit reports.**

including:

- ✓ audit reports on the execution of the State Budget of the Republic of Bulgaria, the Budgets of the Public Social Security System and the National Health Insurance Fund;
- ✓ budget expenditure and cost management of the Bulgarian Central Bank;
- ✓ operations and management of commercial entities, state-owned enterprises and the operations of the Bank Deposits Guarantee Fund;
- ✓ financial operations and management of estate provided for use to political parties; financing of election campaigns.

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

### 5.1. Conclusions of the specific audits completed during the reporting period

#### 5.1.1. Audits on the budget execution and budget expenditure

##### 5.1.1.1. [Audit of the 2022 Statement on the execution of the State Budget of the Republic of Bulgaria](#)

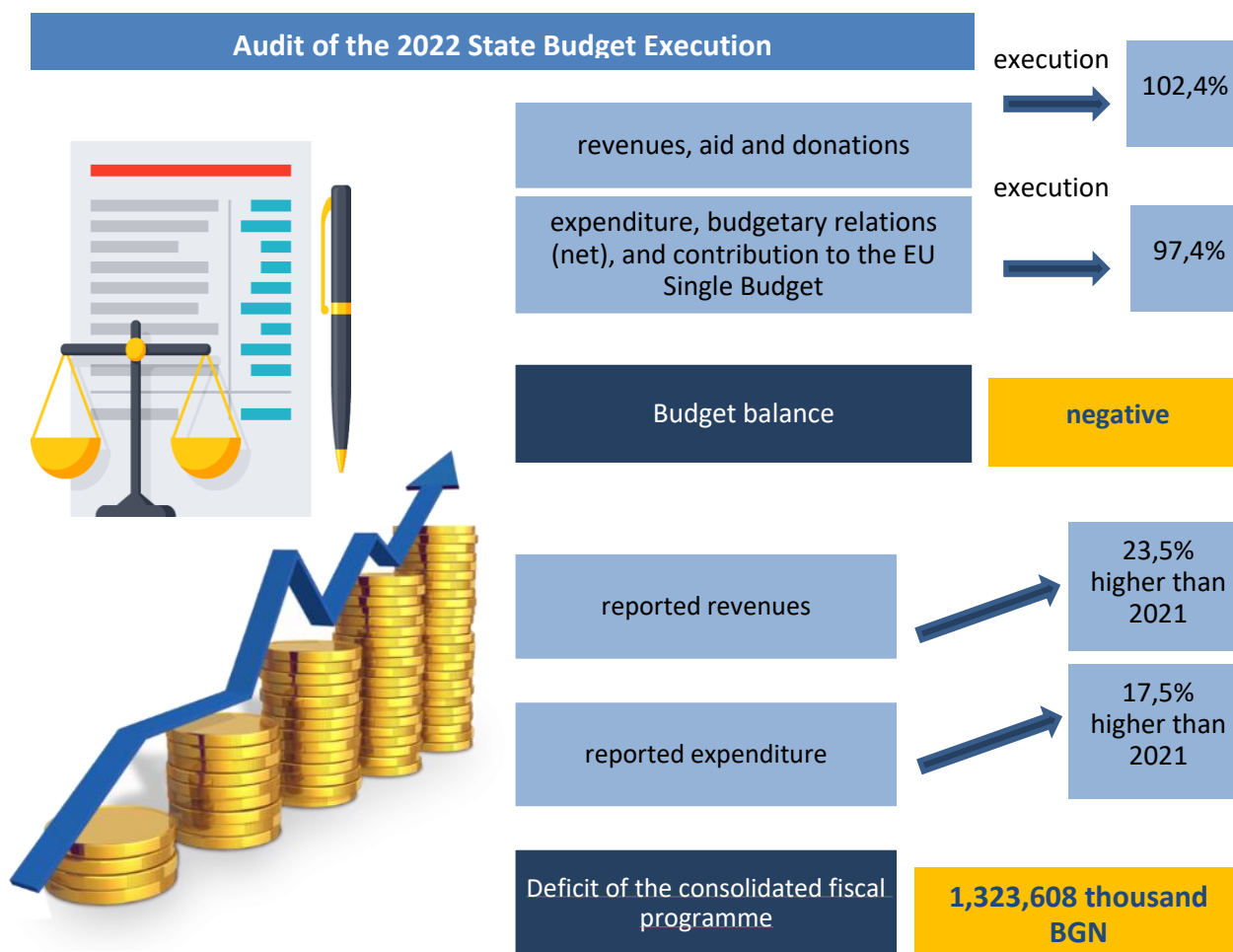
The audit identified that the budget execution statement submitted to the National Audit Office is compliant with the Law on Public Finances, the effective internal rules and the guidance issued by the Minister of Finance.

The revenues are reported in line with the indicators laid down in the Law on the 2022 State Budget of the Republic of Bulgaria. The execution of revenues, aid and donations planned in the Law on the 2022 State Budget of the Republic of Bulgaria is at 102.4%, which is mainly due to the over-execution of the planned non-taxation revenues.

The audit identified *excessive engagements for expenditure, higher than the maximum permitted cap through 31/12/2022* made by one budget financed entity in violation of article 88 of the Law on Public Finances and the budgetary discipline.

The execution of the reported expenditure, the budgetary relations (net) and the contribution to the Single EU budget was at 97.4% compared to the targets laid down in the Law on the 2022 State Budget.

The budget balance reported in the Statement on the 2022 Budget Execution amounts to (- 5,695,705.2) thousand BGN, i. e. 1,927,933.5 thousand BGN less than the amount planned in the Law on the 2022 State Budget of the Republic of Bulgaria.



The financing operations (net) amount to 5,695,705.2 thousand BGN, incl.: external financing (net) of 2,540,019.5 thousand BGN, internal financing (net) of 3,155,588.6 thousand BGN and revenues from privatization amounting to 97.1 thousand BGN.

The deficit of the consolidated fiscal programme in 2022 amounts to (-1,323,608.0) thousand BGN. The reported revenues, aid and donations were 23.5% higher YoY, while the reported expenditures and contribution to the Single EU Budget are 17.5% higher than 2021.

The management and control systems applied in drawing up and reporting of the state budget execution are satisfactory; there are effective controls in place and adequate monitoring procedures for the drawing up, execution and reporting of the state budget.

#### 5.1.1.2. [Audit of the Statement on the Execution of the 2022 Budget of the Public Social Security System](#)

The Statement on the execution of the 2022 budget of the public social security system was drawn up, approved and submitted to the National Audit Office and Parliament in line with the statutory procedures and deadlines. The structure and contents of the statement are in line with the Law on the 2022 Budget of the Public Social Security System.

The reported incoming transfers, expenditure and outgoing transfers that were not planned in the Law on the 2022 Budget of the Public Social Security System are in line with the effective legislation.

The social security revenues in 2022 are 3.2% higher than planned, which is mainly due to the over-execution of revenues from social security contributions paid in by employers and employees.

The total expenditure in the budget of the public social security system is 2.8% smaller than planned, which is mainly due to the lower expenditure for paying out pensions, welfare allowances and compensations, and for programmes, activities and social assistance, and employment promotion services.

In 2022, the government reduced the funding (YoY) of the expenditure for pensions, welfare allowances and benefits and the financing of employment promotion services for the sectors and individuals affected by the COVID-19 pandemic.

The budget execution statement of the public social security system reported a deficit of 89,750.3 thousand BGN, while the 2022 Social Security Budget Law did not project any deficit (surplus).

The controls put in place through internal rules were efficient and consistent throughout the audited period.

#### **5.1.1.3. Audit of the 2022 Budget Execution Statement of the National Health Insurance Fund**

The Statement on the Execution of the 2022 Budget of the National Health Insurance Fund (NHIF) is in line with the structure, indicators and requirements laid down in the 2022 NHIF Budget Law. The reported revenue, expenditure and transfers are in conformity with the legal framework.

The statement on the execution of the 2022 NHIF budget was approved by the NHIF Supervisory Board and submitted to the National Audit Office in line with the applicable legislation. However, the acting director of the Fund failed to ensure timely submission of the Statement via the Ministry of Health to the National Parliament in line with art. 30, paragraph 1 of the Law on Health Insurance.

The reported revenues and transfers are 4.9 % higher than planned in the Law on the 2021 NHIF Budget.

The revenues from health insurance contributions is 1.2% higher than the planned estimates for 2022.

The reported revenues and transfers are 4.2% higher than the estimates laid down in the Law on the 2022 NHIF Budget.

The 2022 NHIF Reserve Fund amounting to 177,429 thousand BGN is spent for health insurance payments in line with the statutory requirements.

The 2022 NHIF budget is balanced. A positive balance of 45,405 thousand BGN is reported at year-end.

The financial management and control system is efficient in all audited areas, except for the area concerning the timely submission of the NHIF 2022 Budget execution statement to Parliament, where the controls failed to ensure compliance with the regulatory requirements.

#### **5.1.1.4. Audit of the 2022 budget expenditure of the Bulgarian Central Bank, and its cost management during the audited period 01/01/2022 through 31/12/2022**

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

The planning of budget expenditure and the adoption of the 2022 BCB budget were conducted in line with article 48, paragraph 1 and article 50 of the Law on the Bulgarian Central Bank and the Internal Rules on drawing up, execution and reporting of the BCB budget.

The planned operational and investment allocations were not absorbed in full. The Statement reported 88.1% execution of the planned operational costs, while the projected investment expenditure was executed at 28 %.

The total budget expenditure of the BCB amounts to 132,292 thousand BGN and was incurred in line with the limits for the separate indicators approved by the BCB Managing Board and planned in the 2022 budget of the bank.

The introduced corrections in the 2022 BCB budget were in line with the Internal Rules on drawing up, execution and reporting of the BCB budget and article 48, paragraph 1, and article 50 of the Law on the Bulgarian Central Bank.

The expenditure incurred by the BCB was in line with the internal rules on the planning, implementation and reporting of the BCB budget. All expenditure was compliant and supported by underlying documents.

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

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

### **5.1.2. Audits of commercial entities, state-owned enterprises and the Fund for Bank Deposit Guarantees**

#### **5.1.2.1. Audit of the compliant financial management of the Bulgarian Postal Services during the period 01/01/2019 through 30/04/2022**

This audit was assigned to the National Audit Office following a decision by the National Assembly dated 20/05/2022 (SG issue 39 from 27/05/2022). The audit assignment covered three areas of review: “Management, control and financial performance of the Bulgarian Postal Service”; “Management and disposal with the real estate owned by the Bulgarian Postal Service”; and “Planning and Award of Public Procurement Contracts, and Contract Implementation”.



Concerning the audited area of management, control and financial performance of the Bulgarian Postal Services, the audit identified the following key irregularities: the 2020 business plan was approved by the sole owner of capital at the end of the year; the draft business plans for 2021 and the business programme for 2021-2023 were not approved by the sole owner of capital; the planned revenues from universal postal services were not

executed in full in the period 2019-2021; the entity reported a significant increase of expenditure for salaries, while the monthly operational expenditure in the regional directorates were higher than the actual operational revenues; the entity reported expenditure for legal fees amounting in total to 683 thousand BGN during the audited period, 592 thousand BGN paid to the same law firm; failure to take timely actions to revise the tariffs for the universal postal services; delayed decision by the Board of Directors to award a public procurement contract for the purchase of Microsoft software licenses and vendor services, which poses a risk of license suspension, risks for the data security and interruption of the continuity of operations and service provision; absence of a backup centre in the Bulgarian Postal Service, which makes it impossible to ensure data recovery in case of accidents or a natural disaster (incl. retrieving the data following the cyberattack in April 2022); poor planning and projections of the estimated values for the public procurement of IT services. Due to insufficient financial resources, only 28% of all projects in the investment programme were completed or in the process of implementation, while there were no clear criteria for the project prioritisation and selection for financing.

Over 50% of the computer systems in the Bulgarian Postal Services use operating systems that is no longer maintained by the vendor, hence the vendor does not offer security guarantees. The cyberattack of 16/04/2022 affected roughly 80% of the database through encryption; parts of the database could not be retrieved and had to be rebuilt in the new infrastructure.

The Minister of Transport and Communications issued a decision setting out the tariff for compensations due to the Bulgarian Postal Service for dissemination of printed periodicals in 2020 roughly one year after the expiry of the three-month deadline. The difference of 638 thousand BGN between the received advance payments and the approved estimates was planned in the Law on the 2023 State Budget of the Republic of Bulgaria. This has implications regarding the actual value (due to the inflation processes) and affects the financial result of the entity for the respective year.

During the audited period the entity reported an increase in its loss. From 1,111 thousand BGN in 2019, the entity's losses grew to 5,155 thousand BGN in 2020, and to 13,792 thousand BGN in 2021. The strategic goal of ensuring financial stabilisation was not achieved and through 31/12/2021 the entity reported a loss of 54,717 thousand BGN.

The Bulgarian Postal Services have an internal audit committee appointed in line with the Law on the Independent Financial Audit, although the entity does not fall within the scope

of enterprises of public interest in line with the Accountancy Act that are required to establish audit committees under the Law on the Independent Financial Audit. The entity's management decided not to apply the alternative option of establishing an audit committee under the Law on the Public Sector Internal Audit.

During the audited period, the entity was not on the list of strategic entities of importance to the national security designated by Council of Ministers Decree No181/20.07.2009. It was removed from the list after the amendments of the said Decree dated 03.06.2022.

Concerning the area of management and disposal with the real estate of the Bulgarian Postal Services Company, the audit identified that the company did not have in place a Strategy for estate management. Instead, the estate management is governed by outdated Internal Rules, while some of them contain provisions that are no longer in conformity with the relevant regulations.

As a result, there were significant departures from the effective regulations in some sales of real estate, while the estate lease procedures were conducted in violation of the terms and conditions for tendering procedures.

Concerning the implementation of lease contract, the audit identified the following: failure to make deposits within the required deadlines or amounts; not charging of default payments for rent default; failure to compile acceptance protocols for the lease of some real estates; failure to compile protocols of findings regarding the readings of the monitoring equipment; failure to send notifications to tenants concerning the due waste tax, etc.

Concerning the procedures for real estate lease and lease contracts, the Bulgarian Postal Services conducted the following irregularities: failure to send initiation proposals within the deadlines; the initiation documents for most procedures do not contain the required information requisites; non-compliance with the relevant procedures in view of the contract value, absence of justification for the necessity of these contracts; failure to ensure the relevant levels of approval of the draft contracts; exceeding the maximum admissible duration of the contracts (3 years); absence of ex-ante compliance controls; non-compliance with the double-signature principle; incomplete files of the lease contracts.

In the area of **planning and award of PP contracts and contract implementation**, the audit identified partial non-compliance with the regulatory framework, the internal rules and the contracts, such as:

The planning of some public procurement procedures was not done in line with the internal rules with respect to: declaring the needs, getting approval, non-compliance with the deadlines for sending the PP requests to the relevant directorate; submission to the Board of Directors for discussion; submission of a 2020 draft PP schedule to the Board of Directors; failure to update the PP schedules for 2019, 2020 and 2021.

The total value of the contracts for service provision/ software maintenance was at a level that requires a PP procedure based on bids following a call for proposals in line with the PPL, while the contract was awarded based on a simplified procedure designed for contracts of lower values.

The call for one of the open procedures contained a condition that unfoundedly restricts the eligibility of participants. The decision identifying the selected bidder was not issued within the statutory deadlines. There were no guarantees securing the implementation



of the contract for its entire duration. Not all required documents were published in the buyer's profile.

In case of one of the PPs the entity chose a non-compliant contracting procedure without a call for proposal, while in two other procedures there was no documentary proof that their estimated values corresponded to the actual ones.

Concerning contract implementation, the audit identified the following: subcontracting of activities without meeting the statutory requirements thereof; accepting supplies that do not correspond to the ordered type, quantity and locations; incurring expenditure in the absence of underlying documents; failure to refund the performance guarantee within the agreed deadlines, while in another instance no guarantee was provided for the entire duration of the contract. The notification for the completion of three contracts was not sent within the statutory deadlines to the Public Procurement Register.

#### **5.1.2.2. Audit of the Metropolitan Public Transport Company in the period between 01/01/2020 through 31/12/2021**

The audit engagement covered three areas of review: "Management of the Metropolitan public transport company"; "Financial status and main line of business of the Metropolitan public transport company" and "Public and award of procurement contracts and contract implementation ". The auditors concluded that in all audited areas there were non-conformity with the legal framework, the internal regulations, and the contracts in more than one material aspect of the audited activities.

Concerning the company management, the audit identified the following:

The internal regulations regarding the structure and organisation of the Metropolitan public transport company were not updated in a timely manner.

Delayed registration in the Commercial Register of the new members of the Board of Directors appointed during the audited period. Non-compliance with the regulatory requirement for nomination of a Deputy Chair of the company's Board of Directors. In 2020, the company signed annexes to the management contracts of the Board of Directors' members to extend the validity of their contracts. The signing was backdated and was done months after the actual decision thereof by the Municipal Council. The annexes of three of the contracts provide for an extension longer than the maximum allowed period of three years. In 2021, The Company signed management agreement with the members of the managing board for a period of three years, which was done after the expiry of the statutory one-month period following the Municipal council's decision for the nomination of the Board members. The guarantees for management deposited by the Board members are lower than the statutory requirement.

Non-compliance with the statutory requirement for adoption (by the Sofia municipal council) of rules for the selection of a registered auditor responsible for certifying the annual financial statements of the public enterprise.

Based on the documentary check regarding the operations of the audit committee of the Sofia public transport company, the audit concluded that the implementation of its functions was rather formalistic.

Regarding the **financial situation and the main line of business of the company**, the audit identified the following:

Absence of rules or other formal internal documents regarding the development of the company's business plan for the



coming year and no designated officials responsible for the business plan implementation in line with the methodology provided for in the Contract for public passenger transport service.

The execution of the company's main line of business was in line with the regulatory framework and the Contract for public passenger transport service with the exception of the following: the Executive Director has not issued a permission for access of specific staff members to the GPS system for traffic management and control; non-compliance with the deadlines for submission of the monthly reports on the implementation of the Contract for public passenger transport service to the Urban Mobility Centre throughout the audited period; the appointment of members in the committee for qualifying and requalifying the debatable routes was done in the absence of an explicit act issued by the company's executive director; failure to document the flow of files regarding the calculation of payments of salaries, which is in contradiction to the internal rules.

Absence of ex-ante compliance controls prior to the signing of annexes and additional agreements to the financial leasing contracts. The double signature rule was only partially applied for the disbursement of payments under these contracts.

The equity capital of the company decreased throughout the audited period, and through the end of the period it was less than 5% of the sum total of equity capital and liabilities. This is a result of the accumulated loss over the years, while the liabilities increased incrementally and reached 95%. During the audited period, the financial result of the company's operations, the capital structure and the analysed ratios and indicators deteriorated<sup>5</sup>, which is an indication of an increasing financial risk, dependence on creditors and undermined financial stability.

With respect to **the planning and award of public procurement contracts and the contract implementation**, the audit identified the following:

The public procurement planning during the period was partially non-compliant with the internal rules.

In the case of one public procurement contract awarded based on the collection of bids, the deadline for the submission of bids was not extended, while in another instance the protocol of the selection committee was not signed by its chair.

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<sup>5</sup> Losses increase; equity capital decreases; indebtedness increases; liquidity and financial autonomy deteriorate, etc.

One procedure was launched by the contracting authority before the expiry of the statutory deadline following the registration of the procedure in the random selection system. Failure to remove one of the participants in a procedure, despite the prerequisites for that, while in another case the deadline for the submission of bids was changed without a notification thereof.

Failure to submit all required documents with respect to one contract, while in another case the documents submitted by the contractor were not in line with the criteria laid down in the call for proposals. One contract was uploaded in the buyer's profile prior to the publication of the call for proposals. The contracting authority failed to submit for publication on the Official Journal of the EU a notification for the amendment of one public procurement contract. A notification of the completion of one contract was not sent within the statutory deadline.

In the case of two contracts under article 20, paragraph 4 of the PPL payments were made that exceeded the maximum permissible amount less VAT. In the case of one of the contracts the threshold under article 20, paragraph 3, item 2 of the PPL was exceeded. In case of the contracts under Chapter 26 of the PPL, the deposited performance guarantee was not paid back within the statutory deadlines, while in the notification for completion of another contract was not sent within the deadlines. In the case of two contracts signed following public procurement procedures in line with the PPL, the performance guarantees did not cover the entire duration of the contracts, and the audit identified non-compliant size and validity of the deposited guarantee for the advance payments under one of the contracts. The supplies under one of the contracts were delivered after the planned deadlines. Notification of contract completion were sent after the statutory deadlines in case of four contracts. Part of the acceptance protocols concerning two contracts were not signed by representatives of both the contracting authority and the contractor.

### **5.1.2.3. Audit of the Port Infrastructure state-owned company; audited period 01/01/2020 through 31/12/2021**

The audit engagement covered three audited areas: "Management of Port Infrastructure State-Owned Enterprise, planning and reporting of operations", "Managing the Estate of Port Infrastructure State-Owned Enterprise" and "Management of the Public Procurement Award and Implementation". The auditors concluded that in all audited areas there was non-compliance of more than one material aspects of the audited activities with the regulatory framework, the internal regulations and the contracts, such as:

**Regarding the management of the enterprise:** during most of the audited period the number of Board of Directors members was smaller than the statutory required number of three. A staff member of the company was appointed Director General. In violation of the principles of publicity, transparency, and free competition, between January 2020 and June 2023 eight people were appointed Board of Director members, incl. a Director General, while being nominated without a due competitive procedure.

Failure to comply with the statutory deadlines for submission for approval to the Ministry of Transport, Information Technologies and Communications of the annual programmes for building, reconstruction, rehabilitation and maintenance of public ports of national importance, incl. the ports under article 106a of the Law on the territorial waters, the internal waterways and ports of the Republic of Bulgaria and other state-owned ports.

The drafting, adoption and endorsement of the 2021 – 2025 Business plan of the Port Infrastructure State-Owned Enterprise was only partially compliant with the regulatory requirements. The business plan does not contain the following elements: estimates for the development of the economic environment and the company's future prospects; analysis of the key risks that could affect its operations and results: specific and measurable financial goals in line with the company's mandate for maintenance and development of the public port infrastructure.

The annual programmes under article 115s, paragraph 2 of the Law on the Territorial Waters, the Internal Waterways and Ports of the Republic of Bulgaria regarding the building, reconstruction, rehabilitation and maintenance of the ports falling under article 106a of the same Law and the other state-owned ports are not sufficiently realistic and do not take in full consideration the company's external and internal environment. In 2020, almost half (45%) of the planned construction and rehabilitation works were not launched, while in 2021 this percentage grew to 56%. The reported implementation of the planned investments using the company's own capital was under 20% (16% in 2020, and 12% in 2021).

Through the date of the audit, the contracts between the state-owned company and the state-owned port operators had been in implementation for over 15 years, which constitutes a violation of the Laws on concessions for port services of the respective state-owned terminals. The wording of the contract provisions establishing the annual fees paid by the port operators to the Port Infrastructure state-owned company for the use of state-owned facilities, and the Company's obligation to reimburse the operators for the construction and maintenance works of the facilities operated by them in effect enable the operators to use the respective facilities without paying any fees. The contractual relations between the parties have a negative impact on the Company's financial status. It only generates expenses without receiving any revenues (benefits) from the assets used by the operators. The operators are placed in an advantageous position compared to the concession holders of port terminals. The latter were granted the rights to offer port services based on competitive procedures and concession agreements, and have the obligation to pay their concession fees and to make investments at their own expense for maintaining and developing the respective concessioned facilities.

There is a deteriorating trend in the financial results of the Company. The accrued losses through 31/12/2021 amount to 90,083 thousand BGN. The root causes for this situation have long-term implications and (unless the situation changes) they will continue to have a negative impact on the company's financial situation in the coming reporting periods.

The systems for financial management and control in place in the Company during the audited period are only partially compliant with the Law on the Public Sector Financial Management and Control and the methodological guidance on its implementation issued by the Minister of Finance.

**The audit identified the following regarding the management of the estate:**

Absence of internal rules regulating the preparation and conduct of the procedures for leasing the Company's real estate, and the control on signing and implementation of lease contracts. The orders for launching tendering procedures for the lease of the company's real estate do not contain the necessary justification for leasing publicly state-owned estate. The bids received in five tendering procedures were not signed by three of the evaluation committee members. One publicly state-owned facility was leased without a tendering

procedure, while another estate has been used by the same renter for over 16 years without a tendering procedure. The audit identified that some renters failed to pay their monthly rent instalments in full and delayed payment of monthly contributions for rent, while no default payments were charged for that.

**The planning and award of public procurement contracts** was partially non-compliant with the statutory requirements. Some calls for tenders did not contain the following: grounds for excluding certain participants; documents certifying compliance with the selection criteria; selection criteria and evaluation indicators; in one case, the specific turnover for the contract implementation did not correspond to the estimated value and nature of the contract; two calls for proposals did not list the time and size of the planned guarantees. In some PP procedures under article 26 of the PPL, there were observers appointed in the evaluation committees who offered technical assistance to the committees for the use of the Centralised automated Information system for e-procurement. These observers received the respective access rights to the system, while the contracting authority took no precautions to ensure the confidentiality of the information that came to their knowledge during this work, incl. prevention of unregulated access to the documentation.

#### 5.1.2.4. [Audit of the Bank Deposits Guarantee Fund; audited period 01/01/2016 through 31/12/2020](#)

Key audit question: Did the Bank Deposits Guarantee Fund operate effectively to ensure the guarantees over bank deposits in bank insolvency?

The audit drew the following conclusions based on the implemented audit procedures:

The arrangements in place for the management of the Bank Deposits Guarantee Fund (human resources, goal setting and internal control) do not ensure effective planning and discharge of the Fund's statutory functions for protection of the creditor's interests and the expedient discharge of the functions of assignees in insolvency in case of bank insolvency proceedings. The arrangements for ensuring managerial and key expert staff for the Fund could be improved. There are no regulatory requirements in place for conducting special procedures and for the nomination of president and vice president of the Fund by the Council of Ministers and the Bulgarian Central Bank. The members of the Fund's Board of Directors do not fall within the group of high-ranking public officials in line with article 6, paragraph 1 of the Law on Countering Corruption and Asset Recovery, and therefore they do not fall within the scope of the provisions of § 2, paragraph 1 of the Supplementary provisions to the same Law. This renders factually void the provision of article 6, paragraph 1, item 8 of the Law on Bank Deposits Guarantee concerning the early termination of mandate in case of an effective ruling on conflicts of interests under this Law. During the audited period, incl. after the initiation of an insolvency procedure, changes to the organisational structure were introduced, however, these were not reflected in the internal acts in a timely manner. Despite the actions taken to increase the number of staff, the Fund remains understaffed relevant to its workload, esp. concerning insolvency procedures. This is offset through the use of external experts in different areas. The measures undertaken by the Fund to ensure the targeted level of the reserve fund, i. e. 1% of all guaranteed bank deposits, were adequate and ensured the attainment of this goal during the audited period.

Due to objective reasons and regardless of the controls applied in the Fund, during the 12-month period recommended by the company the estimates for replenishing the assets of

the bank in insolvency were not achieved. The processes of sealing the branches of CTB bank, the breaking of seals and stock-taking of the insolvent bank's assets in line with article 50, paragraph 1 of the Law on Bank Insolvency were implemented within the statutory deadlines. During the audited period, the Fund discharged its mandate in line with the Law on Bank Insolvency with respect to selling the property of CTB. Despite the difficulties in view of the size of the insolvent bank, this process has started and is in an advanced stage. The introduced programme is in line with the requirements of article 78, paragraphs 1-4 of the Law on Bank Insolvency. The cashing of the *Partner Leasing* property (insolvent) was performed in the methods and prices outlined in the approved Programme for selling the assets. However, it did not result in raising any funds by mid-2022. The recovered funds based on the receivables on credit exposures of Partner Leasing amounting to 6,687 thousand BGN were collected thanks to the efforts of the receiver under article 57 of the Law on Bank Insolvency (outside the cashing programme).

The indicator used to measure the creditor satisfaction is the so called "Recovery rate". It gages the possible rate of recovering the principal and the interest payments for delinquent loans as a percentage of their nominal values. The estimated recovery rate is roughly 20 percent (19.98%). It is calculated based on the value of CTB's assets estimated during the stock-taking and valuation (based on the initial liquidation balance as of 22/04/2015), namely 1,377,923 thousand BGN, compared to their initial value as of 30/06/2014 amounting to 6,896,212 thousand BGN. The funds recovered from the selling of the assets in CTB's insolvency mass in the period 22/04/2015 – 30/06/2022 is 1,410,427 thousand BGN, which (compared to the initial value of the assets - 6,896,212 thousand BGN through 30/06/2014) amounts to a recovery rate of roughly 20.5%. This covers a group of assets whose cashing is not a result of the efforts of the assignees in bankruptcy and of the Fund, and is not indicative of the outcomes of the insolvency procedure. These include cash balances and cash held by central banks and the financial assets of CTB. The recovery rate of the said assets is 15.3% (915,053 thousand BGN out of the total of 5,974,978 thousand BGN). Through 31/12/2021, the expenditure for the insolvency procedure of CTB amounted to 99,277 thousand BGN, i. e. 6.99% of the total recovered funds from the sales of CTB's assets between 22/04/2015 and 31/12/2021 (1,419,976 thousand BGN).

The Fund's activities related to bank deposits guarantees may be defined as effective in view of the achieved target set out in the Law on Bank Deposits Guarantees (i. e. a reserve fund of 1% of the total guaranteed bank deposits). During the audited period, the Fund discharged its functions in relation to bank insolvencies in line with the requirements and objectives set out in the Bank Insolvency Law and the relevant secondary legislation.

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

#### **5.1.3.1. [Audit of the 2021 financial operations and the management of estate provided to political parties](#)**

The 2021 Annual Financial Statements of the political parties and the relevant notes to them were submitted to the National Audit Office within the statutory deadlines. They contain all elements required by the Accountancy Law and the applicable accounting standards. The form, structure and presentation in the Annual Financial Statements correspond to the

requirements of art. 34 of the Law on the Political Parties. The Financial Statements of two of the audited political parties were prepared and signed by the same individual, namely the leader of the respective party, which is in violation of the Accountancy Law. Four parties did not include in their declarations under article 34, paragraph 4 of the LPP disclosures concerning 11 donations in total, while two parties made technical mistakes in compiling the same declarations. **All political parties have followed the requirements of the Accountancy Law regarding the organisation and functioning of their accounting systems.**

The generated revenues and incurred expenditure by political parties were in line with the statutory requirements, except for the following identified irregularities in more than one material aspect:

One of the parties reported as its own revenues the remaining unspent funds for the election campaign provided by a coalition partner, which is not in conformity with the regulated funding sources under the Law on Political Parties.

In violation of the provisions of article 24, paragraph 1, item 2 of the Law on Political Parties, one of the audited parties received a donation from a sole trader after the exactment of Decision No 5 from 27/04/2021 of the Constitutional Court of the Republic of Bulgaria<sup>6</sup>. One party reported smaller donations in the annual financial statement compared to the amounts reported in the declaration under article 34, paragraph 4 of the Law on Political Parties, while another party did not report part of its donations in the above declaration and in its financial statements. One political party underreported its donations coming from one donor in the declaration under article 34, paragraph 4 of the Law on Political Parties, while the disclosed revenues from two donations have the characteristic features of a membership fee.

One political party failed to disclose in its financial statements part of its revenues from membership fees. In the case of another party, part of the reported revenues from a membership fee paid in through a virtual POS terminal on the political party-s web-page, cannot be attributed to a specific payer due to absence of ID information in the bank statements. This precludes the provision of assurance whether the revenues were in fact collected from membership fees.

The audits identified that three political parties failed to disclose some of their expenditure in the annual financial statements.

The state subsidy reported in the annual financial statements of the political parties corresponds to the amounts granted by the Ministry of Justice. In line with §5, paragraphs 1 and 2 of the Transitional and Final Provisions of the Law amending the Law on Political Parties<sup>7</sup>, the Ministry of Finance recalculated the annual state subsidies extended to political parties and coalitions in the period from 26/05/2016 through the enactment of the Law. Based on § 5, paragraphs 5, 6 and 7 f the Transitional and Final Provisions of the above Law<sup>8</sup>, the amounts had to be refunded through 31/01/2021, while after this date they were subject to collection by the National Revenue Agency. Out of all audited political parties, nine restored the excessive amounts into the state budget, while four parties did not repay a total of 78,912 thousand BGN through 12/09/2022.

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<sup>6</sup> Decision No 5 of the Constitutional Court of the Republic of Bulgaria, dated 27/04/2021 (SG issue 37 from 07/05/2021) declared unconstitutional the financing of political parties by legal entities and sole traders.

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

<sup>8</sup> SG issue 50 from 2019, amended – SG issue 28 from 2020 in effect as of 13/03/2020; SG issue 104 from 2020 in effect as of 01/01/2021.

The management of the property provided for use to the political parties by the state and/ or by municipalities was performed in line with the effective legal framework and agreements, with the exception of the identified significant irregularities, such as: three premises provided to one political party were used for non-eligible purposes in violation of the Law on Political Parties. Through the end of the audited period, seven parties continue to use the estate granted by the state/ municipalities despite their non-eligibility to use such estate.

The public registers of political parties were maintained and updated in compliance with the legislation, except for the identified irregularities in more than one material aspects, such as: the audit found that the web-page of one party was not-functional and inaccessible and therefore there was no public register of the circumstances under art. 29, paragraph 2 of the Law on Political Parties. The register of another party did not contain the names of one donor and two declarations of the origin of donations exceeding the size of one minimum wage. Part of the published declarations of donors of one party were dated 2022, although the donations were made in 2021.

Concerning one political party the audit identified significant non-compliance with the regulatory framework in the audited areas “Organisation of the financial function”, “Generation and Incurring of Expenditure” and “Introducing and Maintaining a Public Register”:

The annual financial statements contain misstatements and non-compliance with the applicable reporting framework for political parties, incl. the Accountancy Law, the applicable accounting standards, and the internal rules.

In violation of the regulatory requirements one political party: applied accounts that are not in line with its approved chart of accounts; received three donations from legal entities despite the enforced decision No 5 of the Constitutional Court of the Republic of Bulgaria dated 27/04/2021; part of the revenues from state subsidies were not disclosed under “Other revenues” in the 2021 P&L Statement; the revenues from donations reported in the Annual Financial Statements were smaller than the ones declared by the party in the declaration under article 34 of the Law on Political Parties; the revenues from membership fees carried in the AFS were larger than the figures carried in the relevant revenues account; the operational expenditure reported in the P&L statement did not correspond to the data in the accounting system precluding the provision of assurance regarding the disclosed expenditure in the relevant item of the party’s AFS; reporting amounts paid out of the bank account of the authorized representative of one party and of other persons as donations in the AFS.

The party’s public register does not contain origin-of-wealth declarations concerning 332 donations, which constitutes a violation of article 29, paragraph 2, item 2 of the Law on Political Parties.

The checks for compliance with the Election Code concerning the campaign for the partial local elections in 2021 identified compliance in all material aspects regarding the five audited political parties that reported campaign revenues and expenditure exceeding 1,000 BGN.



#### 5.1.3.2. Compliance audit of the declared revenues and generated expenditure in relation to the campaign for the parliamentary elections on 02/10/2022

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

Six political parties and three coalitions of parties failed to comply with the legal requirements of informing BNAO during the election campaign regarding new facts and circumstances subject to publication in the Uniform Register under the Election Code.

All audited election campaign participants complied with the statutory requirements concerning fund raising, except for one party that received a donation from a sole trader. The party paid back the donated funds at a later stage.

All audited participants (except for one coalition) complied with the requirement to receive donations exceeding 1,000 BGN only through wire transfers.

Two political parties and two coalitions continued to raise funds for their election campaigns, even after the end of the campaigns.

The audit identified a cumulative amount of 14,827 BGN in unreported expenditure by one party and two coalitions, and cumulative unreported revenue of 39,809 BGN by five parties and five coalitions.

Through the date of the audit, four political parties and three coalition of parties had outstanding payables to suppliers of goods and services amounting cumulatively to 34,261 BGN.

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

All audited election participants complied with the legal requirement concerning the cap on the funding for their election campaigns.

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

In 2023, the Board of the Bulgarian National Audit Office endorsed 89 final reports on the executed compliance, performance and specific audits. Eighty-two of them contain constructive result-oriented recommendations. The National Audit Office implements successfully its mission to improve the management and accountability of public finances by using one of its main instruments, namely issuing recommendations. Six audit reports did not contain recommendations to the management of the respective audited entities, because the audits did not identify any significant discrepancies with the applicable legal framework<sup>9</sup> or

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<sup>9</sup> Audits of: the state budget; the NHIF budget; the budget of the public social security system; the budget expenditure of the Bulgarian Central Bank; the financial operations of political parties in 2021; the campaign of the participants in the parliamentary elections on 02/10/2022.

the audited entity took actions to implement the recommendations included in the draft audit reports before the endorsement of the final report<sup>10</sup>.

In 2023, BNAO conducted 55 checks to follow up on its recommendations; 35 of those were first checks, 14 were **repeated checks for the second time**<sup>11</sup>, 3 were repeat checks for the third time<sup>12</sup> and another **3 were repeated checks for the fourth time**<sup>13</sup>. The purpose of these checks was to review the consistency of the issued recommendations, the information submitted by the management of the audited entities, the actual measures put in place and the actions taken for their implementation.

The majority of follow-up checks - 37 focused on the recommendations issued based on compliance audits of financial management (conducted by the Compliance Audit of Financial Management Directorate I – 14, and Compliance Audit of Financial management Directorate II – 23), incl. six checks repeated for the second time, two – for the third time and three – for the fourth time. The Performance Audit Directorate conducted eight follow-up checks, four of which for the second time. The Specific Audits Directorate conducted 10 follow-up checks, incl. 4 for the second time and 1 for the third time.

The number of conducted follow-up checks, and respectively the number of reviewed recommendations depends on the type and nature of the audit engagements, the deadlines for the recommendation implementation, and the administrative capacity of the respective audit directorates. Six of the conducted independent checks followed up on the recommendations issued based on horizontal audits whose scope covers more than one public entity.

The entities receiving recommendations in the final audit reports are obliged to take the necessary measures for their implementation and to inform BNAO's President thereof in writing. The follow-ups conducted for the first time in 2023 found that out of a total of 56 audited entity managers, only 24 submitted notifications to BNAO within the established deadlines, i. e. 43%, while another 12 sent notifications after the expiry of the deadlines, and another 20 (i. e. 36%) failed to report on their measures for implementing BNAO's recommendations.

**In 2023, BNAO's auditors followed up on the implementation of 453 recommendations and 158 sub-recommendations.** This analysis covers both recommendations and sub-recommendations (i. e. 661), since there were individual checks to evaluate the progress on the implementation of each sub-recommendation.

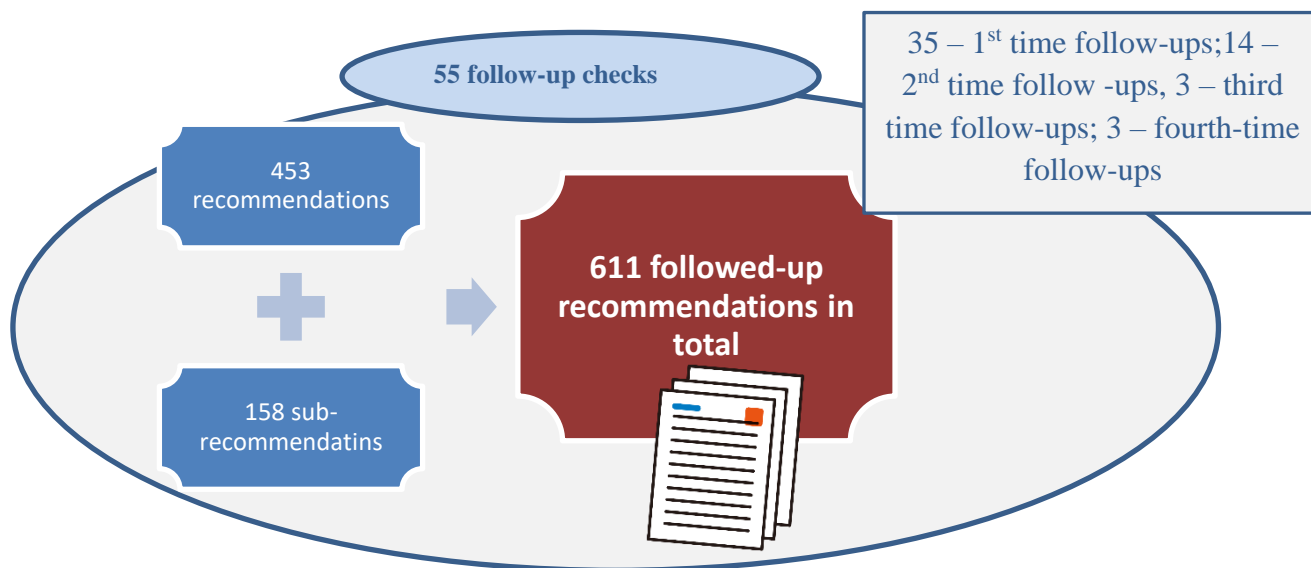
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<sup>10</sup> Tertiary school on telecommunications and postal services.

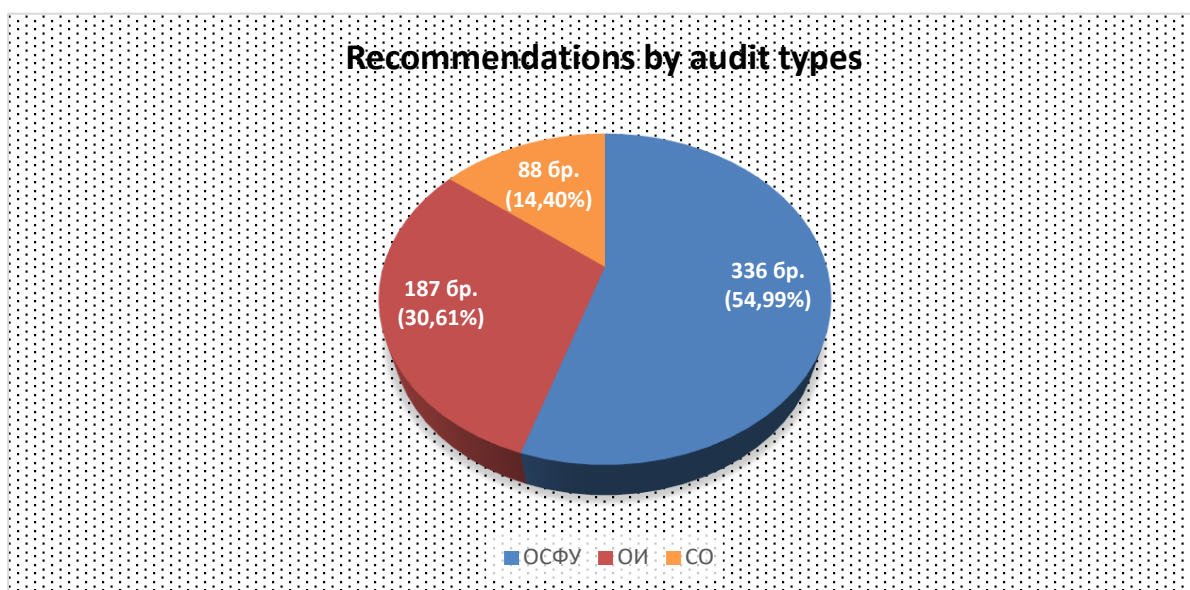
<sup>11</sup> On the compliance audits of the following municipalities: Pirdop; Kotel; Lacky; Sredets; Opan; Sungurlare; also Motorways EAD; mining concession contracts signed by the Ministry of Energy; concession contracts signed by the Ministry of Tourism; The Bulgarian Totto State-owned enterprise; NATURA 2000; transport connectivity in North-Western Bulgaria; urban sites part of the architectural legacy; organic farming.

<sup>12</sup> The municipalities of Tvarditsa and Kotel and the concession contracts for mining signed by the Ministry of Energy.

<sup>13</sup> Municipalities of Sandanski, Blagoevgrad and Dimitrovgrad.



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



Key to graph:

- OCФУ - Compliance Audit of Financial Management
- OИ – Performance Audit
- CO – Specific Audits

In 2023, the **implemented recommendations** had the highest relative share– **56.46 percent (i.e. 345)**. Out of the total of 345 implemented recommendations, 236 (68.4%) came from the conducted compliance audits of financial management. The implementation of recommendations issued by BNAO helps improve the processes related to budget execution, public procurement award and management of estate of ministries, agencies, public universities, and municipalities.

Ensuring compliance with the recommendations from the performance audits aims to achieve effective, efficient and economic management of public funds and conduct of public business. In 2023, BNAO followed up on the implementation of the recommendations issued based on the audits of plastic waste management, NATURA 2000; transport connectivity in North-Western Bulgaria; urban sites part of the architectural legacy; organic farming.

The relative share of **recommendations, which were partially implemented in 2023, was 12.77 %, while the recommendations in the process of implementation were – 4.91 %**. In the first case, the officials responsible for implementing the recommendations have undertaken the prescribed actions, however, there is no proof of achieved improvement or elimination of the identified deficiencies, while in the second, the process of implementation is not yet finalized. The auditors identified a pro-active attitude on behalf of the audited entities towards elimination of the identified irregularities. The actions taken in implementing BNAO's recommendations demonstrate the entities' confidence in the SAI and their understanding that the implementing of recommendations would improve their conduct of business.

The relative share **of recommendations, which were not acted upon by the audited entities and which were reported as not implemented was 18.99%, i.e. 116 in total**. The largest number of non-implemented recommendations (34) was identified during the second independent follow-up on the recommendations of the audit "Optimising the transport connectivity in North-Western Bulgaria" in the period 01/01/2014 through 31/12/2016. The number of entities subject to follow-up audits was 21, while 18 were subject to second follow-up reviews. The recommendations that remained not implemented concerned the following areas: improving the regulatory framework, improving and ensuring uniformity of the diverse practices relating to subsidies, compensations, awarding and reporting on the implementation of contracts for public passenger service; introduction of adequate controls; introducing a uniform public e-platform regarding the transport connections for the towns and villages in the region covered by all three types of transport modalities. In view of the upcoming legislative reform regarding the effective access to integrated public transport services, BNAO decided to plan a new audit to analyse the transport connectivity throughout the country in the coming strategic planning period 2025-2027 in line with its strategic and annual priorities.

In case of partial or ongoing implementation, or failure to implement the recommendations, BNAO informs the Parliament, Council of Ministers, or the respective Municipal Councils for taking the necessary actions. In 2023, twenty-seven follow-up reports were sent to: the Parliamentary Energy Committee, the Council of Ministers (five reports), Sofia municipal council and other municipal councils<sup>14</sup>.

In line with article 49, paragraph 3 of the BNAO Act and based on decision by BNAO's Board, follow-up reports were sent to the Minister of Finance<sup>15</sup> and the Association of Municipalities in the Republic of Bulgaria<sup>16</sup>.

The relative share of recommendations that are **inapplicable, incl. due to being assessed as irrelevant during the follow-up checks is 6.87% (42 in total)**. After the issuing of

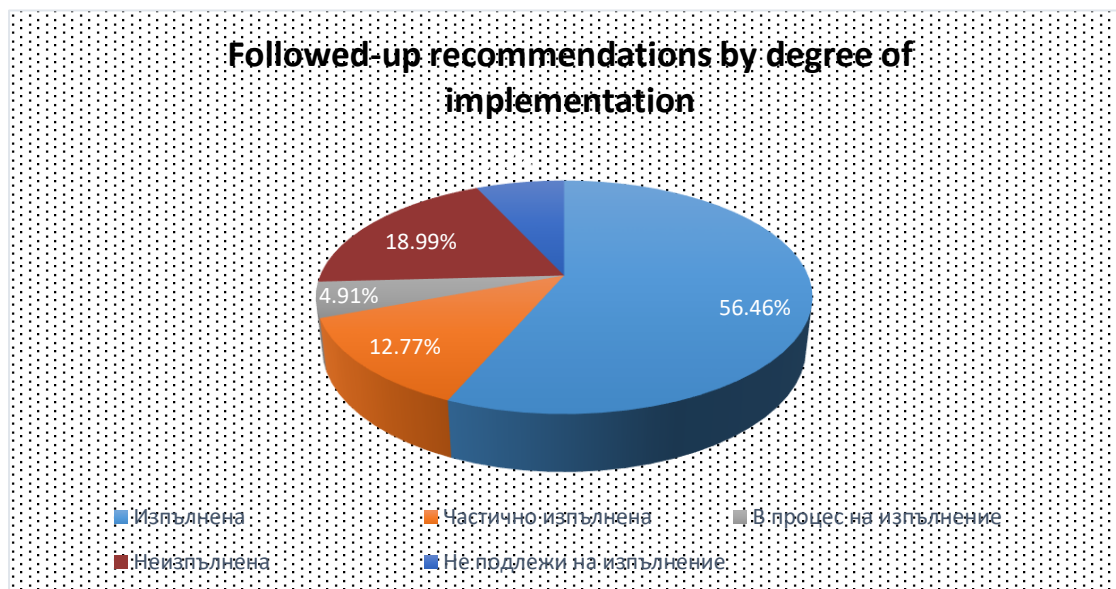
<sup>14</sup> Municipalities of Vetovo, Tsar Kaloyan, Ardino, Assenovgrad, Berkovitsa, Blagoevgrad, Boychinovtsi, Brezovo, Gorna Oryahovitsa, Dimirovgrad, Kotel, Maglizh, Opan (two reports), Pirdop, Provadia, Rodopi, Russe, Sredets, Stamboliysky, Sungurlare (two reports), Yakimovo.

<sup>15</sup> Municipality of Blagoevgrad – fourth follow-up review.

<sup>16</sup> The municipalities of Ardino – first check, Brezovo – first check, Stamboliysky - first check, Kotel – third and fourth check, Pirdop – second check, Blagoevgrad – fourth check and Dimitrovgrad – fourth check.

some recommendations, significant changes were made in the regulated mandate and operations of the audited entities and/ or their management organisation rendering the recommendations void.

The following graph presents the degree of implementation of the followed-up recommendations:



Key to graph:

- Изпълнена - implemented
- Частично изпълнена – partially implemented
- В процес на изпълнение – in the process of implementation
- Неизпълнена – not implemented
- Не подлежи на изпълнение - void

In 2023, BNAO passed 13 decisions to conduct second follow-up checks and six decisions for third follow-up checks<sup>17</sup>.

## 7. ADMINISTRATIVE SANCTIONS

In 2023, BNAO discharged its functions related to administrative sanctions in line with the following legal acts:

- Public Procurement Law (PPL);
- Law on Political Parties (LPP);
- Election Code (EC).

BNAO audited a total of 344 procedures under the PPL amounting cumulatively to 337 million BGN, 318 contracts signed based on submission of bids or targeted calls for specific

<sup>17</sup> Municipality of Pirdop, Ministry of Energy, Municipality of Kotel, The Bulgarian Totto State-owned enterprise; Municipality of Opan, Municipality of Sungurlare and two decisions for fifth follow-up checks (Municipalities of Blagoevgrad and Dimitrovgrad).

entities amounting to 40 million BGN, 441 contracts signed after public procurement procedures, tendering or direct calls amounting to 98 million BGN.

As a result of the audits of public procurement and based on BNAO's mandate for imposing administrative sanctions in line with the PPL, between 01/01/2023 and 31/12/2023 BNAO issued 91 acts for the establishment of administrative infringements. Through 31/12/2023, the relevant administrative bodies with mandate to impose sanctions passed decisions on 59 of these acts, issuing 34 penal rulings, 24 warnings under article 28 of the Law on Administrative Violations and Sanctions and 1 resolution for termination of proceedings under art. 54 of the same Law. In 2023, a total of 3 settlement agreements were signed under art. 58d of the Law on Administrative Violations and Sanctions concerning the acts on administrative violations.

The relevant authorities responsible for administrative sanction passed decisions concerning 29 acts issued in 2023 within the statutory deadlines but later than 31/12/2023.

In 2023, there were 19 penal rulings, 1 resolution for termination of proceedings under article 54 of the Law on Administrative Violations and Sanctions and 2 warnings in line with article 28 of the same Law concerning a total of 22 penal administrative procedures initiated in 2022.

**In implementing BNAO's functions for administrative sanctioning under the Law on Political Parties, between 01/01/2023 and 31/12/2023 the SAI issued 17 protocols for administrative violations. The relevant administrative body responsible for imposing sanctions passed decisions on them through 31/12/2023 in the form of warnings under article 28 of the Law on Administrative Violations and Sanctions.**

In implementing BNAO's functions for administrative sanctioning under the Election Code, between 01/01/2023 and 31/12/2023 the SAI issued 26 protocols for administrative violations. Through 31/12/2023, the administrative body responsible for issuing sanctions passed decisions on 19 of them in the form of 6 penal rulings, 10 warnings under article 28 of the Law on Administrative Violations and Sanctions and 3 resolutions for termination of proceedings. In 7 cases the relevant administrative body passed its decisions for sanctions within the statutory deadlines, but later than 31/12/2023. Seven settlement contracts under article 58 of the Law on Administrative Violations and Sanctions were signed concerning one administrative act for violations.

One warning under article 28 of the Law on Administrative Violations and Sanctions was issued in 2023 concerning a penal administrative procedure initiated in 2022.





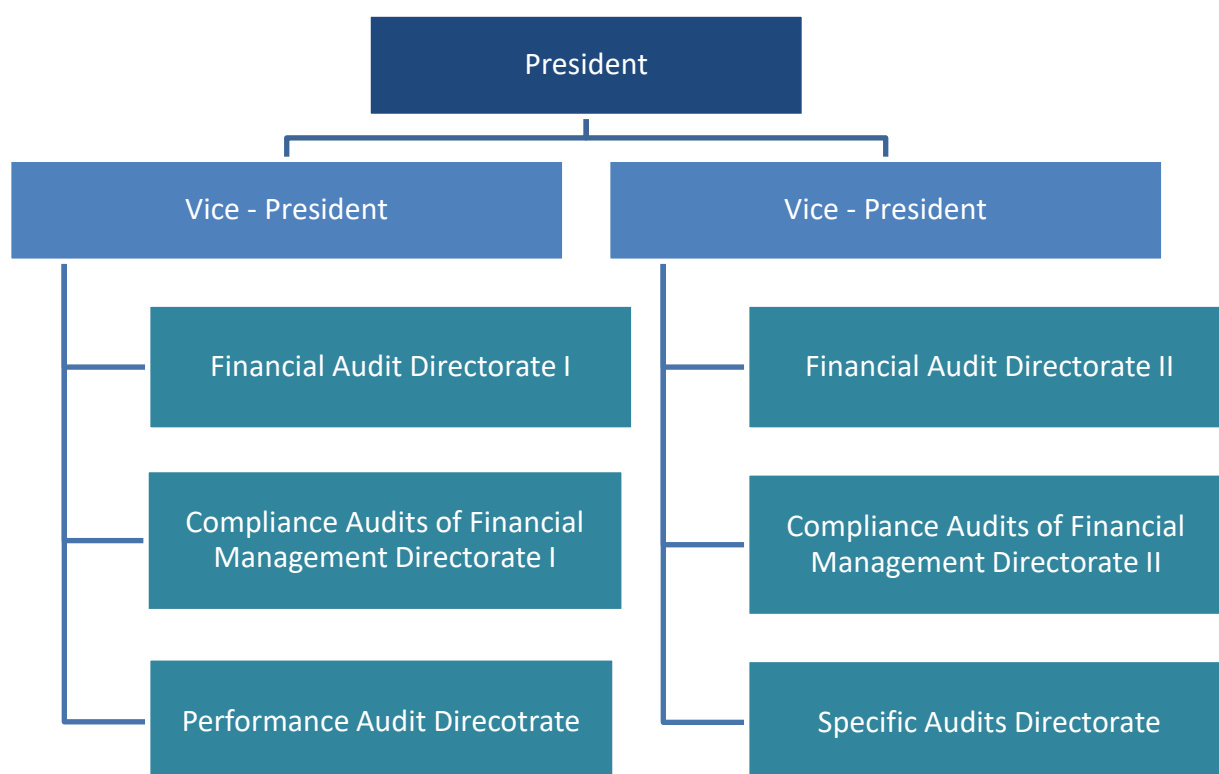
# **BNAO's MANAGEMENT AND ORGANISATIONAL STRUCTURE**



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

### 1. ORGANISATIONAL STRUCTURE

In 2023, the audit function of BNAO was performed by six audit directorates, organised based on audit types: two Financial Audit Directorates; two Audit Directorates on Compliance of Financial Management; one Performance Audit Directorate; and one Specific Audits Directorate. The latter conducts the mandatory audit engagements in line with the Bulgarian National Audit Office Act, audits under the specialised legislation and audits of state-owned enterprises and enterprises with over 50% state and/ or municipal shareholdings. The audit directorates are comprised of departments and regional units located throughout the country. The audit directorates are managed by directors.



In performing its functions in 2023, BNAO was supported by: the administration of the President's office, six directorates and three units. These directorates are as follows: Legal Directorate, Administrative and Information Services, Development of the Audit Function, International Relations and Projects, Financial Operations and Estate Management, and Security. Each of them has relevant departments. The three administrative units are as follows: Internal Audit, Anti-Corruption, Bribery and Money Laundering, and Public Relations. The latter two were set up in 2023. Two new units were added to the structure of the Security Directorate, namely Cybersecurity and Internal Security.

## 2. INSTITUTIONAL AND ADMINISTRATIVE CAPACITY

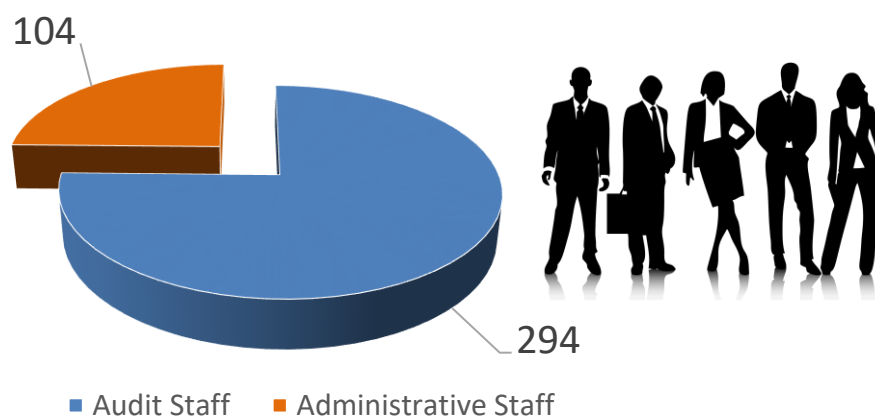
In line with BNAO's staffing plan, through 31/12/2023 the SAI had a total of 398 staff members.

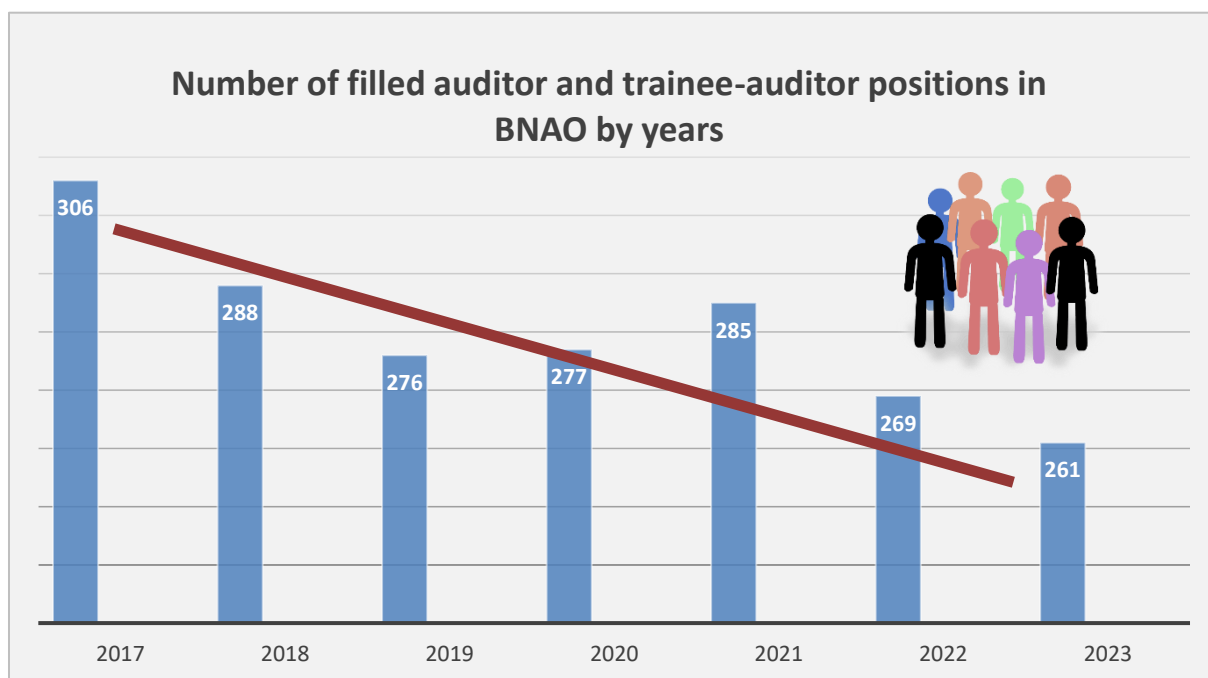
Between 01/01/2023 and 31/12/2023, the employment relations with 47 staff members were terminated due to the following reasons:

- ✓ Eligibility for retirement based on length of service – 11 cases;
- ✓ Upon proposal by the employer with severance pay - 7 cases;
- ✓ Upon request by the employee – 15 cases;
- ✓ Employees taking up other government office – 9 cases;
- ✓ Employees taking up an academic position – 1 case;
- ✓ Termination during the trial period – 2 cases;
- ✓ Inability to perform the assigned duties due to disease - 1
- ✓ Death of an employee – 1 case.

In 2023, BNAO appointed 36 new staff members at the following positions: chief auditor – 1; Chief internal auditor – 1; first degree senior auditor – 2; auditor -2; trainee auditor – 12; director of an administrative directorate – 3; head of administrative department – 6; head of unit – 1; expert staff members – 3; technical staff members – 5.

### Audit staff to administrative staff ratio





The number of staff in BNAO's audit directorates through 31/12/2023 was **294**, allocated among the following positions: 6 directors of audit directorates; 16 heads of department within the audit directorates; 101 chief auditors; 32 second degree senior auditors; 30 first degree senior auditors; 72 auditors; 26 trainee auditors; 11 experts reporting to the directors of audit directorates. There are 261 filled auditor and trainee-auditor positions at BNAO, 138 of them in the regional units.

All BNAO auditing staff members hold master's degrees, five of them have a PhD. The majority of employees have economic (226 employees) and legal background (30 employees), and the rest have technical (30 employees) or other backgrounds (38).

**The administrative staff on the BNAO payroll consists of 101 employees**, 79 of them with higher education - 73 masters, and one PhD.

### 3. TRAINING AND QUALIFICATIONS

BNAO's training process offers the staff the possibility to acquire, expand or improve their professional knowledge and skills, taking into account the structural and/ or individual goals. The training plan of the institution was adopted with Board Decision No 055/02.03.2023.

**In 2023, BNAO provided 285 professional trainings covering a total of 1,038 participants** in the following training programmes:



**3.1. Specialised professional training programmes** – the focus is on areas relevant to the operations of the respective audit directorates or administrative units. A total of 84 trainings were conducted on the following topics:

- Practical guidance on the implementation of the International Standards of Supreme Audit Institutions and the Manual on the implementation of the internationally recognised standards of auditing and the audit function of BNAO;
- Relevant issues to the financial reporting by public sector entities;
- Amendments to the legal framework: Law on Public Procurement; and relevant issues concerning the practice in implementing the Law on Public Procurement and the Rules on its implementation;
- New aspects in the implementation and functioning of the Financial Management and Control Systems in line with the guidance issued by the Minister of Finance in March 2020;
- Specialised audit techniques for collection of data, information and audit evidence and/ or statistical methods for analysis (correlation and regression analysis);
- Personal data protection;
- New amendments to the Law on administrative violations and sanctions;
- Combatting fraud in relation to public funds absorption;
- New technologies for governance;
- Relevant issues concerning the Labour Code;
- Statistical literacy, green administration.

**3.2. ICT training programmes** – aiming at providing knowledge and skills for using specialised software products for specific audit tasks. A total of 59 trainings on the following key topics:

- Auditing software for database analysis and control and/ or planning and managing of audit activities and engagements;
- Database analysis and visualisation;
- Cloud-based technologies, the world of data, blockchain, AI, machine learning;
- Application of e-governance systems;
- Centralised information system for e-procurement;
- Basic course of remote aerospace technologies and GIS, big data processing;

- Pre-printing and video processing, etc.

**3.3. Foreign language courses** – focusing on acquiring specific knowledge and skills relevant to the operations of the audit directorates/ functional units. Four trainings on speaking skills and EU institutions vocabulary.

**3.4. Trainings on organisational management** – managerial knowledge and skills, specific leadership skills. Thirty-five trainings on the following topics:

- Developing communication, leadership and team management skills, teamwork;
- Stakeholder collaboration methods;
- Techniques for encouraging creativity and innovation; communication with the audited entities and interviewing skills; trainings for audit team leaders;
- Crisis and change management, strategic leadership and coping skills;
- Interpersonal relations in a working environment;
- Task management and brainstorming for introducing new and/ or improving the existing work processes;
- Integrity, identity, personality – organisational environment and methods for analysis;
- The interview as an evaluation and recruitment instrument, code of behaviour – functions and key aspects, etc.

**3.5. Information security programmes** – acquiring and enhancing skills for data protection and security, and data loss minimisation. Ten trainings on the following topics:

- Information and networks security supporting public administration reforms;
- Interoperability and information security;
- ISO 27001 – Internal audit of the security management systems (ISO/IEC 27001:2022, ISO 19011:2018);
- Transitional course on ISO 27001 for internal auditors; ISO 27701:2019 – Security methods: addition to ISO/IEC 27001 on privacy management, etc.

#### **4. AUDIT METHODOLOGY**

The Bulgarian National Audit Office performs its functions in line with the Bulgarian National Audit Office Act and the internationally recognized standards of auditing. BNAO's audit methodology is a living document updated constantly to reflect the changes in the standards, to ensure the best adaptation of their provisions to the national conditions and traditions, and the application of the best auditing practices.

In 2023, BNAO updated its Manual on the Application of the International Standards of the Supreme Audit Institutions (ISSAIs) and on BNAO's auditing practices: updating templates of working documents on current controls and financial auditing of the annual financial statements for public sector entities.

The Audit Function Development Directorate supports the successful implementation of new methodologies and the introduction of new audit techniques, including through the use of specialised audit software. This Directorate is responsible for the overall improvement of BNAO's audit methodology. Its staff conducts internal trainings and offers consultations on specific questions and cases.

## 5. INFORMATION AND COMMUNICATION ENVIRONMENT

The building of a new structural cabling system that started in 2022 was finalized on 01/03/2023 ensuring high quality uninterrupted network connectivity and eliminating the periodic interruptions of the standard workflow caused by the old cable network.

The migration of all BNAO information assets to the infrastructure of Information Services AD was completed at the end of 2023. This migration ensures a secure and reliable environment and system administration of BNAO's resources enhancing security, quality of services and adequate contingency management.

The audit for compliance with the new ISO27001:2022 of the Information security management system was completed successfully in November 2023. The certificate of compliance proves the availability of reliable security mechanisms ensuring information integrity, availability and privacy.

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

[BNAO's development strategy 2018 - 2022](#) introduces 16 strategic goals allocated in three priority areas with regard to conducting independent, effective and efficient audit function, developing the human resource management system, and improving public sector governance and accountability through strengthening stakeholder collaboration. It outlines specific interventions for the attainment of the goals and indicators for measuring progress.

There was an interim reporting on the progress of BNAO's development strategy 2018-2022, followed by a decision to continue its implementation until the middle of-2023. This was followed by internal discussions leading to a conclusion that the adoption of a new strategy should not be done automatically, but should be based on the vision of a new management with a full new term of office. In 2023, the nomination of the two new Vice-Presidents and the two new members was still pending, therefore it was decided to continue the implementation of specific areas of the old strategy, such as:

- Introduction of the latest amendments of ISSAI 140 after their adoption at the end of 2023;
- Improving the collaboration with the National Assembly;
- Improving BNAO's image as an employer of choice;
- Identifying the factors contributing to the employee satisfaction;
- Trainings on *Pentana* for those units that do not use the software intensively;
- Introduction of the Auditor Professional Competence Framework and the HR Management Strategy in BNAO's operations;
- Peer review;
- Methodology for workload planning and reporting.



## **COOPERATION**

## 4. COOPERATION

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

BNAO continued its cooperation with all stakeholders – citizens – public organisations, professional and non-governmental organisations, academia, media, etc. contributing to raising awareness on the effectiveness of its operations.

**The acting Prosecutor General of the Republic, Mr. Borisslav Sarafov and BNAO's President, Mr. Dimitar Glavchev discussed the improvement of measures for the protection of public finances at two working meetings.** The focus of their discussions was on strengthening the communications between the two institutions in implementing their statutory mandates, information exchange for countering corruption and protecting the public interest.

During the second meeting BNAO's President Dimitar Glavchev received the honorary plaque of the Prosecutor General's Office and a certificate from the acting Prosecutor of the Republic, Mr. Borisslav Sarafov, awarded in recognition of BNAO's President's significant contribution to the development of the cooperation between the two institutions. The last months saw a significant improvement in the cooperation between the two institutions and enhanced information exchange for the protection of the public interest.

BNAO's President Dimitar Glavchev and the acting President of the Anti-Corruption and Asset Recovery Commission, Mr. Anton Slavchev, discussed the possibilities for **closer cooperation between the National Audit Office and the Commission in preventing and countering corruption, and signed an agreement for cooperation.** The agreement provides for faster operative exchange of information between the two institutions in case of allegations concerning corrupt practices or conflict of interest of high-ranking officials; expert assistance; joint initiatives; working meetings; and trainings for exchange of good practices.



BNAO's President Dimitar Glavchev met with representatives of the European Commission for Democracy through Law (Venice Commission) in Parliament. **The topic of the meeting was the proposed reform for nominating and appointing the members of the independent regulatory and supervisory authorities planned in the Bill? on the amendment of the Constitution of the Republic of Bulgaria.** The meeting was

attended also by professor Valeri Dimitrov, BNAO's President between 2005 and 2014. Mr. Glavchev expressed his opinion that the principles of publicity and transparency in the nomination of members of the independent regulatory and supervisory authorities proposed



by the MPs are already in place in the acting legislation regulating the national SAI. The Rules of Procedure applied by Parliament in electing the President, Vice-Presidents, and members of BNAO require vetting of the candidates, publication of their application documents; and their public hearing. The principle for a maximum number of allowed terms-of-office of the SAI President is also enshrined in the BNAO Act.

BNAO's President Dimitar Glavchev took part in the **international forum entitled "Anti-corruption, democratic resilience and economic security" organized by the Centre for the Study of Democracy.**

Special guests of the event were Prime Minister Nikolay Denkov and EU Chief Prosecutor Laura Kövesi. The EU Chief Prosecutor stated that BNAO's audits are a key factor in combatting corruption and money laundering, since they identify irregular practices.



BNAO's Board met **with the mission of the OSCE Bureau for democratic institutions**

**and human rights** to discuss the review of the early parliamentary elections held on 2 April 2023 for compliance with the national legislation, the commitments to the OSCE and other international commitments and standards for democratic elections. The meeting was attended by the acting President of BNAO, Ms Goritsa Grancharova-Kozhareva, Vice-President Toshko Todorov, the directors of *Specific Audits Directorate*, Ekaterina Percheva and *Development of the Audit Function Directorate*, Mr. Toma Donchev. Ms Grancharova-Kozhareva stated that the requirement for provision of a more detailed information of the origin of donated funds is definitely a step towards ensuring better transparency. The mission expressed interest towards the audits of the statements of political parties under the Law on the Political Parties and the audit of the election campaigns under the Election Code.

In 2023, BNAO **acknowledged two institutions as its leading partners – the Prosecutor's Office of the Republic of Bulgaria and the National Service for Protection.** Prosecutor General, Mr. Borisslav Sarafov, and Brigadier General Emil Tonev received statuettes with the symbol of the national SAI from BNAO's President as a recognition for the effective cooperation with the Prosecutor's Office in implementing the legal mandate of the two institutions and in combatting corruption, and for the high professionalism and operational efficiency of the National Service for Protection in providing logistical support and cooperation.



BNAO representatives took part in the **XXV<sup>th</sup> national jubilee meeting of the Bulgarian municipal financiers organised by the National Association of Municipalities in the Republic of Bulgaria**. BNAO participates traditionally in these meetings, since the municipalities form the largest group of audited entities in the annual financial audits. The advisor to the Vice-President's cabinet, Ms. Teodora Bakardzhieva-Lyutskanova and the director of the Audit Function Development Directorate, Mr. Toma Donchev presented the most common weaknesses in the financial reporting by municipalities identified during the financial audits with the aim of ensuring their future prevention.

To ensure continuity in the supreme audit institution, BNAO's President Dimitar Glavchev **met with his predecessors** - associate professor doctor. Georgi Nikolov, prof. Valeri Dimitrov, Lydia Rumenova and Nadezhda Sandolova – currently Bulgarian representative at the European Court of Auditors. Mr Glavchev thanked them for their efforts and contribution to the restoration, development and improvement of the audit function of the Bulgarian audit office and its capacity building. The current president invited his predecessors to participate in the future Consultative Board of Experts to BNAO's president. The Consultative Board will



offer advice on the draft annual audit programme, consultations on the conduct of the mandatory audit engagements, positions on audits assigned by Parliament and audits with significant results concerning the management of public finances and conduct of public business.

**The Bulgarian Telegraph Agency received the honorary symbol of the Bulgarian National Audit Office as a recognition of their effective cooperation over the years** and to mark the 125<sup>th</sup> anniversary of the media outlet. Through its truthful and broad coverage of the SAI's operations over the years, the Bulgarian Telegraph Agency contributed to raising the awareness of the Bulgarian citizens regarding BNAO's achievements, its role and importance for society. Thus, the Agency offers a possibility for civic control over the public sector by ensuring the transparency and publicity of BNAO's audits", stated the address to the national media outlet.

In 2023, BNAO continued to encourage the professional orientation of university students by offering internships, and career development opportunities.

BNAO is a traditional partner in the annual national **Young Auditor Competition** encouraging young people to choose the audit profession. The acting President, Ms. Goritsa Grancharova-Kozhareva handed the special award in the 2023 edition of the competition.

Students from the University for National and World Economy majoring in Financial Control completed successfully their internships at the National Audit Office, Audit Function Development Directorate under the leadership of Director Toma Donchev. During their internship they learned about the structure, functions and operations of the SAI, the key regulatory documents, and internal acts of the institution.

In her capacity as Vice-President of the National Audit Office, Ms. Goritsa Grancharova-Kozhareva was a guest of honour of the **2023 graduation ceremony at the University for Insurance and Finance**. Ms Grancharova assured the graduates that BNAO's doors are widely open for them and they can rely on support for their career development if they choose to work for the SAI. In her address to the faculty, she urged them to continue promoting the audit profession.

Sharing basic human and professional values, such as empathy and justice, BNAO's employees **did not remain passive in the aftermath of the crises that struck Bulgaria and the world, and extended a helping hand to the people in need.**

BNAO's leadership and staff made personal **donations to the survivors of the devastating earthquakes in Turkey and Syria**. The donations were dispatched through the Bulgarian Red Cross. The raised funds were used to purchase warm clothes, blankets, tents and heating devices for them, detergents, torches, batteries, etc.

BNAO's leadership and staff took active participation in the **charity campaign for children and adolescents in institutional care**. They donated funds to cater for the basic needs of the children placed in Transition Homes in Dolna Banya and the Family-type centre for children/ adolescents "Konstantsa Lyapcheva", Dolna Banya. The raised funds were used to purchase appliances and equipment for the centres, linen, food and detergents.

BNAO's leadership and staff **were active participants in the charity campaign for the Bulgarians living in Bosilegrad**. They raised donations through a Christmas bazaar to support various youth initiatives in the Western border regions in 2024.

BNAO's staff continued their long-standing tradition of **supporting Bulgarian artists**. **They organised a soiree dedicated to poet Dimcho Debelyanov who was a rapporteur for the Audit Office before leaving to fight in the war.** Students from 134<sup>th</sup> high school *Dimcho Debelyanov* recited his poems; there was also an exhibition of posters from his period at the audit office. To mark 1<sup>st</sup> of November (the National Revival Day), BNAO organized an evening event dedicated to prominent citizens and leaders from the Bulgarian Revival period related to the audit institution – its former presidents and renowned staff members in the period 1880 through 1947. Cultural leaders and artists took part in the event.

## 2. INTERNATIONAL ACTIVITIES

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

The planned international events in 2023 took place both live and online. There was a special focus on the participation in the working groups of the international professional organisations of SAIs.



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

- 16<sup>th</sup> Annual meeting of the ITWG and a webinar entitled "Identify yourself: the treacherous road to e-ID";

- Spring session of the Environmental Audit WG with a focus on “Climate change: progress to adaptation”, where two BNAO representatives gave a presentation on the topic: “Adaptation to climate change – policy developments and SAI’s contribution”. The annual meeting of the Environmental Audit WG, which discussed sustainable energy;
- Ninth annual meeting of the Task Force on the Audit of Funds Allocated to Disasters and Catastrophes with a focus on “Government Preparedness for Disaster Prevention and Mitigation”;
- Annual meeting of the Working Group on Municipality Audit on the topic: “Allocation of transfers and grants”; participation in preparatory working meetings of the coordination team consisting of representatives of the Latvian, Bulgarian and North Macedonian SAIs concerning the preparation of a Master Class; participation in the Master Class on Selecting and Sampling Municipalities during the performance and compliance audit planning“;
- Meeting of the Project Group on benefits and methodologies for real time auditing;
- Webinar of the Project Group on Auditing the response to the COVID-19 pandemic entitled “*Long-term consequences of the COVID-19 Pandemic*”;
- Workshop entitled “*Data envelopment analysis*” as part of EUROSAI’s Strategic Goal 2;
- Three webinars of the Project Group “Mobile Expert Club”;
- Online meeting of the new Project Group on Technical Support for the Ukrainian SAI.

**BNAO representatives took part in events organised by the INTOSAI working groups;**

- UN Climate Change Conference (COP 28) organised by the Working Group on Environmental Auditing (WGEA) „Impact on climate action – Supreme Audit Institutions call for effective climate policy enforcement“; webinar organised by the WGEA and the World Bank on “Accountability and supervision in relation to climate change”; webinar on “Tools for auditing the green fiscal policies – SAI key findings and recommendations” organised by (iCED)<sup>18</sup> and the WGEA; and two online courses part of the massive open online courses (MOOC);
- Meetings of the Forum for INTOSAI Professional Pronouncements (FIPP);
- Webinar on Ransomware organised as part of Project 5 “Quarterly webinars on IT Auditing” of the INTOSAI Working Group on IT Audit;
- Seventh annual meeting of the Big Data Auditing WG;
- Annual meeting of the WG on Review of Public Policies and Programmes entitled: “How to assess the impact of performance reviews and audits“, and an online flash session of the working group;
- Annual meeting of the Big Data Auditing WG on “Application of Big Data in Auditing”;
- Webinar on “Improving the collaboration among SAIs and the civic society organisations in combatting corruption” organised by INTOSAI’s Development Initiative (IDI) and the Global Coalition against Corruption *Transparency International*;

<sup>18</sup> International centre for environmental auditing and sustainable development of the Indian SAI

- Webinar on SAI innovations organised by IDI.

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

- Meeting of the Fiscal Policy Network;
- Annual meeting of the Contact Committee on preventing and combatting irregularities and fraud;
- Annual meeting of the Contact Committee of the EU SAI leadership and ECA with a focus on energy and change or evolution in EU financing of the Recovery and Resilience Facility at national and EU Level.

**BNAO's representatives took part in conferences, seminars, trainings and webinars for sharing experience** on "Evaluation of the EU Cohesion Policy – challenges and opportunities", annual meeting of International Board of Auditors for NATO (IBAN) with the Competent National Audit Bodies (CNAB), annual meeting of the EU SAI liaison officers, webinar organized by the Centre for Public Finances (CEF) on the topic "Transforming SAIs into training organisations".

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

- Global Forum on fighting corruption and reinforcing integrity organised by the Organisation for Economic Cooperation and Development in Paris. Among the topics of discussion were the following: public-private partnership; strengthening democracy and the role of integrity of elected officials; analysing data of fraud and corruption; sufficiency of measures by the national governments for overcoming corruption; corruption in key supply chains for minerals against the backdrop of the efforts to combat climate change; encouraging integrity in infrastructure projects;

- BNAO became a full member of the INTOSAI's Working Group on the Fight Against Corruption and Money Laundering during the 16<sup>th</sup> annual meeting of the WG attended by a BNAO delegation led by President Dimitar Glavchev. The main topic of the meeting was "SAI's role in using AI in the fight against corruption";



- BNAO's President attended the 10<sup>th</sup> Annual International Conference on Integrity with a main focus on combatting corruption;



- BNAO's President Dimitar Glavchev underlined the support of the Bulgarian SAI for the Three Seas Initiative (TSI) and pointed out the Bulgarian contribution to it during a meeting of the SAI leaders from the TSI member states. The meeting took place in Warsaw, Poland. Its main topic was the audit of project financing

under the Initiative. The forum was attended also by BNAO's Vice-President, Mr. Toshko Todorov. The heads of SAIs from the TSI member countries signed a partnership memorandum stating their commitment to conducting audits of the funding of key investment projects under the Initiative within their auditing mandate and programmes;

1. BNAO's Vice-President Goritsa Grancharova-Kozhareva took part in the IDI's global summit on the professionalisation of auditors that took place in London. The main topics of discussion were: future SAI audits in response to the social needs; future vision for professional auditors; outcomes of the pilot PESA trainings; sustainable audit practices and possible partnerships with the stakeholders.

**BNAO** continued its cooperation with the European Court of Auditors during ECA's audits in Bulgaria. Auditors from the Bulgarian SAI participate in the preparation and implementation of these audit missions as observers.

**In discharging their obligations as auditors of EUROSAI**, representatives of the Bulgarian National Audit Office in conjunction with the Croatian SAI conducted an audit of the 2022 EUROSAI report and related documents.

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



# **PUBLICITY AND TRANSPARENCY**



## 5. PUBLICITY AND TRANSPARENCY

The Bulgarian SAI publicises its activities in implementation of the BNAO Act and adhering to the strategic principle of transparency and publicity. In 2023 BNAO's efforts were focused once again on ensuring good awareness of the public and the stakeholders regarding the outcomes of its audit function.

BNAO's webpage is a key platform used to inform citizens and society. It contains all endorsed audit reports, follow-up reports, notifications of handed drafts of audit reports and minutes of BNAO's Board meetings and their voting. It also publishes information of BNAO's international activities and stakeholder cooperation, career development opportunities, press releases, etc.

In addition to all endorsed audit reports from the 2023 Audit Programme, this year BNAO published on its webpage the reports of the 57 compliance audits part of the 2016-2021 audit programmes, which were delayed in the previous years, but were finalized and signed off in 2023.

In 2023, BNAO published on its webpage 19 executive summaries of 16 audit reports referred to the Prosecutor's Office. The decision to do so was passed by BNAO's Board following the receipt of notification from the Prosecutor's Office that the relevant proceedings were terminated with a decision to refuse initiating or to terminate pretrial procedures. This marked the beginning of a new practice of informing the public regularly regarding the audit findings on which the Prosecutor's Office refuses to initiate proceedings, due to a conclusion that the collected information does not point to criminal activities.

BNAO published on its webpage information, document templates and guidance for the participants in the Parliamentary elections on 02/04/2023 and the local elections on 29/10/2023. The audit institution drafted and published an e-brochure outlining the requirements for publicity and transparency of the campaign to the October 29<sup>th</sup> election.

The Audit Office also published the reports from the finalised compliance audits on the declared revenues and expenditure of the participants in the elections held on 2 April and 2 October 2023.

BNAO's webpage provides access to the Uniform Election Code Register that ensures transparency regarding the financing of election campaigns. This Register contains:

- the names of donors, type, purpose and size of the donations;
- declarations of origin of the donated funds;
- statements on the income, expenditure and commitments for payments in relation to the election campaigns, etc.

Through its webpage BNAO ensured transparency of the 2022 financial statements of the political parties and information regarding their donors in line with the Law on Political Parties.

BNAO's webpage contains also the audit reports on the audit of the political parties' financial operations and management of estate for the previous year.



There were over 110 thousand unique hits on BNAO's webpage in 2023, which marks a year-on-year growth of over 1000. There is an increase in the number of new visitors as well, which is probably due to the changes of BNAO's management and personal changes in the group of stakeholders.

BNAO prepared 59 press releases regarding its audit reports and the outcomes of its auditing and other functions. Representatives of the Bulgarian SAI gave 4 interviews in the printed media and 9 interviews in electronic media outlets. BNAO's President and other Board representatives gave interviews in leading national media such as *24 Hours Daily*, *Standard Daily*, the *Bulgarian National Television*, *Bulgarian Telegraph Agency*, *bTV*, *Nova TV*, the *Bulgarian National Radio*, and the specialized edition *PPL Plus*, etc.

In July 2023, BNAO's Board held a press conference to present the outcomes of its audit function during the first semester of the year and to discuss topical issues.



To mark the Day of the Audit Profession in December, BNAO's President Dimiter Glavchev and his deputies Goritsa Grancharova-Kozhareva and Toshko Todorov met with journalists. The media representatives had the opportunity to learn about the outcomes of the institution's operations during the year and its upcoming tasks for 2024.

Our institution uses Facebook to ensure broad promotion of its functions and to reach out to specific audiences. The social media posts contain information on the audit reports, BNAO's cooperation with other institutions, other countries' SAIs and international organisations. Our Youtube channel contains brief tutorials for the participants in the 2023 local elections.

BNAO provides access to public information to journalists, citizens and NGOs in line with the Law on the Access to Public Information. BNAO's 2023 report under the Law on the Access to Public Information was also published on the institution's webpage. During the reporting period BNAO received 15 requests for access to public information filed by citizens, media representatives, non-profit organisations, representatives of political parties. Ten of the requesting entities received information, another two received a response that the required information was not available, two others were sent a notification that the information will be provided after the publication of an audit report, and in one case the request was referred to another competent entity. No one was denied access to public information.

BNAO stimulates and supports the professionalism of its staff contributing to the high quality of their work. To mark its professional day - 20 December, BNAO handed its traditional annual awards to its best auditors for their contribution to the development of the institution:



**The 2023 Auditor of the Year award** was received by Alexandra Galabova – chief auditor in the Blagoevgrad office, Audit Directorate II, Financial Audits division.

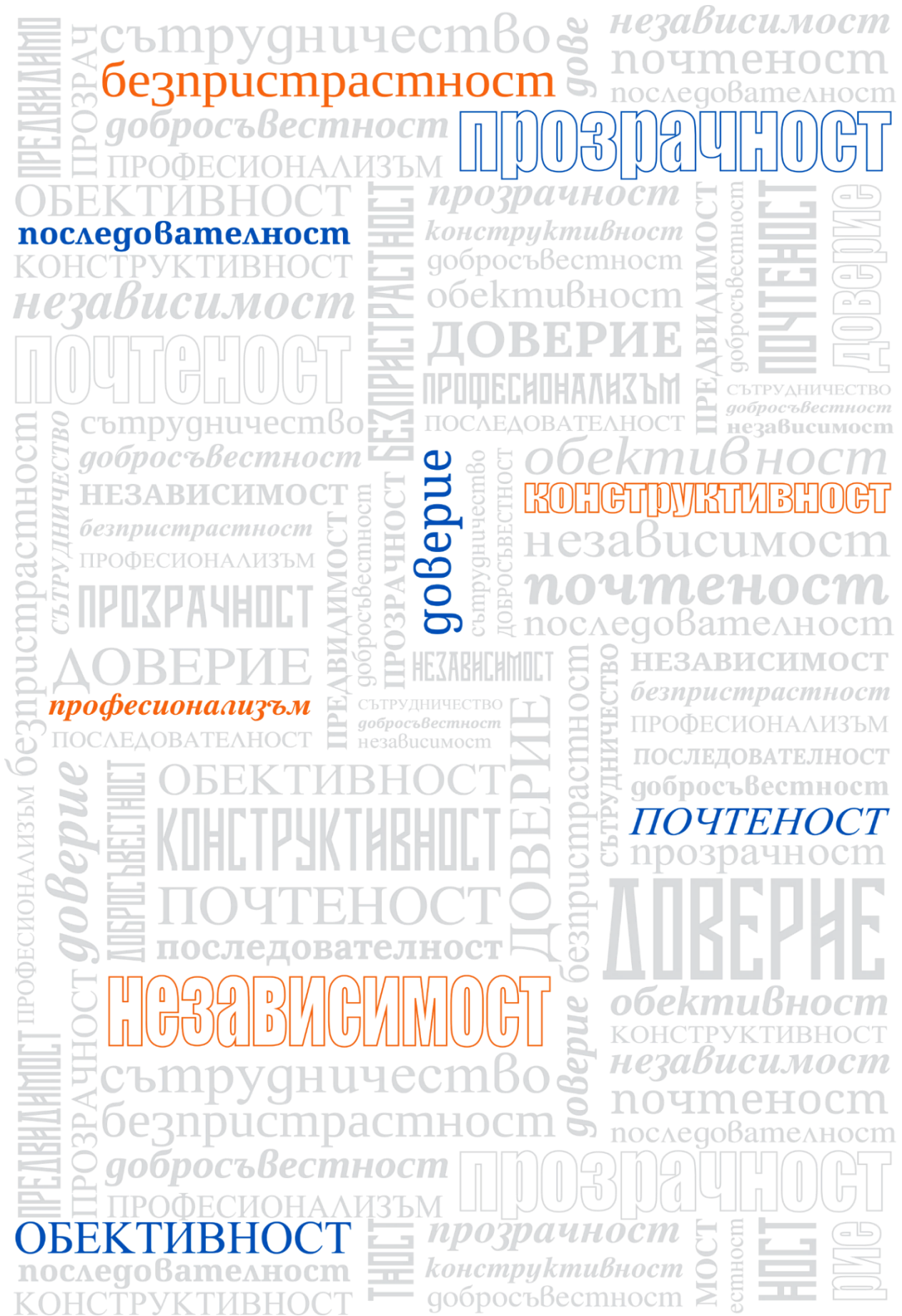
**The 2023 Audit Team of the Year award** was handed to the team that conducted the audit of the Information system for Management and Monitoring for the period 01/01/2016 through 31/12/2021. The award was received by Detelina Hadzhieva – chief auditor, Maria Koleva – first degree senior auditor, and Bianka Yaneva, first degree senior auditor from the Performance Audit Directorate.

**The 2023 BNAO Leader Award** was received by Rossitsa Danova, director of the Financial Management Compliance Audit Directorate.

To mark the day of the official launching of BNAO's operations - 1 March 1881, the institution's Board expressed its gratitude to the SAI staff for their dedication, diligence and professionalism. The leaders of structural units received thank-you letters from Goritsa Grancharova-Kozhareva – acting BNAO President and Toshko Todorov – Vice President. The letters outlined some landmark audit outcomes and important achievements in the overall activities of the audit office.

In 2023, the Bulgarian National Audit Office continued to conduct independent external audits of public funds and public business in line with the provisions of the Bulgarian National Audit Office Act and the internationally recognised auditing standards. Its financial audits contributed to ensuring true and fair representation in the financial statements of public sector entities, thus providing a solid foundation for decision-making. The compliance audits helped the audited entities improve their internal control systems, avoid infringements of the legal framework and the agreements in implementing important functions, such as public procurement, management of public estate, budget execution, etc. Through its performance audits BNAO raised important questions on the achieved value for money in an areas of great importance for the Bulgarian society – overcoming the consequences of the COVID -19 Pandemic. The specific audits provided valuable information on the execution of budgets and activities of significance for the public finances.

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





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