

SUMMARY PROJECT FICHE

1. Basic Information

- 1.1** Désirée Number: BG 00.06.02
Twinning Code: BG/2000/IB/FI/05
- 1.2** Title **STRENGTHENING THE INDEPENDENT PUBLIC EXTERNAL AUDIT INSTITUTION**
- 1.3** Sector Administrative capacity
- 1.4** Location Sofia, Bulgaria

2. Objectives

2.1 Wider Objective

To introduce a sound system of public financial control in Bulgaria.

2.2 Immediate objective

To develop the Bulgarian National Audit Office (NAO) as an independent and professional external audit institution, capable of providing the Parliament, the Government and the EU with reliable and high quality information on the effective use of public funds.

2.3 Accession Partnership and NPAA priorities

Bulgaria's Accession Partnership contains the following priorities:

- *Short-term priority*: complete the legislative framework and strengthen internal and external financial control bodies.
- *Medium-term priority*: strengthen public financial control functions through the provision of adequate staff, training and equipment.

3. Description

3.1 Background and justification

Public financial control in Bulgaria is performed by the NAO, the independent external auditor which reports to the Parliament, and the State Financial Control (SFC) in the Ministry of Finance, which is the main internal audit body, together with internal audit bodies in line ministries.

The NAO, which was established in 1995, has a court-like structure with collegial decision-making procedures but no judicial powers. The President and the ten members are elected by the Parliament with a 9-year mandate. NAO comprises a headquarters in Sofia with ten departments, and nine regional offices.

NAO employs a total of 428 people, of which 322 are auditors and 106 are service staff. 218 persons work in headquarters while 210 work in the regional offices. Over the period 1996-1999, 1480 audits were performed, of which 1123 were performed by the regional offices and 357 by headquarters.

The NAO audits:

- the lawful and expedient implementation of the state budget, the budget of the "Social Insurance" Fund, the budgets of the municipalities and all other budgets adopted by the National Assembly;
- the arising and the servicing of the internal and external state debt;
- the relationship of the Bulgarian National Bank to the state budget and the accounts on the budgetary expenditures of the National Bank;
- the management of the property entrusted to the budgetary organisations by the state;
- the revenues from the privatisation on the appropriate funds, their allocation and spending;
- the management of funds on extra-budgetary accounts;
- funds granted to Bulgaria by international financial institutions, the European Union and other international donors.

In addition to auditing, the NAO has some duties of a non-audit nature, such as providing advice on the annual draft budget. The NAO's audit remit is relatively broad, including the budgets of municipalities and funds provided by international donors including the EU. The improvement and strengthening of financial control is regarded as a crucial issue for Bulgaria to progress effectively in the pre-accession period.

The Commission's 1999 Regular Report on Bulgaria's progress towards accession commented that:

"To improve the NAO's future effectiveness, clear procedures for parliamentary supervision and follow-up of NAO reports, including follow up of funds by the NAO to the end-user, should be established. The relationship between NAO and SFC should be clarified. Extensive training and staff development will be required for the NAO to meet EU standards".

"External audit partially meets the requirements of Auditing Standards / EU Guidelines for adequate audit of public funds and expenditure. However, as a new institution, the NAO has produced results over a short period of time in a particularly difficult environment. The NAO should implement its strategy plan with priority to strengthening its institutional position and its capacity to perform financial audit."

The NAO adopted in 1998 a four-year Strategic Development Plan. The Plan outlines a clear concept for strengthening NAO, on the basis of an analysis of its needs and the problems to be solved. The following important areas of development were identified in the Plan:

- Developing the audit-related legal framework;
- Adopting modern audit methods for public funds that conform with approved INTOSAI standards and the European Implementing Guidelines for the INTOSAI Auditing Standards;
- Improving organisational structures and internal coordination within NAO;
- Establishing a system for professional training of staff;
- Improved IT support for audit activities.

A new NAO law has already been drafted. The purpose is to set up a solid, stable and applicable legal base in line with internationally accepted auditing principles and EU practices. The amendments will clarify the audit mandate, the types of audit, audit procedures and reporting, the transparency of audit activity and publicity of its results. It is expected that the new NAO law will be adopted before the start of this project.

3.2 Linked activities

Co-operation between the NAO and OECD Sigma started in the second half of 1998, sponsored by Phare, and will continue to the end of 2000. Its most tangible result so far has been the elaboration of the Strategic Development Plan, which is now being implemented.

The following activities have been completed:

- a new department for EU integration was set up in 1999 and the use of some EU funds has been audited;
- a department responsible for developing audit methodology has been set up;
- activities on translating, analysing and drafting legislative documents have started;
- two training centres, a library and a unit on human resources have been established;
- seminars and workshops including the regional offices have started;
- an IT strategy has been prepared for further elaboration.

In the immediate future, changes are foreseen in the secondary legislation applying to NAO. Audit manuals based on international standards have to be drafted and tested. The management and administrative capacity of the organisation is subject to ongoing development. A core of internal trainers will be developed. Training courses, seminars and workshops for auditors and management will be delivered both by internal and external lecturers.

Important related activities are the ongoing assistance to State Financial Control, conducted by OECD Sigma and other Phare-sponsored experts, and the recent reform of the Treasury system, assisted by the IMF.

3.3 Results

The project is divided into four components, of which the expected results are as follows:

- **Develop the audit-related legal framework.** This component will develop the secondary and tertiary legislation governing the management of and accountability for the use of public funds in line with EU requirements, and clarify the independence and mandate of the NAO.
- **Adopt and implement international audit standards.** This component will ensure that the NAO adopts and can implement international audit methods, standards and procedures, including performance and financial audit, in compliance with international auditing standards and the European guidelines for the implementation of INTOSAI auditing standards, and sets up a quality control system that conforms with international standards.
- **Strengthen management and administrative capacity.** This component will focus on improving organisation structure, internal communications and coordination, and enhancing professional skills and other human resource development.
- **Improved IT support.** This component will develop and implement an IT strategy, including the introduction of computer-assisted audit techniques.

3.4 Activities

The four project components will include the following activities.

Developing the audit-related legal framework

- Setting NAO internal regulations in line with the good EU practices;
- Developing policy and rules for ensuring more transparency and publicity of audit results
- Analysis of the deficiencies of the system for managing public finances and the accountancy system with proposals for improvements;
- Participation in the drafting of legislation governing the management of public finances and accounts;
- Establishing routines, rules and regulations for the NAO's activities using the international standards in the fight against fraud and corruption.

Adopt and implement international audit standards

- Establish a system for communicating with strategic client groups, charting of clients' needs, communication standard preparation and training;
- Develop the current quality control system of audit in compliance with international standards and testing in practice;
- Reorganise the audit process to secure quality control inside departments;
- Introduce a documentation and indexing system of audit results;
- Carry out performance audit pilot project and develop the audit manual regarding performance audit and training of auditors;
- Carry out financial audit pilot project and develop the audit manual in its chapter concerning financial audit and training of auditors;
- Elaborate methodology for the audit of EU funds in conformity with EU requirements;
- Prepare a new audit manual and provide appropriate training.

Strengthen management and administrative capacity

- Identify the NAO's activities and the resources needed to fulfil them;
- Advise on NAO organisational restructuring to deliver activities most effectively;
- Develop and implement appropriate management information systems;
- Develop and implement an internal communications strategy;
- Identify training needs and organise wide-ranging training programmes in audit-related skills and core competences for managers and staff; organise carefully-focused overseas study tours if necessary;
- Establish criteria and procedures for certifying of auditors;
- Establish a new staff evaluation system.

IT support

- Prepare a strategic document providing a vision for development of the IT system and calculating the required resources;
- Select, procure and install the IT systems for audit management and computer-assisted audit techniques and organise appropriate training.

4. Institutional Framework

The beneficiary of the project is the NAO.

The overall project implementation will be closely monitored by:

Dr. Georgi Nikolov

President of the NAO

Tel: (+359 2) 981 36 90; Fax: (+359 2) 981 07 40; e-mail: nao-pres@otel.net

NAO staff from the following departments will be dedicated to the project throughout its development and implementation: “European Integration and Funds from the European Union and other International Organisations”, “Organisation, Development and Analysis of the Audit Activity”, “Legal Attendance and Development of the Audit Related Legal Framework”, the divisions of “Human resources” and “Information Service and Technologies” and the Training Centre.

A Steering Committee managing the project will be established composed of the following persons:

- The President of NAO, Chairman
- Selected members of NAO and/or senior managers
- The PAA
- Senior Programming Officer
- Representatives of the National Assembly, SFC, CFCU and EC Delegation.

The main task of the Steering Committee is to evaluate the implementation of the project, and redefine if necessary the priorities and activities. It shall also address the responsibility and deadlines of those in charge of project components during its implementation. A working group will be established for each project component. All organisational units in charge of implementing various tasks of the project shall report to the Steering Committee for the fulfilment of their tasks.

There will be close coordination with the parallel project to be supported by Phare at the State Financial Control at the Ministry of Finance.

The NAO will provide the twinning partner with all the necessary administrative, communications and logistical support during the project, including translation, open access to NAO members, heads of departments and directors of regional offices, and participation in steering committee meetings. NAO will also cover the travel costs of Bulgarian officials visiting EU member states as part of the project.

5. Detailed budget in EURO

Components	Investments	Institution Building	Total PHARE (I + IB)	National Co-financing	IFI	TOTAL
Twinning Covenant		1 400 000	1 400 000			1 400 000
Investment component	600 000		600 000			600 000
TOTAL	600 000	1 400 000	2 000 000	*		2 000 000

* It is foreseen that funds from the national budget will be allocated to cover the costs for flights of Bulgarian officials participating in study tours, technical equipment and contingencies.

6. Implementation Arrangements

6.1 Implementing Agency

The Implementing Agency is the Central Finance and Contracting Unit (CFCU) at the Ministry of Finance. Purchase of equipment, the delivery and development of the required software will be subject to standard tendering procedures of DIS and will be done through the CFCU.

6.2 Twinning

The project will be delivered through twinning. Member States interested in making a twinning proposal should contact Ms Natasha Raleva, Head of the President's Cabinet, National Audit Office, 37 Exarh Yossif St, 1000 Sofia, Bulgaria (tel: (+359 2) 981 32 84, fax: (+359 2) 981 07 40), e-mail: sp-nkcab@otel.net

The twinning partner will be responsible for delivering all the project results, including advice on procurement and installation of the separately-contracted IT component.

The ideal twinning team will be led by a Project Leader who will have overall management of the inputs of the Member State(s). He/she must have good leadership skills and a broad knowledge of policies and processes in the area of external audit, including the control of EU funds. The Project Leader is expected to devote a minimum of 3 days per month to the project, including one visit every 3 months.

The team will include a resident Pre-Accession Adviser with experience in:

- project management
- European audit standards and practices
- audit of EU funds
- international team working
- with fluency in English and computer skills
- organisational restructuring and change

The team will include short-term experts with experience and competence matching the project components. The experts should have relevant university degree, professional experience in the relevant field, expertise with on-the-job-training and knowledge transfer, fluency in English, computer skills and ability to work in a team under considerable work pressure. Short-term experts with specific skills in the following areas are likely to be required: audit-related legal issues, audit methodology and INTOSAI standards, audit of EU funds and resources, audit training, human resource development, information technologies, audit software, computer-assisted audit technologies.

In the event that no suitable twinning proposal is forthcoming, the project will instead be implemented through conventional technical assistance.

6.3 Non-standard aspects

None.

6.4 Contracts

Twinning covenant of up to 1.4 million euro and investment contract of up to 0.6 million euro.

7. Implementation Schedule

Contract	Start of tendering	Start of project	Completion
Twinning covenant	First quarter of 2001	Second quarter of 2001	End of 2003
Investment component	Third quarter of 2001	Fourth quarter of 2001	End of 2002

8. Equal Opportunity

Equal opportunity will be taken into account in the preparation of all tender dossiers and in the recruitment of personnel through the placement of appropriate wording in each tender dossier.

9. Conditionality

- The new NAO law should have been adopted by the end of 2000, to bring the legal framework for public independent external audit standards into line with international standards, and clarify the responsibilities and mandates of the organisations dealing with public independent external audit and public internal financial control.
- The Government must maintain support for strengthening internal and external audit functions in public administration throughout the duration of the project.
- Necessary resources must be provided from the state budget (financial years 2001-2003) for project co-financing and adequate staffing of the NAO and SFC throughout the project duration.
- Projects to be implemented through twinning require the full commitment and participation of the senior management of the beneficiary institution. In addition to providing the twinning partner with adequate staff and other resources to operate effectively, the senior management must be whole-heartedly involved in the development and implementation of the policies and institutional change required to deliver the project results.

Annexes

1. Logical framework matrix
2. Detailed implementation chart
3. Contracting and disbursement schedule

Annex1 1 to Project Fiche			Programme name: and number:	
LOGFRAME PLANNING MATRIX FOR THE PROJECT "Strengthening the Independent Public External Audit Institution"			Contracting period expires: 31.12.2002	Disbursement period expires: 31.12.2003
Project Number	BG 00.06.02		Total Budget: 2 Meuro	Phare Contribu- tion: 2 Meuro
Wider Objective (s)	Indicator of Achievement	How, When and by Whom Indicators will be measured	Assumptions and Risks	
To introduce a sound system of public financial control in Bulgaria.	<ul style="list-style-type: none"> • Proper and efficient utilisation of public funds and EU funds • Audit transparency and public confidence • Harmonisation of the external audit legislation 	<ul style="list-style-type: none"> • NAO's yearly reports • Screening reports and yearly revisions • Content of NAO documents • Publications in the press 	<ul style="list-style-type: none"> • Overall commitment to the process of reform in the pre-accession period • Adoption of the relevant legislation by the Parliament • Stability of institutions 	
Immediate Objective (Purpose)	Indicators of Achievement	How, When and by Whom Indicators will be measured	Assumptions and Risks	
To develop the Bulgarian National Audit Office (NAO) as an independent and professional external audit institution, capable of providing the Parliament, the Government and the EU with reliable and high quality information on the effective use of public funds.	<ul style="list-style-type: none"> • Lack of gaps, overlaps and contradictions in the audit legislation • The quality and the scope of NAO audits • Implementation of international auditing standards • Computer Assisted Audits 	<ul style="list-style-type: none"> • Texts of laws and secondary legislation • NAO's yearly reports and reports from the ECA and the Commission; • NAO's audit manual • Publication of legal texts in the State Gazette 	<ul style="list-style-type: none"> • Ability to implement the legislation and standards • Effective split of responsibilities and working relations between external and internal audit and the Ministry of Finance • Continued support from the Parliament 	
Results (R)	Indicators of Achievement	How, When and by Whom Indicators will be measured	Assumptions and Risks	
<p>•Develop the audit-related legal framework This component will develop the secondary and tertiary legislation governing the management of and accountability for the use of public funds in line with EU requirements, and clarify the independence and mandate of the NAO.</p> <p>•Adopt and implement international audit standards This component will ensure that the NAO adopts and can implement international audit methods, standards and procedures, including performance and financial audit, in compliance with international auditing standards and the European guidelines for the implementation of INTOSAI auditing standards, and sets up a quality control system that conforms with international standards.</p> <p>•Strengthen management and administrative capacity This component will focus on improving organisation structure, internal communications and coordination, and enhancing professional skills and other human resource development.</p> <p>•Improved IT support. This component will develop and implement an IT strategy, including the introduction of computer-assisted audit techniques.</p>	<ul style="list-style-type: none"> • Enforcement of the relevant legislation • Efficiency and effectiveness of the audits • NAO' strategic clients opinion • NAO audit manual • Number and quality of the performance and financial audits • Number and quality of audits on EU funds and resources • Efficient organisation structure in place • Efficiency of utilisation of NAO's resources • Stability, quality and competence of the staff • Adoption of up-to-date IT strategy • The system installed and used in practice • The percentage of audits using CAAT 	<ul style="list-style-type: none"> • NAO's annual activity reports • Audit report's recommendations for legislative measures • EU funds and resources audit reports • Participation of NAO's experts in parliamentary committees • NAO's Manual • NAO organisational structure • Reports on personnel assessment • The software delivery documents and CAAT audit reports • Seminar materials and reports • NAO staff interviews • PAA reports • NAO statistics • Steering Committee reports 	<ul style="list-style-type: none"> • NAO's staff commitment • Commitment of the of the corresponding government institutions • Political support to reinforce the powers of NAO • Adequate staffing of the institutions involved 	

Activities (A)	Indicators of Achievement	How, When and by Whom Indicators will be measured	Assumptions and Risks
<p>Developing the audit-related legal framework</p> <ul style="list-style-type: none"> • Setting NAO internal regulations in line with the good EU practices; • Developing policy and rules for ensuring more transparency and publicity of audit results; • Analysis of the deficiencies of the system for managing public finances and the accountancy system with proposals for improvements; • Participation in the drafting of legislation governing the management of public finances and accounts; • Establishing routines, rules and regulations for the NAO's activities using the international standards in the fight against fraud and corruption <p>Adopt and implement international audit standards</p> <ul style="list-style-type: none"> • Establish a system for communicating with strategic client groups, charting of clients' needs, communication standard preparation and training; • Develop the current quality control system of audit in compliance with international standards and testing in practice; • Reorganise the audit process to secure quality control inside departments; • Introduce a documentation and indexing system of audit results; • Carry out performance audit pilot project and develop the audit manual regarding performance audit and training of auditors; • Carry out financial audit pilot project and develop the audit manual in its chapter concerning financial audit and training of auditors; • Elaborate methodology for the audit of EU funds in conformity with EU requirements; • Prepare a new audit manual and provide appropriate training. <p>Strengthen management and administrative capacity</p> <ul style="list-style-type: none"> • Identify the NAO's activities and the resources needed to fulfil them; • Advise on NAO organisational restructuring to deliver activities most effectively; • Develop and implement appropriate management information systems; 	<ul style="list-style-type: none"> • Number of deficiencies identified and number of proposals made; • Publicity of audit results; • Quality of recommendations to legal texts, prepared with the contribution of NAO's experts; • The level of compliance between NAO's control system and international standards; • Identified risk areas and number of audit recommendations concerning the prevention of fraud and corruption. <ul style="list-style-type: none"> • New organisation in place and number of staff trained; • Charts describing strategic clients needs; • The level of compliance between NAO's control system and international standards; • Quality of NAO documentation and the usage of the indexing system; • Better internal coordination; • Results and recommendations of the performance/financial audit pilot projects; • The quality and the number of EU funds and resources audits carried out in accordance with the new methodology; • Content of the audit Manual; • Quality of training, content of training documents. <ul style="list-style-type: none"> • Proper identification of NAO's activities and the need for corresponding resources; • New staff and organisation structure in place; • Training programmes matching the needs; • Minimum 85% of the staff feels sufficiently informed about the activities of NAO; • The data regularly updated and the system used by the management; 	<ul style="list-style-type: none"> • Deficiency analysis report • Internal regulations and NAO Manuals • Steering Committee reports • Audit manual • NAO bulletin, State Gazette, mass-media and Internet page • PAA and STE reports • Project progress reports • Audit reports presented to the Delegation <ul style="list-style-type: none"> • NAO structure and audit process description; • Communication system documents; • The chart of client's needs; • Training courses reports and materials; • PAA and STE reports; • Documentation of the quality control system; • Indexing system documentation and reports; • Steering Committee reports; • EU funds and resources audit reports presented to the Delegation. <ul style="list-style-type: none"> • Steering Committee reports • NAO "Personnel" division documentation • Management control system documentation • PAA reports 	<ul style="list-style-type: none"> • NAO's staff commitment • Commitment of the corresponding internal control/audit government institutions • Sufficient budget for the tasks planned <ul style="list-style-type: none"> • Strategic clients co-operation • Overall commitment of the management and staff • The competence of the experts involved • Sufficient budget for the tasks planned <ul style="list-style-type: none"> • Commitment of NAO's personnel to the reform • Active participation in the training process • Sufficient budget for the tasks planned

Activities (A)	Indicators of Achievement	How, When and by Whom Indicators will be measured	Assumptions and Risks
<ul style="list-style-type: none"> • Develop and implement an internal communications strategy; • Identify training needs and organise wide-ranging training programmes in audit-related skills and core competences for managers and staff; organise carefully-focused overseas study tours if necessary; • Establish criteria and procedures for the certifying auditors; • Establish a new staff evaluation system. <p>IT support</p> <ul style="list-style-type: none"> • Prepare a strategic document providing a vision for development of the IT system and calculating the required resources; • Select, procure and install the IT systems for audit management and computer-assisted audit techniques and organise appropriate training. 	<ul style="list-style-type: none"> • Targets matching the needs, stages and resources clearly set taking into account EU requirements; • Number of trained trainers, scope and quality of training and percentage of personnel trained • Number of certified auditors; • Regularity and number of the evaluated staff • The seminar agenda, lecturers' profile and the number of managers participating. <ul style="list-style-type: none"> • Content of the strategic document; • Scope of the software evaluated and criteria used; • User friendly interface in place, system well documented, auditors trained; • Percentage of audits carried out using CAAT. 	<ul style="list-style-type: none"> • NAO organisation structure and staff • The list of NAO's activities and resources needed • Steering Committee reports • NAO "Personnel" division documentation • Training programmes • Training center reports • The seminar documentation <ul style="list-style-type: none"> • IT strategy document in place • Steering Committee reports • NAO statistics • Tender documents, user manuals, training reports 	<ul style="list-style-type: none"> • The competence and the quality of the recruited experts and personnel • The commitment of personnel to the reform • The proper choice and commitment of STE • Availability of high quality consultants and contractors <ul style="list-style-type: none"> • Availability of qualified staff at NAO • Proper choice and adaptation of the software delivered • Sufficient budget for the tasks planned

Annex 2 Detailed implementation chart

	1Q--2001	2Q--2001	3Q--2001	4Q--2001	1Q--2002	2Q--2002	3Q--2002	4Q--2002	1Q--2003	2Q--2003	3Q--2003	4Q--2003
Twinning Covenant	C	I	I	I	I	I	I	I	I	I	I	Co
Investment Component	D	D	C	I	I	I	I	Co				

Legend:

- D** – design
- C** – contracting
- I** – implementation
- Co** – completion

Annex 3 Contracting and disbursement schedule by quarter for full duration of programme

Contracting

	1Q--2001	2Q--2001	3Q--2001	4Q--2001	1Q--2002	2Q--2002	3Q--2002	4Q--2002	1Q--2003	2Q--2003	3Q--2003	4Q--2003
MEURO	1.4	1.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
percentage	70 %	70 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %

Disbursement

	1Q--2001	2Q--2001	3Q--2001	4Q--2001	1Q--2002	2Q--2002	3Q--2002	4Q--2002	1Q--2003	2Q--2003	3Q--2003	4Q--2003
MEURO	0.1	0.2	0.35	0.95	1.1	1.25	1.4	1.6	1.7	1.8	1.9	2.0
percentage	5 %	10 %	17.5 %	47.5 %	55 %	62.5 %	70 %	80 %	85 %	90 %	95 %	100 %