Standard Summary Project Fiche

1. Basic Information
   1.1 CRIS Number: BG2003/004-937.09.04
   1.2 Title: Further Development of the Independent Public External Audit Institution
   1.3 Sector: Customs and Finance
       Twinning Code: BG03/IB-FI-02
   1.4 Location: Sofia, Bulgaria

2. Objectives

   2.1 Overall Objective(s):
   Continued progress of the National Audit Office towards evolving into an independent and professional external audit institution in order to meet the Copenhagen criteria.

   2.2 Project purpose:
   To further develop the NAO (central and regional offices) in order to build up and strengthen the capacity to implement and enforce the acquis and ensure high level of competence and effectiveness in the execution of different types of audits in compliance with the EU standards and good practices.

   2.3 Accession Partnership (AP) and NPAA priority (and implementing measures envisaged by the Action Plan for AP priorities related to strengthening administrative and judicial capacity)

   Bulgaria’s Accession Partnership contains the following priorities:
   - Implement the framework for systems based and performance audits; improvement of accountability.
   - Develop standards for external audit supported by appropriate guidelines and manuals; strengthen the capacity of the National Audit Office.
   - Step up efforts to ensure the correct use, control, monitoring and evaluation of EC pre-accession funding as a key indicator of Bulgaria’s ability to implement the financial control acquis.

   The NPAA’s priorities for the financial control sector are as follows:
   - Further improvement: the NAO Standards, Audit Manuals, Quality Control Procedures, Internal IT Management system.
   - Reinforcement of the professional staff qualifications.
   - Upgrading of the IT System of the NAO.

3. Description

   3.1 Background and justification:
   NAO is the independent external audit institution in charge of auditing public funds in Bulgaria. It reports to the Parliament.

   NAO was established under a special Act of Parliament in 1995, according to the provisions of the Constitution of the Republic of Bulgaria from 1991. A new NAO Act came into effect at the end of December 2001. This Act gives a solid, stable and applicable legal basis in line with internationally accepted auditing principles and the good EU practices. It clarifies the mandate, the types of audit, the audit procedures and reporting as well as the transparency of the audit
activity and publicity of its results. A number of important internal regulations and rules have been adopted by the NAO to implement the new Act within the organisation.

Following the recommendations of the EC 2002 Regular Report and the Road Map for Bulgaria, the NAO will further strengthen its administrative capacity. NAO organisational structure was improved in February 2003. For further reference see the Organisational Chart (Annex 7).

NAO has been a member of the International Organisation of Supreme Audit Institutions (INTOSAI) since July 2001 and became a member of EUROSAI in March 2002.

The main task of the NAO is to contribute to the sound management of budgetary and other public funds and to provide the Parliament with reliable information on the use of these funds in accordance with the principles of lawfulness, effectiveness, efficiency and economy, as to ensure reliable reporting on the execution of the respective budgets.

According to the NAO Act Bulgarian NAO audits all budgetary and other public funds. It audits also the resources from EU funds and programmes and the management thereof by the respective authorities and end beneficiaries and the execution of international agreements, treaties, conventions or other international acts, whenever provided for in the relevant international act or assigned by an authorised body.

The Commission’s Regular Report 2002 on Bulgaria’s progress toward accession commented that:

“Bulgaria now needs to make further progress as regards upgrading external audit functions, especially in terms of system-based and performance audits, developing an external audit manual and enhancing training efforts.

These activities will need to be supported by substantial investment in developing administrative capacity and training staff in the NAO.

Bulgaria has made considerable progress towards the establishment of the legal basis for adequate financial control and to start to develop necessary administrative capacity. It still needs to finalize the legislative framework and complete and strengthen administrative structures.

Bulgaria should focus its further efforts in particular on the continuing amendment of the legal framework and completion and strengthening of the required institutional structures, including in the area of the protection of the EC financial interests where ongoing substantial efforts are still required. “

Chapter 28: Financial control has been provisionally closed. The NAO priorities as drawn up in the Roadmap for Bulgaria are to upgrade external audit functions, especially in terms of system-based and performance audits, and enhancing qualification of the auditors.

This project is designed to further develop the outcome of Twinning Project BG/2000/IB/FI/05 "Strengthening the Independent External Audit Institution". The IT component under the project proposed may be regarded as a second phase of the NAO IT Strategy, following the implementation of the first phase under the Twinning Project BG/2000/IB/FI/05 (see Annex 4).

Further efforts have to be made to increase the professional competence of Regional Offices auditors in executing different types of audits in line with the EU practices. The administrative capacity of the Regional Offices for the adequate and timely monitoring and control of EU funds need to be built up during the pre-accession period.
3.2 Linked activities:

The proposed project is a logical continuation of the Twinning Project BG/2000/IB/FI/05 Strengthening the Independent External Audit Institution under PHARE 2000 Programme and the NAO Strategic Development Plan (1999 – 2002). It will be based upon the achievements of Twinning Project BG/2000/IB/FI/05 as detailed below:

- Developed secondary and tertiary legislation in compliance with EU requirements and good European practice;
- Adopted auditing standards, implementation guidelines and Audit Manual;
- Pilot audits performed;
- Developed Administrative Manual; staff evaluation system introduced; managerial and administrative capacity strengthened; personnel development through the implementation of training programmes;
- The first stage of the NAO IT system establishment, CAAT’s and special tools introduced; appropriate staff training provided.

The sound cooperation in the field of Institutional Building between NAO and OECD SIGMA will continue. The close cooperation between the Twinning Project of NAO under 2003 PHARE Programme and the Twinning Project of the Public Internal Financial Control Agency as well with the Public Procurement Directorate to the Council of Ministers will be further developed.

NAO is one of the beneficiaries under the USAID project "Open Government Initiative". The project is designed to support the NAO in the fight against fraud and corruption and control over public procurements; improvement of IT in the NAO Regional Offices; audit of internal control in the budgetary organisations and training of auditors. The proposed activities under the USAID project are being designed to ensure that they do not overlap or contradict the activities under the Twinning Project BG/2000/IB/FI/05 or the current Twinning Project.

3.3 Results:

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

**Component 1: Further development of the legal framework**
- The legislation related to the external audit updated.
- Updated NAO audit standards and Guidelines for their implementation.
- Rules developed for the audit of execution of budgets under the NAO Act.
- Instructions for the application of CAAT’s developed.

**Component 2: Additional reinforcement of the NAO managerial and administrative capacity**
- Upgrade of long-term training programme developed under Twinning Project BG/2000/IB/FI/05 and relevant training courses designed, taking full account of EDIS implementation.
- NAO Central and Regional Offices management and administrative systems reviewed and needs assessment for their further improvement elaborated.
- The communication management system between NAO Central and Regional Offices further improved;
- The quality control system upgraded and further implemented.
- Trained NAO system administrators for the IT system maintenance.
Component 3: Further enhancement of the NAO auditors' skills in:

- **performance audit**
  - Increased number of trained NAO auditors in carrying out performance audit.
  - Trained auditors from the NAO Departments and Regional Offices in the use of performance audit application tools.

- **audit of EU funds**
  - NAO capacity, including Regional Offices strengthened in the audit of EU funds and programmes.

- **audit of the budget execution**
  - The skills of auditors from the NAO Departments and Regional Offices improved in the audit of the state budget execution with the use of CAATTs.

Component 4: Implementation of the second phase of the NAO IT system

- New software packages and equipment delivered, installed and put into operation in the NAO Central and Regional Offices.

3.4 Activities:
The four project components will include the following activities:

**Component 1: Further development of the legal framework**

**Activity 1.1** To further update the existing legislation related to the external audit (see Annex 5).

**Activity 1.2** To update the adopted NAO audit standards and the Guidelines for their implementation in the light of the lessons learned from the pilot audits carried out under Twinning Project BG/2000/IB/FI/05 and this project.

**Activity 1.3** To improve the NAO Administrative Manual and Audit Manual in compliance with the priorities set down in the Roadmap for Bulgaria and Accession Partnership.

**Activity 1.4** To develop and implement audit rules for the execution of budgets as detailed under the NAO Act.

**Activity 1.5** To develop instructions for the application of CAAT's on the basis of the experience gained through the implementation of Twinning Project BG/2000/IB/FI/05 and with respect to the implemented Single Account System.

**Component 2: Additional reinforcement of the NAO managerial and administrative capacity**

**Activity 2.1** To review the long-term training programme developed under Twinning Project BG/2000/IB/FI/05, to design and implement relevant training courses taking into consideration the EDIS implementation.

**Activity 2.2** To review the existing NAO Central and Regional Offices management and administrative systems on the basis of the experience gained under Twinning Project BG/2000/IB/FI/05 and to make needs assessment for their further improvement.

**Activity 2.3** To upgrade and further implement the quality control system which was elaborated and pilot tested under Twinning Project BG/2000/IB/FI/05.

**Activity 2.4** To train NAO system administrators needed for the IT system maintenance.
Component 3: Further enhancement of the NAO auditors skills in conducting:

Activity 3.1 Performance audit
- To increase the number of NAO auditors to be trained in carrying out performance audit through workshops, pilot audits and study tours using the lessons learned and the results achieved from the Twinning Project BG/2000/IB/FI/05.
- To train auditors from the NAO Departments and Regional Offices in the use of performance audit application tools through workshops, pilot audits and study tours.

Activity 3.2 Audit of EU funds
- To strengthen the capacity of NAO, including Regional Offices in the audit of resources from EU funds and programmes focusing on their management by the respective authorities and end beneficiaries by training of auditors through workshops, pilot audits and study tours using the lessons learned from the Twinning Project BG/2000/IB/FI/05 and under the EDIS procedures.

Activity 3.3 Audit of the budget execution
- To improve the skills of auditors from the NAO Departments and Regional Offices in the audit of the state budget execution with the use of CAATTs through workshops, pilot audits and study tours.

Component 4: Implementation of the second phase of the NAO IT system establishment

Activity 4.1 To deliver, install, put into operation of new software packages and equipment in the NAO Central and Regional Offices (see Annex 4).

3.5 Lessons learned
The NAO has benefited considerably from PHARE and SIGMA assistance and made further progress with regard to the legal framework development, enhancement and reinforcement of the administrative capacity and improvement of audit activity. NAO determined its priorities for further development and the NAO Strategic Development Plan (1999 – 2002) had been elaborated with the SIGMA technical assistance. During the Strategic Development Plan implementation the directions for further development were identified as regards upgrading external audit functions, especially in terms of systems-based and performance audits, developing manuals and enhancing training efforts.

The Twinning Project BG/2000/IB/FI/ outcome contributed towards NAO identifying the following needs: update of secondary and tertiary legislation (see Annex 5); further reinforcement of NAO Central and Regional Offices managerial and administrative capacity and continuous improvement of the quality of audits executed.

Based on the lessons learned, the current project also focuses on team building, proper establishment of the working groups and clear identification of the responsibilities of all parties and persons involved in order to ensure high level of coordination of components implementation.

4. Institutional Framework

The beneficiary of the project is the National Audit Office.
NAO consists of a President and ten members elected for a period of nine years.

Currently at the NAO Central and its Regional Offices are totally employed 431 people of which 314 are auditors and trainee auditors and 117 are the administration and technical service staff. 257 persons work in the Central Office while 174 work in the Regional Offices.
The improved organisational structure of NAO comprises 10 Departments of which 5 financial audit departments, 2 performance audit departments, 2 specific audits departments and one department for legal assurance and development of the legal framework of audit activity. The Human Resources Directorate is responsible for training qualification and assessment of the personnel. The Informational Systems and Technologies Directorate is responsible for upgrading and developing of the NAO informational system. The structure of NAO includes 6 Regional Offices with 27 Sectors. (Annex 7)

Auditors from NAO Departments and Regional Offices will be involved in the implementation of the project. Information Systems and Technologies Directorate will support by the Human Resources Directorate and the training activities.

A Steering Committee managing the project will be established to meet on a quarterly basis. The main task of the Steering Committee (SC) is to monitor the project progress, to evaluate the compliance of the outputs with the project objectives, to recommend corrective measures and redefine if necessary the priorities and activities of the project as well as to assess and ensure the sustainable effect of the implementation of the project components at each stage. In order to fulfill its tasks the SC will address its responsibilities to those persons who will be in charge for each project component. A project-working group will be established for each project component.

For the duration of the project NAO will provide the twinning partner with administrative, communications and logistical support.

5. **Detailed Budget (MEURO)**

<table>
<thead>
<tr>
<th>PHARE Support</th>
<th>Total PHARE (=I+IB)</th>
<th>National Co-financing*</th>
<th>IFI *</th>
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<td>2.0</td>
<td>0.24</td>
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* National co-financing of the Twinning component of up to 10 % from the PHARE Programme budget will be allocated.

It is envisaged that 25 % of the value of the supplies under the investment component will be covered by the state budget.

6. **Implementation Arrangements**

6.1 **Implementing Agency**

The Implementing Agency is the Central Financing and Contracting Unit at the Ministry of Finance. The purchase, delivery, installation and testing of the required equipment and software will be subject to standard tendering procedures of PRAG and the Bulgarian Public Procurement Act and will be done through the CFCU.

6.2 **Twinning**

The project will be delivered through twinning. The beneficiary institution will be the National Audit Office of the Republic of Bulgaria.
Member States interested in making a twinning proposal should contact the following person:

Name: Dr. Georgi Nikolov  
Position: NAO President  
Institution: National Audit Office,  
Address: 37 Exarch Yossif Str., 1000 Sofia, Bulgaria  
Phone: (+359 2) 981 36 90  
E-mail: nao-pres@otel.net

The twinning team shall be led by a Project Leader who will have overall management of the inputs of the member state(s).

**The Project Leader** should have:
- Good interpersonal, leadership and organisational skills,
- Sound knowledge of the administration, policies and processes in the area of external audit,
- Experience in similar projects.

The Member State Project Leader is expected to devote a minimum of 3 days per month to the project management, including one at least 3-day visit every 3 months.

The twinning team shall include a PAA who will spend approximately 22 months in Bulgaria and will work together with the Bulgarian counterpart on the proper co-ordination and implementation of the twinning activities.

**Responsibilities of the PAA:**

The PAA will:
- be responsible for the overall supervision and monitoring of the implementation of the project,
- assist in managing the project administration,
- coordinate and supervise the assistance of the short-term experts,
- organise and coordinate the training programmes,
- keep permanent contact with the National Project Leader,
- prepare the monthly and quarterly progress reports for the EC Delegation and the Bulgarian counterpart,
- provide professional support in developing:
  - procedures for system-based audit and performance audit,
  - audit of EU funds,
  - technical implementation of the IT investment part.

It is mandatory that the PAA:
- be an expert in the external audit of public funds, with a long-term professional background within a Supreme Audit Institution from an EU Member State,
- has a relevant theoretical and practical experience related to the European audit practices,
- has leadership experience and international team working abilities,
- be computer literate and fluent in English.
**Short-term experts**

Areas not directly covered by the PAA will be taken over by short-term experts within the limits of the budget as stated in section 5 of the present fiche. The concrete assignments will be subject to the preparation of the Twinning Covenant and the recommendations of the twinning partner(s).

Short-term experts should have the relevant experience and educational background and be competent to secure the project component implementation. They must be fluent in English.

Short-term experts with specific skills in the following areas are likely to be required: general financial audit issues, performance audit, audit methodology, audit of EU funds and resources, training, information technologies, audit software, computer-assisted audit technologies.

In case that no suitable twinning proposal is forthcoming, the project will be implemented through conventional Technical Assistance instead.

6.3 Non-standard aspects

Not Applicable

6.4 Contracts

The project will be implemented through the Twinning covenant where the total project value shall not exceed 1.3 MEURO. The investment component will be implemented through two parallel supply contracts of up to a total amount of 0.94 MEURO, respectively financed by the PHARE and the National Co-financing Fund.

7. **Implementation Schedule**

7.1 *Start of tendering/call for proposals*

The tendering/call for proposals will start in the third quarter of 2003.

7.2 *Start of project activity*

The project activity will start in the second quarter of 2004.

7.3 *Project completion*

The project will be completed in the second quarter of 2006.

8. **Equal Opportunity**

Equal opportunity for participation of men and women during the implementation and operation of the project will be assured.

9. **Environment:**

The implementation of the investment component will not have negative environmental impact.

10. **Rates of return:**

After the completion of the activities under the investment component the NAO Central and Regional Offices staff will enhance its capacity and professionalism. The NAO IT system will support the optimisation of communication and auditing processes. This will further lead to increased preciseness of the audit results and decreased time and costs needed for audits implementation. A higher personnel motivation will be achieved as to secure the sustainable and more effective implementation of NAO activities.
11. Investment criteria:

11.1 Catalytic effect:
The PHARE contribution will accelerate the adoption and enforcement of the Acquis.

11.2 Co-financing:
National co-financing will cover 25 percent of the total costs of the investment component and up to 10 % from the PHARE budget of the Twinning component.

11.3 Additionality:
No other financiers will be displaced by the PHARE intervention.

11.4 Project readiness and size:
In 2001 the NAO has adopted an updated IT Strategy which serves as basis for the design and implementation of the first stage of the NAO IT system establishment during the Twinning Project BG/2000/IB/FI/05. The second stage of the IT Strategy will be implemented under the current Project and the design will be further elaborated into a technical specification.

11.5 Sustainability:
All supported investment actions are designed to be sustainable in the long term beyond the date of Accession. The current project aims to the completion of the second phase of the NAO IT system as to make it fully operational and to become integral part of the NAO activities. The investment actions will fully comply with the EU norms and standards and will be coherent with the EU policies in the field of the external financial control. The IT system maintenance expenditures needed after the expiration of the supply contract under the investment component will be timely planned and covered by the budget.

11.6 Compliance with state aids provisions
All investments will respect the state aids provisions of the Europe Agreement.

11.7 Contribution to NDP and/or Structural Funds Development Plan/SPD
Not Applicable

12. Conditionality and sequencing

12.1 Conditionality

- The Bulgarian authorities will ensure sound coordination among donors, respective international organisations (SIGMA etc.) and national institutions operating in the public finance sector.
- Successful implementation of activities under the Twinning Project BG/2000/IB/FI/05.

12.2 Sequencing

- The twinning project financed by PHARE 2003 Programme is a continuation of the Twinning Project BG/2000/IB/FI/05 "Strengthening the Independent External Audit Institution".
- The IT component under the Twinning Project will be further developed through the IT component of the current project as it will be designed to be the second stage in the development of the NAO IT system.
- The implementation schedules of the twinning project activities and the investment component under the PHARE 2003 will be coordinated.
12.3 Important Milestones
The most important milestones during the project implementation are as following:

- Updated secondary and tertiary legislation.
- Further improvement of NAO managerial and administrative systems.
- Further improvement of auditor skills in performance audit, audit of EU funds and programmes and budget execution audits.
- Development of long-term training programme.
- Implementation of the second phase of the NAO IT system

**ANNEXES TO PROJECT FICHE**

1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule by quarter for full duration of programme (including disbursement period)
4. NAO IT strategy and cost calculation
5. List of regulations and documents adopted by the National Audit Office
6. Information on the NAO administrative capacity on project implementation
7. Organisational Chart
**ANNEX 1**

**PHARE Log Frame**

<table>
<thead>
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<th>LOGFRAME PLANNING MATRIX FOR</th>
<th>Programme name and number</th>
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<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
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<tbody>
<tr>
<td>To continue the progress of the National Audit Office as a modern external audit institution towards meeting the Copenhagen criteria.</td>
<td>• Achievement of sound management of public and EU funds.  • Audit transparency and public confidence.  • Improved accountability.</td>
<td>• NAO activity reports.  • Commission’s Regular Report.</td>
<td>• Ability and willingness of the NAO staff to implement the new practices and legislation.  • The NAO IT system used as planned.</td>
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<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
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<tbody>
<tr>
<td>To continue developing the NAO (central and regional offices) as an independent and professional external audit institution, capable of implementing and enforcing the acquis and ensuring high level of competence and effectiveness in the execution of different types of audits in compliance with the EU standards and good practices.</td>
<td>• Quality of NAO audits.  • Number of audits performed by CAATTs.  • Expanded audit skills.</td>
<td>• The updated and adopted NAO tertiary and secondary legislation.  • Updated long-term training programme.  • NAO audit reports.</td>
<td>• The Twinning Partners actively engaged in the further development of the legislation.  • The NAO staff actively engaged in the training process and pilot audits.  • National co-financing available when required.</td>
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<tr>
<th>Results</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
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<tr>
<td>Legal framework further developed including NAO audit standards and Guidelines for their implementation, NAO Manuals, rules for audit of budgets execution, Instructions for the application of CAATT’s etc.  NAO (central and regional offices) managerial and administrative capacity further reinforced.  Auditors skills enhanced in conducting performance audit, audit of EU funds and audit of the budget execution.  NAO IT system fully operational.</td>
<td>• Updated and amended NAP secondary and tertiary legislation.  • Scheduled completion of twinning activities.  • Number of trained members of staff.  • Number of pilot audits performed.  • Software and equipment delivered, installed and the IT system of the NAO functioning.</td>
<td>• Twinning quarterly reports.  • Progress reports.  • Documents of provisional acceptance of the delivery and installation of the software and hardware.  • Reports from the participants in the study tours.  • Pilot audit reports.  Reports of the short-term experts.</td>
<td>• The Twinning Partners actively engaged in the further development of the legislation.  • The NAO staff actively engaged in the training process and pilot audits.  • National co-financing available when required.</td>
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## Activities

### Component 1: Further development of the legal framework
- To further update the existing legislation related to the external audit.
- To update the adopted NAO audit standards and the Guidelines for their implementation.
- To improve the NAO Administrative Manuals and Audit Manual.
- To develop rules for the audit of execution of budgets under the NAO Act.
- To develop instructions for the application of CAAT’s with respect to Single Account System implemented.

### Component 2: Additional reinforcement of the NAO managerial and administrative capacity
- To review the NAO long-term training programme, to design and implement relevant training courses taking into consideration the EDIS implementation.
- To review the existing NAO Central and Regional Offices management and administrative systems.
- To upgrade and further implement the quality control system.
- To train NAO system administrators.

### Component 3: Further enhancement of the NAO auditors skills in conducting performance audit, audit of EU funds and audit of the budget execution:
- To increase the number of NAO auditors to be trained in carrying out performance audit through workshops, pilot audits and study tours.
- To train auditors from the NAO Departments and Regional Offices in the use of performance audit application tools through workshops, pilot audits and study tours.
- To strengthen the capacity of NAO, including Regional Offices in the audit of resources from EU funds and programmes by training of auditors through workshops, pilot audits and study tours.
- To improve the skills of auditors from the NAO Departments and Regional Offices in the audit of the state budget execution with the use of CAATTs through workshops, pilot audits and study tours.

### Component 4: Implementation of the second phase of the NAO IT system establishment
- To deliver, install, put into operation of new software packages and equipment in the NAO Central and Regional Offices.

## Preconditions
- A sound coordination among donors and relevant institutions working in the sector.
- Completion of the activities under the Twinning Project BG/2000/IB/FI/05.

## Means
- Twining covenant (one PAA and short-term experts)
- Purchase of equipment
- Purchase and installation of audit application tools

## Assumptions
- Active involvement of NAO staff in order to ensure achievement of the twinning objectives.
- Active participation of NAO staff in the training process.
- Co-ordination between the project and any other donor programmes/projects.
- Adequate staffing of the institution in line with progress made.
### ANNEX 2  Detailed Implementation Chart

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Legend: 
D – design  
S – signing and approval of Twinning Covenant  
T – tendering and contracting  
I – implementation

### ANNEX 3  Contracting and disbursement schedule by quarter for the full duration of the programme (MEURO)

#### Contracting

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 Q</td>
<td>2 Q</td>
<td>3 Q</td>
</tr>
<tr>
<td>Twinning Covenant (PHARE contribution)</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Supply contract 1 (PHARE contribution)</td>
<td>0</td>
<td>0</td>
<td>0.94</td>
</tr>
<tr>
<td>Total</td>
<td>1.3</td>
<td>1.3</td>
<td>2.24</td>
</tr>
</tbody>
</table>

#### Disbursement

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 Q</td>
<td>2 Q</td>
<td>3 Q</td>
</tr>
<tr>
<td>Twinning Covenant</td>
<td>0.48</td>
<td>0.48</td>
<td>0.48</td>
</tr>
<tr>
<td>Supply Contract 1</td>
<td>0</td>
<td>0</td>
<td>0.2</td>
</tr>
<tr>
<td>Total</td>
<td>0.48</td>
<td>0.48</td>
<td>0.68</td>
</tr>
</tbody>
</table>
Annex 4.1 National Audit Office Information Technology Strategy Implementation

NAO IT Strategy was developed and adopted as an element of the NAO Strategic Plan. It was further updated over the course of implementation of Twinning Project BG/2000/IB/FI/05 for a number of reasons:

- Accelerated process of upgrading and automation of administrative and specialised activities in the public administration sector;
- The work environment and specific activities of NAO auditors require extensive knowledge of new IT practices, procedures and terminology;
- Adaptation of NAO activities to the automated, financial, accounting and registry systems currently established within the government administration.

Strategic Goals

- Deepen knowledge and understanding of automated systems set up in government administration institutions as contribution to the improvement of audit planning.
- Increase management controls efficiency and improve audit quality with the launch of a long-term program designed to build up a system to facilitate audit operations management.
- Increase auditor productivity and performance by adopting an appropriate set of standards, practices, and software tools for information system audit, financial audit, and performance audit.
- Improve the quality of audit results and recommendations. Establish a monitoring system to control the implementation of audit recommendations by audited entities, apply risk analysis techniques, etc.
- Improve the quality of general administrative services.
- Lower costs by applying contemporary communication technology and information processing software.
- Increase public and auditor awareness by taking persistent care to expand and enhance the functions and the amount of information published in the media and on the NAO web-site.

STAGES IN THE SETTING UP OF THE NAO INFORMATION SYSTEM

The setting up of the NAO Information System can provisionally be divided into two main stages, funding under PHARE 2000 and funding under PHARE 2003.

- First stage of setting up the NAO Information system

Under Twinning Project BG/2000/IB/FI/05 technical specification has been drawn up and a tender held. The execution of the contract involves the following activities:
Supply of hardware for setting up the NAO Information Centre, which includes:

- Database management server;
- Audit applications servers;
- Administrative applications servers;
- Servers for information authentication and protection, electronic signature, anti-virus protection;
- Network services servers;
- Network applications servers;
- Files servers for the NAO Departments and Regional Offices;
- Central network equipment;
- Storage Area Network (SAN)
- Central backup and archiving tape library;

Supply of software:

System software:

- Operation systems for servers;
- Database management system (RDBMS)
- Service software (Utilities and Facilities);
- Management software for authentication and protection;

Application software

Computer Assisted Audit Tools and Techniques (CAATT's):

- audit process management system - licence for 100 concurrent users, satisfying approximately 1/3 of the NAO needs for operation of the functional characteristics of the system;
- financial audit analysis software - 50 licences, satisfying approximately 1/3 of the needs of auditors performing financial audit (about 185 auditors);
- software packages for risk assessment and risk analysis;
- software packages for support of IT auditing;

Training of auditors for work with audit application software

In addition to the already concluded supply contract under PHARE 2000, the NAO carried out other tenders for supply of computer equipment, standard software and peripheral equipment in compliance with the Public Procurement Act.

The finalization of the NAO Information system's first stage will enable the practical use of CAATT's and will contribute to considerable reduction of manual operations. The automated audit practices will gradually be implemented.
• **Second stage of the setting up of the NAO Information system**

During the second stage implemented under the current project we expect to achieve the following output:

Increasing the number of software licenses for specialist audit software (CAATT's):

- extra 70-80 licenses for supporting financial audit (as per item 1.9 of the supply plan);
- extra licenses for about 50 concurrent users of the audit process management system (as per item 1.8 of the supply);

Introducing new CAATT's group for performance audit software tools for about 20 users (as per item 1.7 of the supply).

Supply of a server, extra disk space for SAN and relevant operational and service software packages for it, in view of ensuring the functioning of the newly introduced audit software tools for supporting performance audit (in line with item 1.2 and 1.5 of the supply).

Supply of sets of office communication equipment and operational software for 27 NAO Regional Offices and sectors (as per item 1.3 and 1.6 of the supply).

Supply of 220 pcs. portable and Desktop personal computers, operating systems and Office applications software (as per item 1.1 and 1.4 of the supply). According to a preliminary estimate, by the time of delivery under this item, approximately 80% of the NAO personal computers will be totally depreciated (i.e. they will have been working for more than 5 years, while the depreciation period is 2.5 years).

Co-financing by the state budget of activities under Phare 2003 funded projects, for establishment of the NAO IT system:

- Delivery of multifunctional devices (copying, scanning, printing) and consumables (as per item 2.1 and 2.2. of the supply);
- Localization of CAATT's and their documentation (as per item 2.3 of the supply).
# ANNEX 4.2 List of equipment and indicative cost calculation

## I. Items to be delivered with financial support from PHARE Programme

<table>
<thead>
<tr>
<th>Items</th>
<th>pcs.</th>
<th>Price</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hardware</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Notebooks and PCs</td>
<td>220</td>
<td>1,300.00</td>
<td>286,000.00</td>
</tr>
<tr>
<td>1.2 Server and storage equipment</td>
<td>1</td>
<td>20,000.00</td>
<td>20,000.00</td>
</tr>
<tr>
<td>1.3 Communication Equipment</td>
<td>27</td>
<td>700.00</td>
<td>18,900.00</td>
</tr>
<tr>
<td><strong>Software</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.4 Standard Software for PCs</td>
<td>220</td>
<td>500.00</td>
<td>110,000.00</td>
</tr>
<tr>
<td>1.5 Standard Software for Servers and storage equipment</td>
<td>1</td>
<td>6,000.00</td>
<td>6,000.00</td>
</tr>
<tr>
<td>1.6 Standard Software for Communication Equipment</td>
<td>27</td>
<td>150.00</td>
<td>4,050.00</td>
</tr>
<tr>
<td><strong>Special Audit Software</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.7 - performance audit software tools (new user rights for access within the corporate license)</td>
<td>1</td>
<td>80,000.00</td>
<td>80,000.00</td>
</tr>
<tr>
<td>1.8 - audit process management software (additional user rights for access within the corporate license already delivered)</td>
<td>1</td>
<td>70,000.00</td>
<td>70,000.00</td>
</tr>
<tr>
<td>1.9 - financial audit tools (additional user rights for access within the corporate license already delivered)</td>
<td>1</td>
<td>105,000.00</td>
<td>105,000.00</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td>699,950.00</td>
</tr>
</tbody>
</table>

Installations, putting into operation and training costs are included in the estimated item prices.

## II. Items to be delivered under the Bulgarian co-financing

<table>
<thead>
<tr>
<th>Items</th>
<th>pcs.</th>
<th>Price</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Multifunctional copier/scanner/printing equipment</td>
<td>40</td>
<td>4,000.00</td>
<td>160,000.00</td>
</tr>
<tr>
<td>2.2 Consumables</td>
<td>1</td>
<td>20,000.00</td>
<td>20,000.00</td>
</tr>
<tr>
<td>2.3 Localisation and adaptation of interfaces and supporting documentation for the audit software tools</td>
<td>1</td>
<td>60,000.00</td>
<td>60,000.00</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td>240,000.00</td>
</tr>
</tbody>
</table>

---

1 Prices are indicative only and are subject to change.
ANNEX 5

LIST OF REGULATIONS AND DOCUMENTS ADOPTED BY THE NATIONAL AUDIT OFFICE

1. Regulation on the establishment and organisation of the National Audit Office activity, with reference to Chapter 3 of the NAO Act (NAOA).

2. Audit Standards, with reference to Art. 2, para. 2 of the NAOA:
   • Audit Standard 1: General Standard on the Audit Activity of the NAO
   • Audit Standard 2: Planning of Audit Activities and Audit Tasks
   • Audit Standard 3: Financial Audit
   • Audit Standard 4: Performance Audit
   • Audit Standard 5: Audit Evidence
   • Audit Standard 6: Audit Sampling
   • Audit Standard 7: Materiality and Audit Risk
   • Audit Standard 8: Analytical Procedures
   • Audit Standard 9: Working Papers
   • Audit Standard 10: Reporting


4. Rules for audit of resources from EU funds and programmes.

5. Updated Information Technology Strategy of the NAO.

6. Regulation on the terms and the procedures for giving publicity of the audit and other activity of the NAO, with reference to Art. 50, para. 3 from the NAOA.

7. Regulation on the Official Bulletin of the National Audit Office.

8. Rules for selection and appointment of the NAO staff, with reference to Art. 21, para. 2 from the NAOA.

9. Rules on performing limited audit of the regular financial statements of budgetary organisations, with reference to Art. 44, para. 2 from the NAO Act.

10. Guidelines for the implementation of Art. 38 from the NAOA.

11. Guidelines for the implementation of Art. 51 from the NAOA.

12. Order sample for audit assignment, with reference to Art. 37, para. 4 from the NAOA.

13. Sample of voucher for submitting of audit report, with reference to Art. 39, para. 2 from the NAOA.

14. Sample of conclusion, with reference to Art. 39, para. 5 from the NAOA.

15. Sample of decision for adoption of audit report, with reference to Art. 40, para. 1 from the NAOA.

16. Sample of reference No 1 for implementation of the audit tasks under the NAO audit programme.

17. Sample of reference No 2 for current monitoring of the audit process, with regard to implementation of the NAO audit programme.

18. Sample of reference No 3 for participation of the auditors from the departments and sectors to the Regional Offices in certification of regular and annual financial statements.
19. Co-operation Agreements with the Public Internal Financial Control Agency, the General Tax Directorate, the Agency for Collection of State Receipts, the Customs Agency, Financial Investigation Bureau and the Prosecution Authorities, with reference to Art. 7 from the NAO Act.

20. Regulation on the Public Advisory Committee at the NAO.

21. Rules on financial management and control at the NAO.

22. Internal Labor Regulations.

23. Rules on the terms and procedures for appointing trainee-auditors as NAO auditors.

24. Sample of declaration under Art. 30, Art. 2 and Art. 32, para. from the NAOA.

25. Strategy for training and improvement of the NAO personnel, with reference to Art. 27, para. 2 of the NAOA.

26. Introductory training system for newly appointed auditors, trainee-auditors and administrative staff, with reference to Art. 27, para. 2 of the NAOA.
ANNEX 6

REPORT

on the available administrative capacity of the National Audit Office for implementation of PHARE projects

The National Audit Office of the Republic of Bulgaria is an external audit institution whose main task is to contribute to the sound management of budgetary and other public funds. In compliance with the law, NAO also audits EU funds and programmes, including their management by the relevant bodies and end beneficiaries. It builds up its administrative capacity with regard to performing financial audit, performance audit and audit of EU funds.

A total of 431 employees work in the NAO and its Regional Offices, 314 of which are auditors and trainee-auditors and 117 are administration staff.

NAO has gained experience as a direct beneficiary of funds for projects under PHARE, as well as in the process of auditing EU funds and programmes and other international agreements, covenants and conventions. Auditors from different NAO Departments and Regional Offices have participated in audits under PHARE, audits of international agreements and covenants.

Presently, Twining Project BG/2000/IB/FI/05 is being implemented with the UK NAO as a twining partner. Project Leader on the Bulgarian part is the President of NAO and Project Manager is the Chief of cabinet of the President. The evaluations made of the project management are positive.

According to the improved NAO organisational structure that has been enforced as of February, 2003, an unit, to the NAO President, working in PHARE programm projects and other international programmes has been set up.

For carrying out of concrete projects auditors from the respective departments and Regional Offices, an accountant from the Finance and Accounting Division, experts from the Information Systems and Technologies Directorate and specialists from the Human Resources Directorate will be involved.
ANNEX 7

ORGANISATION CHART

National Audit Office

DEPARTMENTS

I “Financial Audit”
II “Financial Audit”
III “Financial Audit”
IV “Financial Audit”
V “Financial Audit”
VI “Performance Audit”
VII “Performance Audit”
VIII “Specific Audits”
IX “Specific Audits”
X “Legal Assurance and Development of the Legal Framework of Audit”

REGIONAL OFFICES

1.1. Bourgas
   - Sector Bourgas
   - Sector Sliven
   - Sector Yambol

1.2. Varna
   - Sector Varna
   - Sector Razgrad
   - Sector Silistra
   - Sector Targovichte
   - Sector Shoumen
   - Sector Dobrich

1.3. Vidin
   - Sector Vidin
   - Sector Vratza
   - Sector Montana

1.4. Plovdiv
   - Sector Plovdiv
   - Sector Kardjali
   - Sector Pazardjik
   - Sector Smolian
   - Sector Stara Zagora
   - Sector Haskovo

1.5. Rousse
   - Sector Rousse
   - Sector Veliko Tarnovo
   - Sector Gabrovo
   - Sector Lovech
   - Sector Pleven

1.6. Sofia
   - Sector Sofia
   - Sector Blagoevgrad
   - Sector Kyustendil
   - Sector Pernik