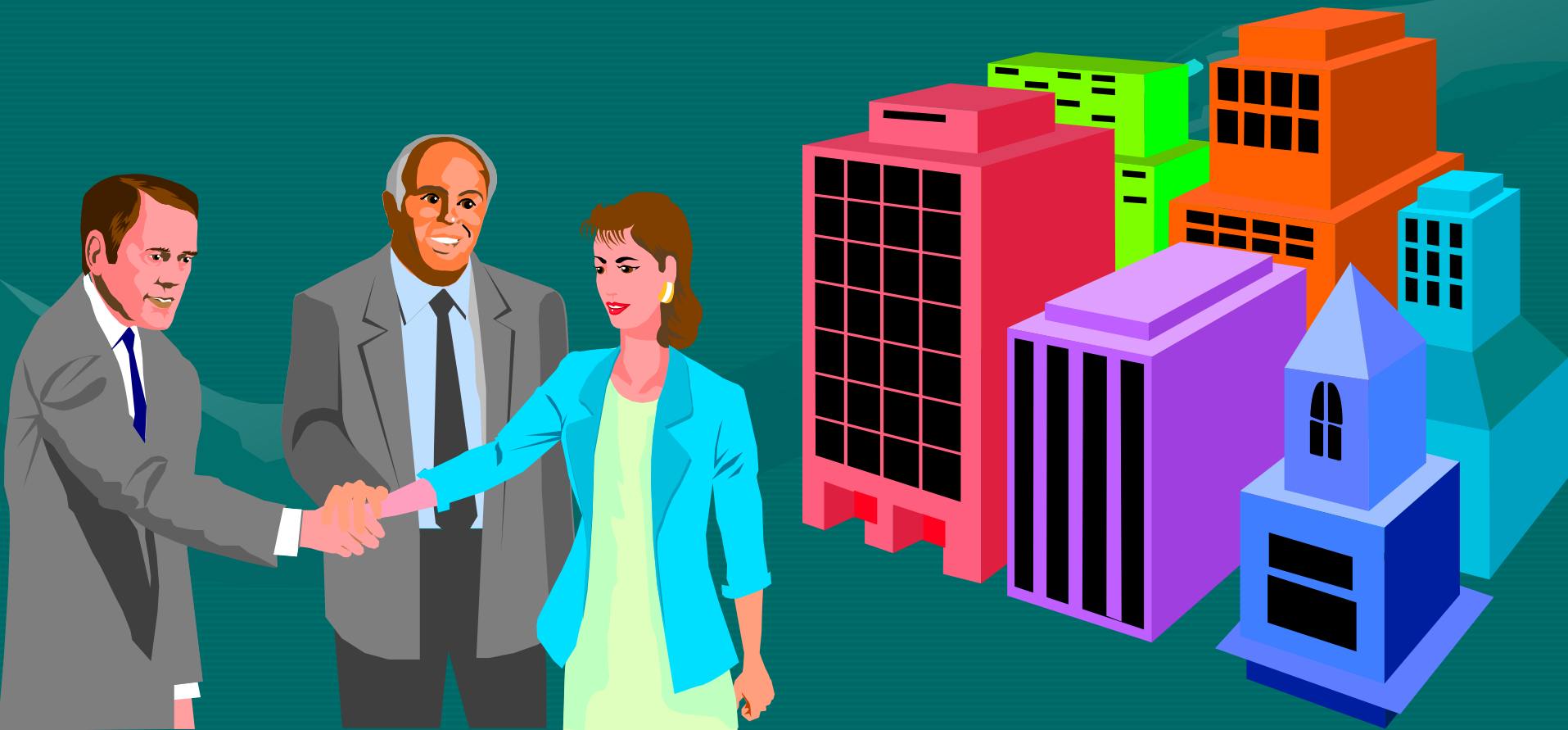




AUDIT OF PRIVATISATION - THE BULGARIAN EXPERIENCE



THE LEGISLATOR

1. The Transformation and Privatisation of State-owned and Municipal-owned Enterprises Act (TPSMEA), passed in 1992, sets the stage for the privatisation process in Bulgaria.

The Act underwent numerous changes during the period 1993 - 2002, corresponding to the frequent changes in the privatisation strategy.

A new Privatisation and Post-privatisation Control Act came into force in March 2002.

2. The Bulgarian National Audit Office Act reduces the audit of privatisation to an audit of the proceeds from privatisation based on the respective accounts, of the allocation and spending of the proceeds.

3. The restrictive provisions envisaged by the Legislator allow only for an examination of the fiscal effect from privatisation, which is not the only one.

4. The audit takes place under conditions of restructuring of the economy, which determine the large-scale nature of the privatisation process.



PRIVATISATION PROCESS CHART

Making decisions for privatising state and municipal property
Council of Ministers, Privatisation Agency, municipal councils, ministries and committees

Powers granted to the National Audit Office by the legislator

Organisation, preparation, conducting and concluding of transactions

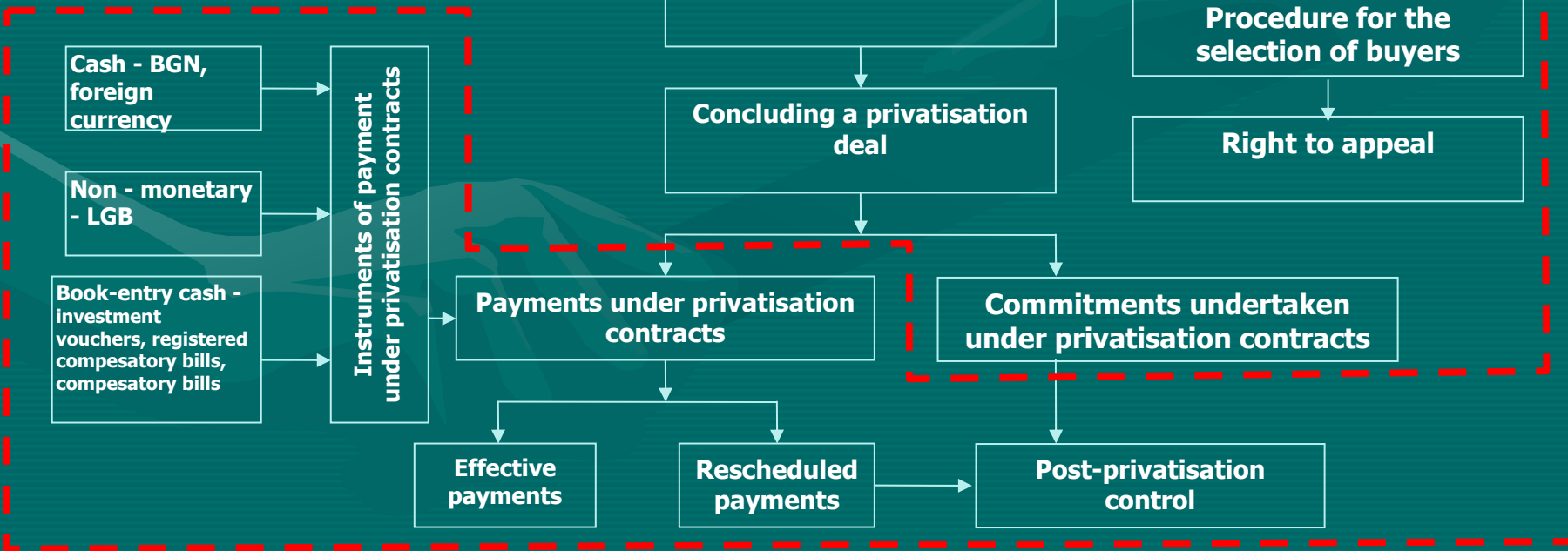
Preparation of a privatisation deal

Concluding a privatisation deal

- 1. Legal analysis
- 2. Financial and economic analysis

Procedure for the selection of buyers

Right to appeal



Cash - BGN, foreign currency

Non - monetary - LGB

Book-entry cash - investment vouchers, registered compensatory bills, compensatory bills

Instruments of payment under privatisation contracts

Payments under privatisation contracts

Effective payments

Rescheduled payments

Commitments undertaken under privatisation contracts

Post-privatisation control

THE CHALLENGE



CAN WE OVERCOME THE RISKS ARISING FROM THE DIFFICULTIES FACING US AND DESPITE ALL THE LEGISLATIVE RESTRICTIONS MEET THE PUBLIC NEED FOR SUFFICIENTLY RELIABLE AND COMPLETE INFORMATION ABOUT THE PRIVATISATION PROCESS ???

DEFINITELY "YES" !

BUT HOW ?

WHAT IS NOT AGAINST THE LAW?



TO EXAMINE THE MANAGEMENT OF THE OVERALL PRIVATISATION PROCESS

THE DIFFICULTIES WE FACE

- Frequent changes in legislation leading to changes in the government policy on privatisation
- Great number of competent authorities to make decisions for privatisation - Council of Ministers, Privatisation Agency , ministries, municipal councils
- Various instruments of payment used in the privatisation deals
- Unreliable and inadequate information flows formed through the years in the overall privatisation process
- The fiscal effect is not the only result of the process



OUR AUDIT APPROACH

We studied the system of the privatisation process and analysed and evaluated:

1. The legal basis
2. The management of the process:
 - Privatisation programmes and strategies
 - Competent authorities making decisions for privatisation
 - Accounting and control of the process
3. Structure of the revenues from privatisation - cash and non-monetary proceeds
4. Privatisation costs structure
5. Adequacy of the information supply in the process



ANALYSIS AND EVALUATION OF THE LEGAL BASIS

CONCEPTION

Criteria:

- Sufficiency
- Completeness
- Clarity
- Harmonization with other laws

RESULTS

- Frequent changes in legislation
- No legal regulation on the privatisation of banks
- Some existing provisions lack rigour, thus providing for contradictory and conflicting interpretations
- Essential elements of the process are not regulated by law, but by rules and regulations

A PRIVATISATION POLICY RESULTING FROM THE STATUTORY CHANGES

ANALYSIS AND EVALUATION OF THE CONTROL SYSTEMS

CONCEPTION

Elements:

- Overall management control, including post-privatisation
- Internal control
- Accounting control

RESULTS

- Overall management control has not been carried out systematically and effectively
- The internal control units were phased-in late
- No analytical accounting records are being kept which does not give us reasonable assurance that all amounts due under privatisation contracts have been paid

EFFECTIVE CONTROL SYSTEM AS AN ELEMENT OF THE MANAGEMENT OF THE PROCESS

ANALYSIS AND EVALUATION OF ACCOUNTING

CONCEPTION

- Comparing the data from the annual privatisation programme and the report on its implementation
- Suitability to provide current and regular information on the proceeds from privatisation, the privatisation costs and the real fiscal effect

RESULTS

- Inadequate to provide an objective picture of the results from the privatisation process by years, inadequate basis for taking reliable management decisions and producing realistic projections of the fiscal effect while drafting the state budget

THE ORGANISATION OF ACCOUNTING AS ELEMENT OF THE MANAGEMENT PROCESS

INFORMATION SUFFICIENCY

CONCEPTION

- Defining separate information flows
- Forming the information flows through review, processing, summarising and analysis of data
- Cross-checking of data to ensure correspondence and guarantee the reliability of information

RESULTS

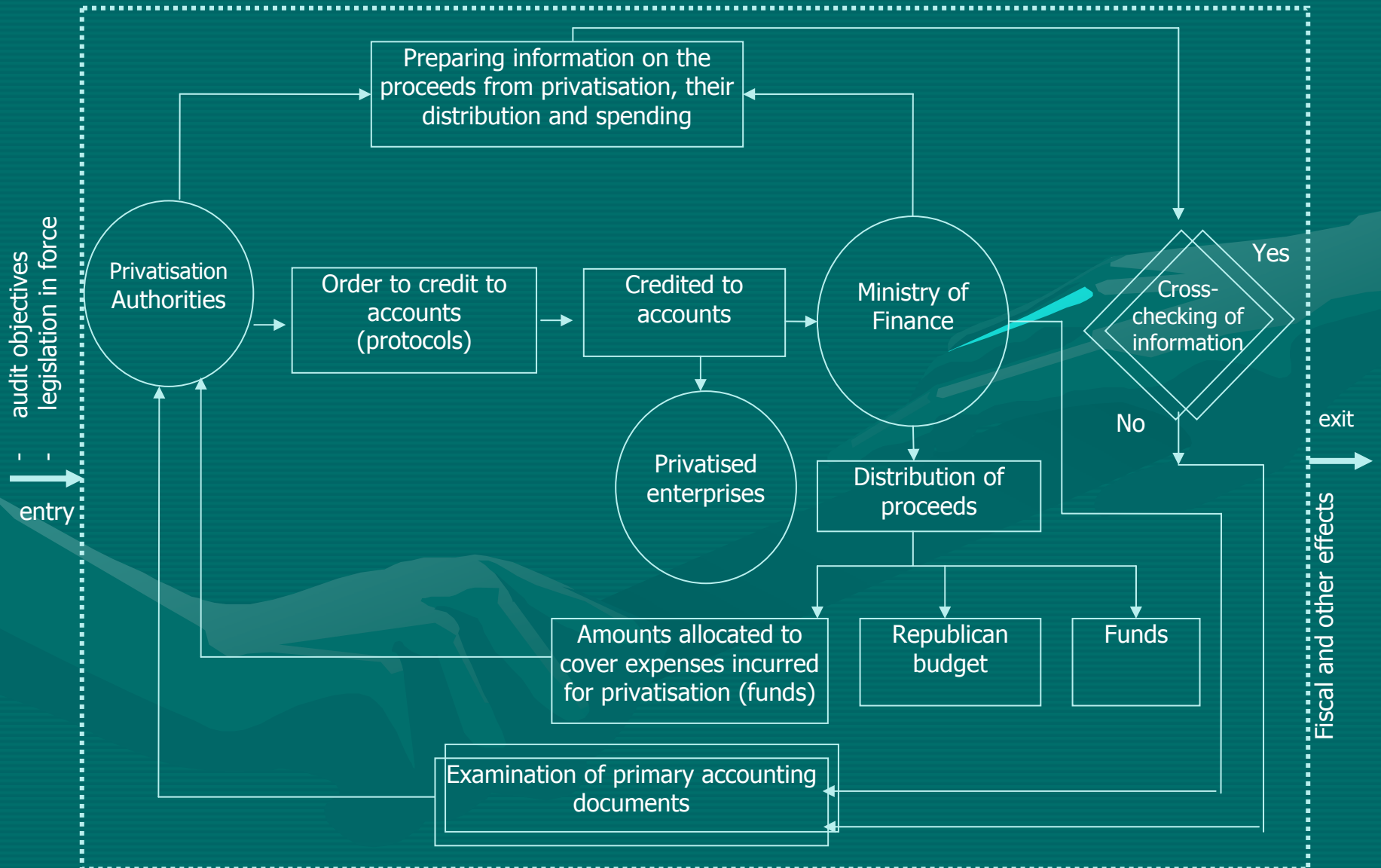
We defined the information flow on the proceeds from privatisation in 2 flow charts:

- Proceeds in cash /Chart 1/
- Non-monetary proceeds and book-entry cash /Chart 2/

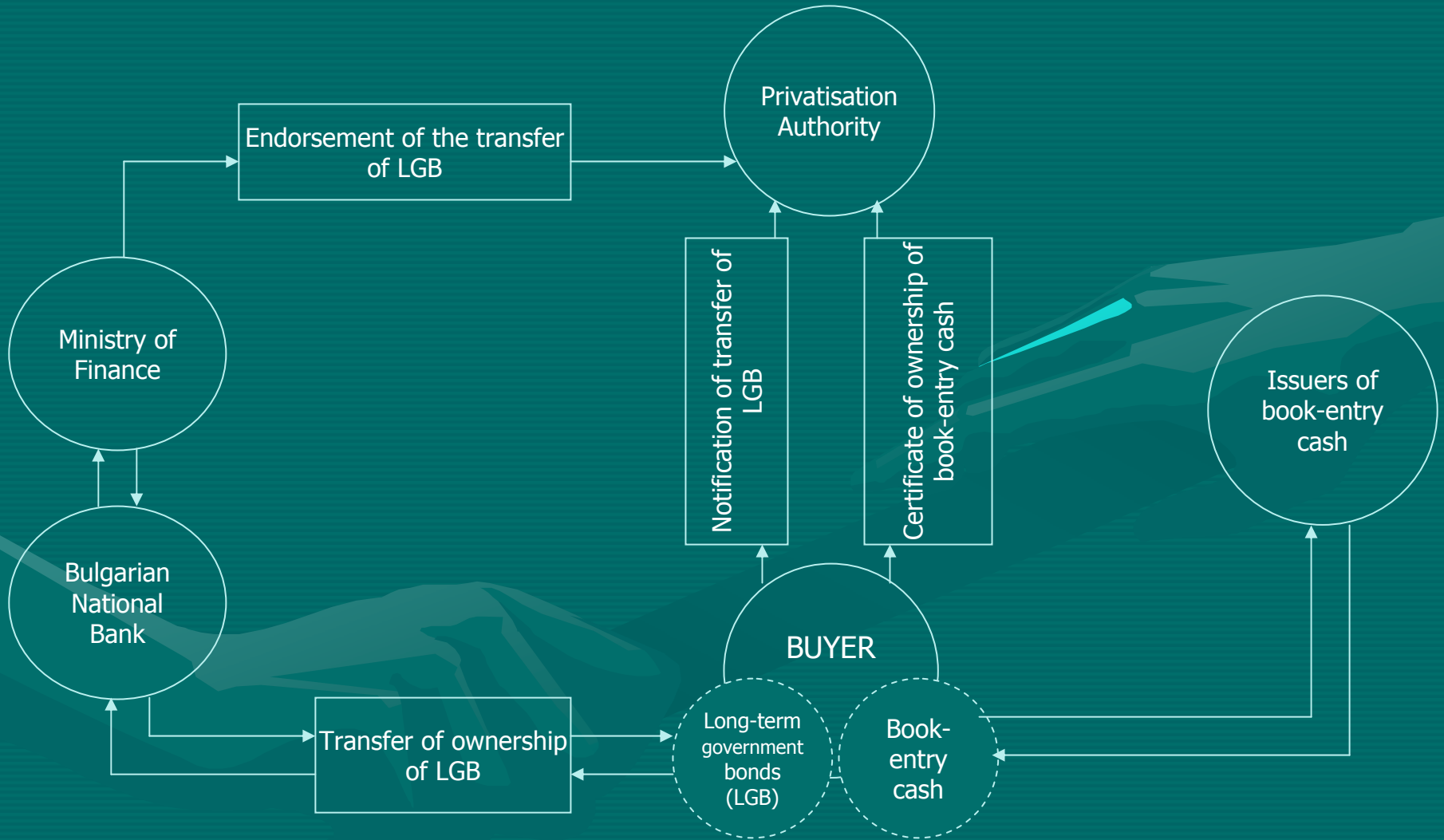
CAN YOU CARRY OUT CONTROL OR MANAGEMENT WITHOUT INFORMATION?

CASH PROCEEDS INFORMATION FLOW

CHART 1



NON-MONETARY AND BOOK-ENTRY CASH INFORMATION FLOW CHART 2



WHAT DID OUR APPROACH CONTRIBUTE?

- **IT PROVIDED THE PUBLIC WITH GREATER TRANSPARENCY ON THE PRIVATISATION PROCESS:**
 - **FOR THE FIRST TIME THE PROCEEDS FROM PRIVATISATION WERE ORGANISED IN AN ORDERLY MANNER BY YEARS, INCLUDING BUDGET REVENUES AND PRIVATISATION COSTS**
- **PRESENTED THE LEGISLATURE AND THE EXECUTIVE WITH RELIABLE AND OBJECTIVE EVALUATION OF THE MANAGEMENT OF THE PROCESS**
- **THE PRIVATISATION AUTHORITIES - MoF, THE PRIVATISATION AGENCY AND THE POST-PRIVATISATION CONTROL AGENCY, FOLLOWING THE RECOMMENDATIONS WE MADE, TOOK MEASURES FOR:**
 - **IMPROVING THE ACCOUNTING**
 - **STRENGTHENING ONGOING AND POST-PRIVATISATION CONTROL**



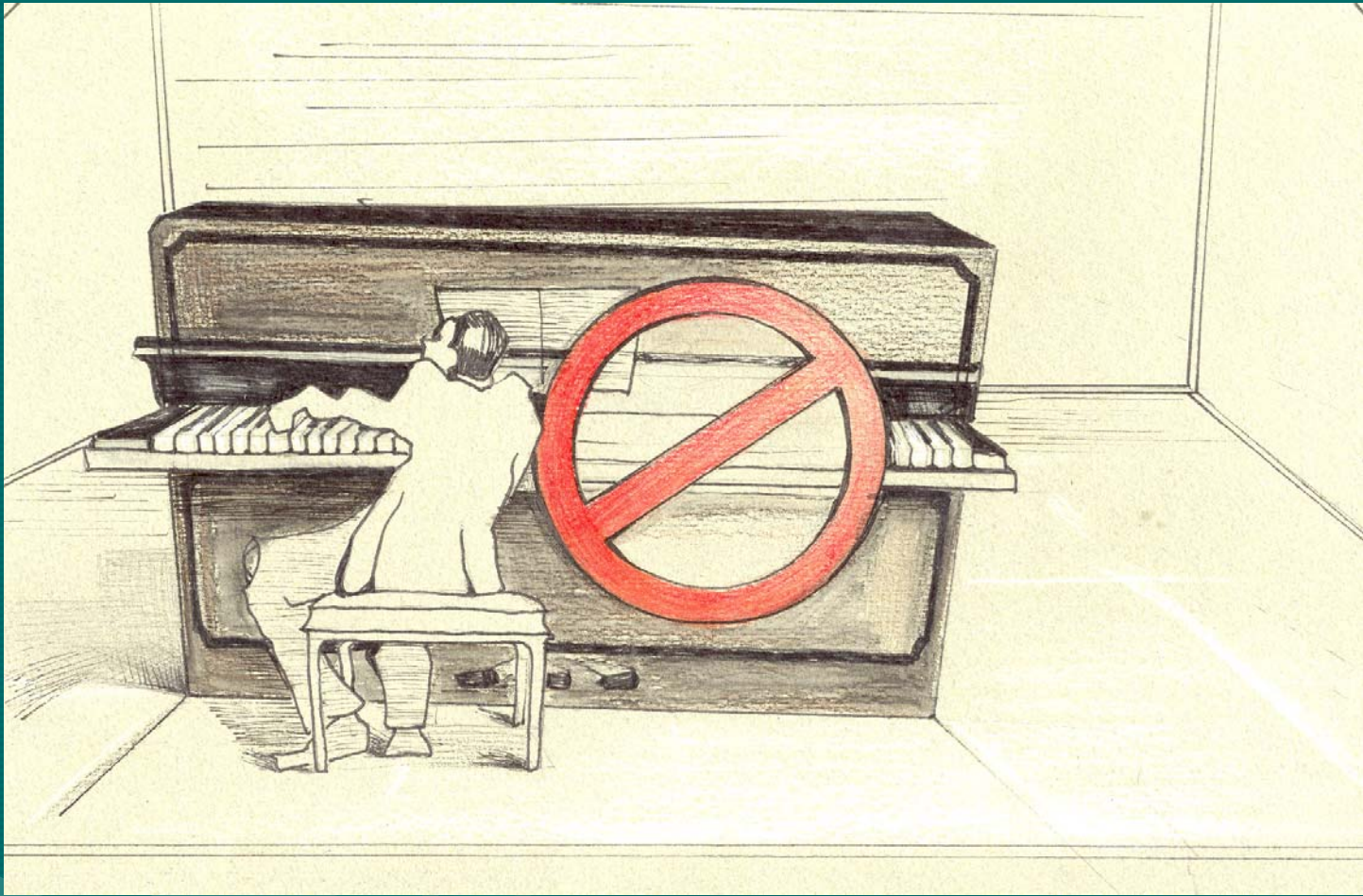
WHAT COULD WE NOT EXAMINE?

THE OTHER EFFECTS OF THE PRIVATISATION PROCESS:

- **MACROECONOMIC:**
 - economic growth
 - competitiveness of privatised enterprises
 - investments
- **SOCIAL:**
 - maintaining/creating new employment opportunities
 - retraining, acquiring new or additional qualifications



THE EFFECT FROM PRIVATISATION IS VERSATILE AND FAR-REACHING



IF WE COULD ONLY PLAY IT USING BOTH HANDS ...