

Performance audit of the Privatization Agency

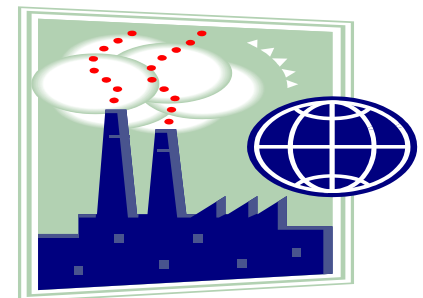
for the period from 01.01.2002 г. to 31.12.2006 г.

*Velislava Valkova
auditor in Bulgarian National Audit Office*

Subject of audit

The activity of the Privatization Agency from 2002 to 2006 in connection with the implementation of regulatory objectives and functions assigned to it, by the Law on Privatization and Post-privatization control and Agency rules of procedure:

- preparation for privatization and the conclusion of transactions within Agency jurisdiction;
- privatization Marketing;
- provided publicity and transparency of Agency activities.



Audit objectives

- I. To provide an independent and objective assessment of the effectiveness and the efficiency of the Privatization Agency
- II. To establish the existence of risks in the preparation of the privatization sales
- III. To determine to what extent the statutory regulation of organization and procedures, provide sufficient and on time information and for the process of decision-making by both the Executive and Supervisory Board.



Audit tasks

The audit covers the activities of the Privatization Agency from 2002 to 2006 with the following tasks:

- ▶ Analysis and evaluation of the existing legislation in relation to organizing and implementing the privatization;
- ▶ Analysis and assessment of the extent of the compliance of internal acts of the Privatization Agency legislation;
- ▶ Analysis and evaluation of implementation of the regulatory rules defined by the structure functions of the Privatization Agency in carrying out the privatization Marketing;
- ▶ Analysis and evaluation of implementation of the regulatory rules defined by the structure functions of the Privatization Agency on the preparation for privatization;
- ▶ Analysis and evaluation of the achieved transparency in the activities of the Privatization Agency;
- ▶ Analysis and assessment of the resource provision of the Agency and implementing its Regulatory functions;
- ▶ Analysis and evaluation of the performance results of the Privatization Agency for the audited period.



Methodology

- ▶ Methodology for conducting the audit in accordance with standards adopted by the BNAO.



- ▶ According to the approved scope, the audit is carried out using certain criteria of the audit team to assess the activity of the Agency.



Criteria


Group I. Criteria for evaluation of the regulatory and the resource providing:

1. Completeness and adequacy of the legal framework regulating the activities of privatization;
2. Resource provision adequate to the activities of the Privatization Agency (financial, personnel and information).

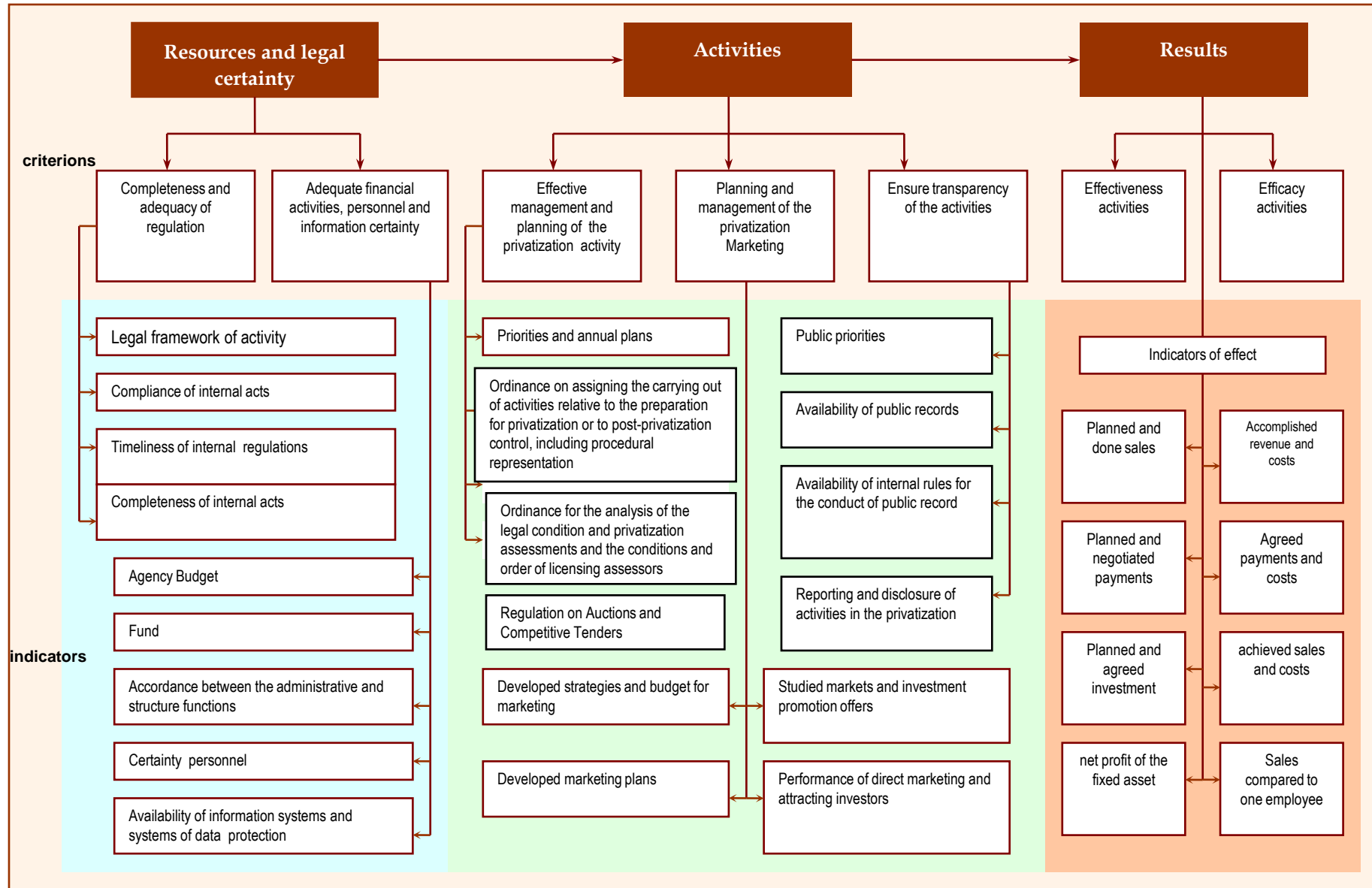
Group II. Criteria for evaluating the performance of the basic functions of the Agency:

1. Effective management and planning of the privatization activities;
2. Planning and management of the privatization Marketing;
3. Ensure transparency in the activities of the Agency.

Group III. Criteria for evaluating of the activity results of the Privatization Agency:

1. Criteria for effectiveness - the accordance between the results previously defined and the objectives;
 2. Criteria for efficiency - the accordance between of the achieved results and unit resources.
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Evaluation criteria and metrics used in the audit of the Privatization Agency



1. Completeness and adequacy of the legal framework regulating the activities of privatization

1.1. Legal framework regulating the activity of the Privatization Agency .

1.2. Timeliness of the issuance of regulations resulting from the Law on Privatization and Post-privatization control .

1.3. Completeness and compliance of the domestic legislation with regulations the Privatization Agency .

Conclusion:

The Legislation creates the preconditions for the implementation of the privatization process.



2. Resource provision adequate to the Privatization Agency

2.1. Financial.

2.2. Personnel.

2.3. Information.

Conclusions:

- ▶ In order to perform its functions of the Privatization Agency, is financially secured. Available funds in the budget and the Fund are spent efficiently and economically carrying out the activities for the preparation of the privatization process.
- ▶ The structure of the Privatization Agency comply with the assigned functions with the Agency rules. The Agency has sufficient and qualified staff members to fulfill their functions.
- ▶ The information system provides effective and efficient performance of the functions of the Agency. Actions for its permanent improvement and maintenance are taken.



3. Effective management and privatization activities planning

- 3.1. Annual plans for privatization were done.
- 3.2. Action activities on Art. 2 Ordinance on assigning the carrying out of activities relative to the preparation for privatization or to post-privatization control, including procedural representation are taken.
- 3.3. Activities Ordinance for the analysis of the legal condition and privatization assessments and the conditions and order of licensing assessors.
- 3.4. Activities Regulation on Auctions and Competitive Tenders.

Conclusions:

- ▶ *The requirements of those regulations are observed. The taken actions by the Agency ensure their accomplishment in accordance with regulatory requirements.*
 - ▶ *A transparency of the selecting candidates procedures for the preparation of analysis of legal status, economic evaluations and information memoranda are done.*
 - ▶ *The risk to both the Executive or the Supervisory Board is minimized in order to submit false information about the subject of privatization company or potential buyers.*
 - ▶ *Public methods of privatization (public auction, public tender, public and centralized public auction) lead to the achievement of a higher initial cost compared to the fixed and greater transparency in finalizing the transaction.*
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4. Planning and management of the Privatization Marketing

The functions of privatization marketing are analyzed

- 4.1. Marketing strategy and marketing budget are developed.
- 4.2. Marketing plan is developed.
- 4.3. Disclosure of information via publishing of liflets and catalogues.
- 4.4. Researched investment markets. Promotion of offers to potential investors.
- 4.5. Direct marketing

Conclusion:

The Management executive of the Privatization Agency has underestimated the role of active and targeted marketing.



5. Ensured transparency in the activities of the Privatization Agency

During the audit were checked the functions set out in the Rules of Procedure

- 5.1. Disclosure of the priorities in the activity.
- 5.2. Reporting and disclosure of activities of privatization.
- 5.3. Disclosure decisions of Executive Board.
- 5.4. Presence of a public register of the privatized companies.
- 5.5. Availability of internal rules for the public register.

Conclusions:

In The Privatization Agency were created conditions for informing and equity of potential investors and transparency in the privatization process.

Internal rules for organizing and keeping the public records are not updated and improved in accordance to structural changes that has occurred in the Agency.

The Agency management has not taken timely measures for the implementation of the information on the privatized companies in 2002 until the entry into force of the Regulations of the data be entered in public registers, the process of privatization and post-privatization control.



6. Results of the activity of the Privatization Agency. Effectiveness and efficiency.

6.1. Indicators of effects:

- number of done sales;
- agreed payments;
- agreed investment;
- fixed assets privatized.

6.2. Indicators of expenditure:

- budget spent costs;
- coverage of privatization costs by the Fund.

6.3. Indicators of effectiveness:

- planned and done sales;
- planned and agreed payments.

6.4. Indicators of efficacy:

6.4.1. Value:

- accomplished revenue and costs;
- agreed payments and costs of activities;
- achieved sales and costs of activities;
- privatized fixed assets and cost of activities.

6.4.2 Natural:

- done sales and average number of personel.
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6.1. Indicators of effects

agreed investment

direct financial effect

where:

DFE – direct financial effect;

P – agreed payments;

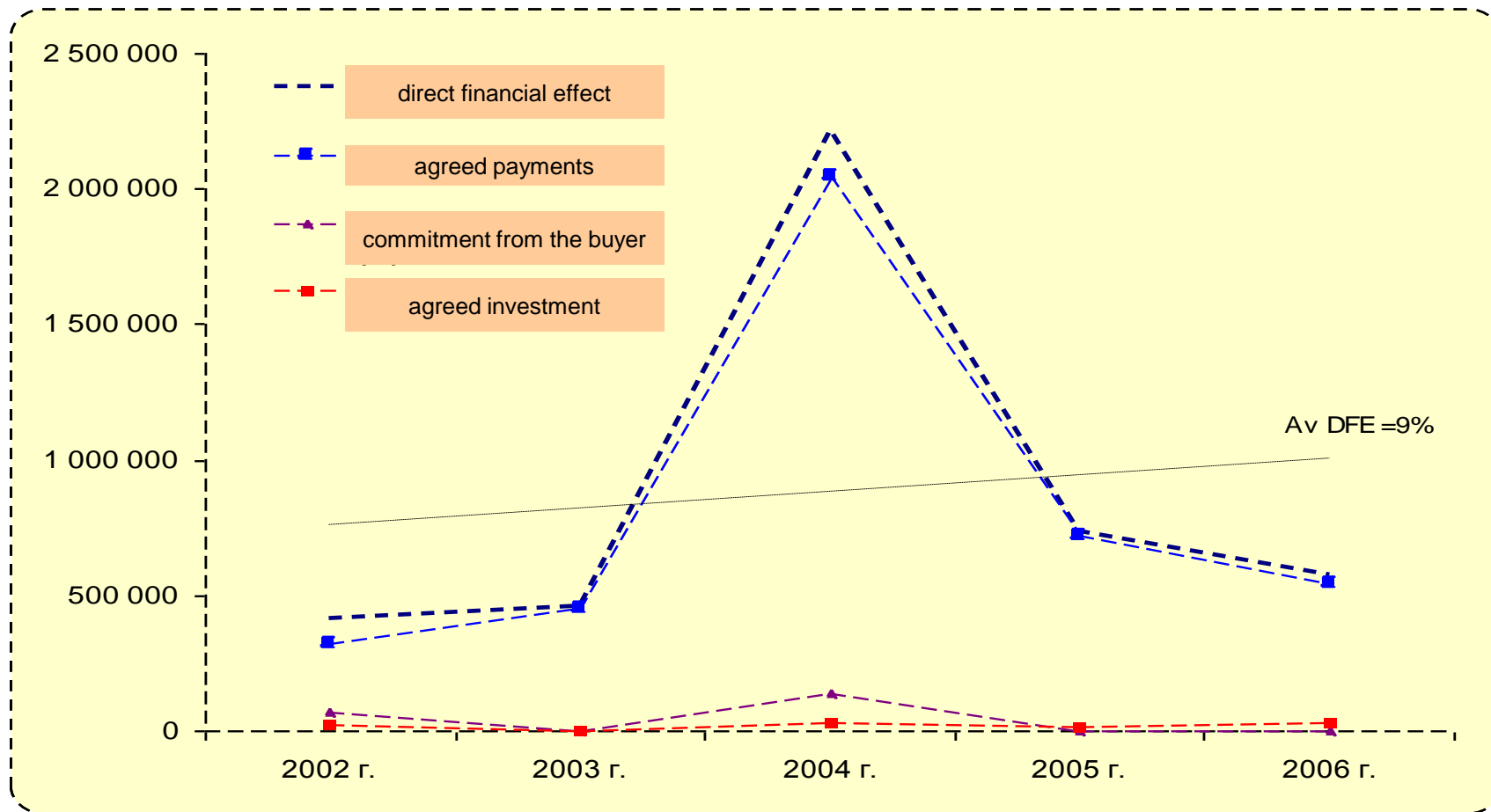
D – commitment from the buyer (to the privatized company);

I – agreed investment.



Indicators	Years					Total
	2002	2003	2004	2005	2006	
Direct financial effect	410 734	457 090	2 216 064	735 610	577 943	4 397 441
Agreed payments	319 647	454 500	2 049 819	720 210	544 531	4 088 707
Commitment from the buyer	68 889	2 290	136 908		1 336	224 823
Agreed investment	22 198	300	29 337	15 400	32 076	83 911

Direct financial impact of privatization for the period 2002 - 2006



6.2. Indicators of expenditure

Spending of budget funds

Coverage of the costs by the Fund

Dynamics of the budget, and the total extra costs of the Agency for 2002 -2006

Years	Budget		Fund		Total cost	
	Cost (BGN)	Index (%)	Cost (BGN)	Index (%)	Cost (BGN)	Index (%)
2002	1 355 618	100,0	8 263 480	100,0	9 619 098	100,0
2003	1 573 257	116,1	9 070 642	109,8	10 643 899	110,7
2004	1 626 671	103,4	12 823 233	141,4	14 449 904	135,8
2005	1 506 597	92,6	11 306 841	88,2	12 813 438	88,7
2006	1 351 948	89,7	8 945 961	79,1	10 297 909	80,4
Total	7 414 091		50 410 157		57 824 248	



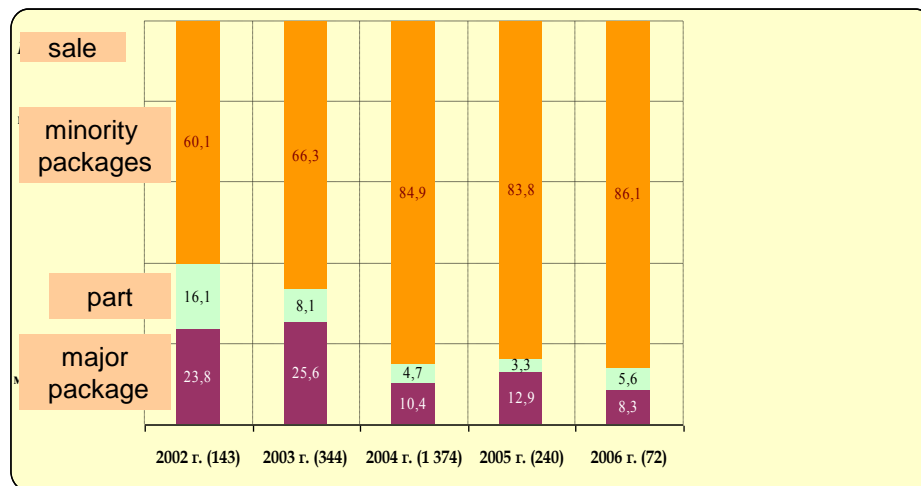
6.3. Indicators of effectiveness

Performance indicators are summarized for the period 2002 to 2006

Planned and done sales.

For the audited period were carried out 2 173 privatization sales.

Indicators	2002	2003	2004	2005	2006
1. Number of planned sales	664	1 105	264	233	198
2. Number of done sales	143	344	1 374	240	72
3. Performance (row 2/ row 1)	21,5%	31,1%	520,5%	103,0%	36,4%



Structure of the Agency carried out privatization transactions amounted to state property for the period 2002 - 2006

6.3. Indicators of effectiveness

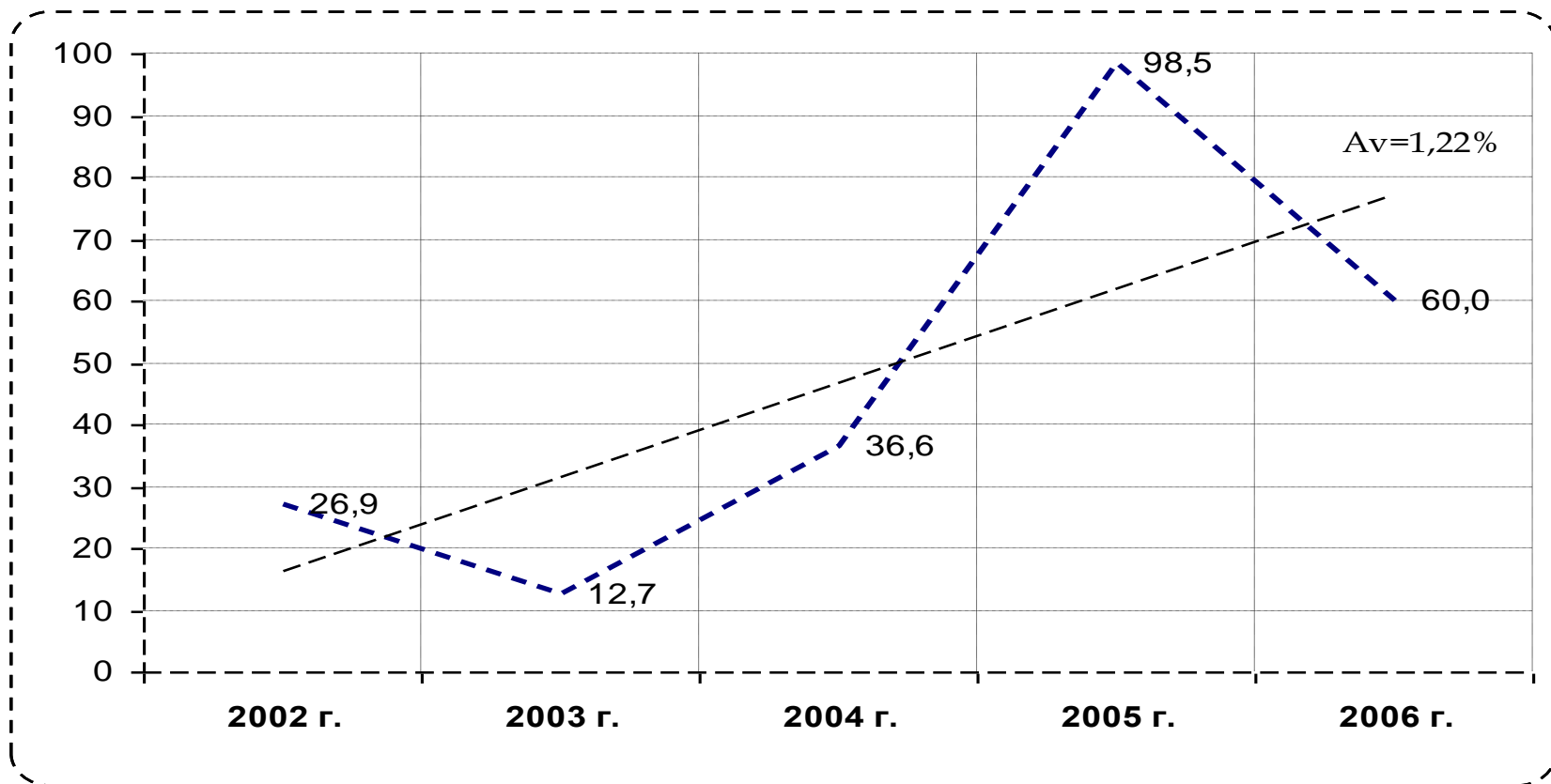
Planned and fixed sales

Indicators	2002	2003	2004	2005	2006
1. Planned and fixed payments (total in thousand in BGN)	748 493	550 000	511 400	750 000	620 000
2. Agreed reported payments (total in thousand in BGN)	319 647	454 500	2 049 819	720 210	544 531
3. Performance (row5/ row 4)	42,7%	82,6%	400,8%	96,0%	87,8%
4. Planned agreed payments (total in thousand in BGN)	618 523	550 000	500 000	450 000	600 000
5. Report agreed payment (total in thousand in BGN)	237 740	140 217	1 976 266	80 383	502 718
6. Performance (row 8/ row 7)	38,4%	25,5%	395,3%	17,9%	83,8%
7. Planned agreed payments in non-cash items (total in thousand in BGN)	129 970		11 400	300 000	20 000
8. Report agreed payment in non-cash items (total in thousand in BGN)	81 907	314 283	73 553	639 828	41 813
9. Performance (row 11/ row 10)	63,0%		645,2%	213,3%	209,1%

Accomplished revenue and costs

Indicators	Proceeds in monetary items:		Budget	Fund	Total	Ratios		
	of transactions in current year	of transactions concluded in previous years				Actual revenues / costs of privatization	Real revenue (from previous years) / costs of privatization	
Years	1	2	3	4	5	6 (4+5)	7 (2:6)	8 (3:6)
2002		221 707 317	259 182 035	1 355 618	8 263 480	9 619 098	23,05	26,94
2003		133 507 273	135 603 255	1 573 257	9 070 642	10 643 899	12,54	12,74
2004		524 071 146	528 331 531	1 626 671	12 823 233	14 449 904	36,27	36,56
2005		79 928 597	1 262 433 141	1 506 597	11 306 841	12 813 438	6,23	98,52
▶ 2006		450 127 617	617 790 314	1 351 948	8 945 961	10 297 909	43,71	59,99

Realized revenues for the budget with 1 BGN spent for the period from 2002 to 2006



6.4. Indicators of efficacy

done sales - activity costs

Years	Sold (number)	Total cost (BGN)	Total revenue (BGN)	Average cost per a deal (c.3/c.2)	Average revenue of a deal (c.4/c.2)	Average revenue of 1 BGN cost from 1 deal (c.6/c.5)
1	2	3	4	5	6	7
2002	143	9 619 098	259 182 035	67 266	1 812 462	26,9
2003	344	10 643 899	135 603 255	30 941	394 196	12,7
2004	1 374	14 449 904	528 331 531	10 516	384 521	36,6
2005	240	12 813 438	1 262 433 141	53 389	5 260 138	98,5
2006	72	10 297 909	617 790 314	143 026	8 580 421	60,0

done sales - average number of perssonel

Indicators Years	Number of privatization deals	Average number of perssonel		Workload of perssonel	
		Total	In the specialized administration	Number of deals per a employee in the Agency (2 : 3)	Number of deals involved in the specialized administration (2 : 4)
1	2	3	4	5	6
2002	143	153	94	0,93	1,52
2003	344	169	104	2,04	3,31
2004	1374	165	101	8,33	13,60
2005	240	144	84	1,67	2,86
2006	72	110	62	0,65	1,16