

7-S Challenges in Public Sector Risk Management

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Abstract- This paper examines the problems and peculiarities of risk management in the public sector in Bulgaria. Several discussion questions raised: To what extent do public sector administrations have an adequate and working toolkit for risk management? Is the existence of formal tools enough to meet modern challenges? Is there a sufficiently developed organizational culture and knowledge of risk management in the public sector? How does risk management affect network collaboration? How does digital transformation impact the innovation process in the public sector? Can government organizations take the risk of digital transformation? The solution to these questions depends not only on how the evaluation framework will be built, but also on what the design of the risk management system should be, the commitments of the administration to monitor and control it, and the organizational culture and management style. The purpose of the paper is to point out the main deficits in risk management in the Bulgarian public sector from different perspectives and to summarise them in a holistic model - McKinsey's 7-S framework. Data from secondary analyzes of the state of the Bulgarian administration were used, which were triangulated with findings from an empirical study conducted by the authors. The conclusions are that problems are observed in all elements of the risk management framework, although progress is observed over time. From a perspective of the direction of improving the efficiency of the process, the possibility of transferring methodologies and practices to agile risk management is considered. The authors support the view that as an approach, it can solve many of the shortcomings of the traditional bureaucratic model and positively impact network collaboration in the context of digital transformation.

Keywords- risk management, public sector, McKinsey 7-S Framework

I. INTRODUCTION

In the conditions of a highly variable international, macro and meso environment, risk management is once

again the focus of research interest. Whether risk management systems in the public sector manage to catch potential threats in time and ensure reduction of their impact or influence to the maximum extent is a question that hardly has a single and universal answer. The public sector is a particularly important entity that must manage risks with particular care, as its decisions and policies have a huge impact on socio-economic life and can easily change the outlook for certain communities and even entire countries. Despite the high degree of abstraction of this statement, the fact is that the complex situation internationally in the last two years - COVID-19 pandemic, the war in Ukraine, the energy and gas crises, intensive migration processes, and complex interstate relations (including in The Balkans) - pose new challenges to Europe at the geopolitical level. These factors, in combination with the political and already economic instability in Bulgaria, cause serious institutional and administrative difficulties in solving complicated tasks of a strategic nature at different hierarchical levels.

Risk management, as a process and practice, has an essential role in the decisions that are made by the administration. A series of studies by both academics and the executive authority itself, which oversees the process, bring to the fore several discussion questions: To what extent do public administrations have an adequate and workable risk management toolkit? Is the existence of formal tools enough to meet modern challenges? Is there a sufficiently developed organizational culture and knowledge of risk management in the public sector?

Answering these questions for the entire public administration in a country requires a precise monitoring and evaluation toolkit. The solution to this methodological question depends not only on what the framework for identification and assessment will be, but also on what the design of the risk management system should be, respectively the hierarchical commitments to the process of

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the administration to monitor and control it, the knowledge and skills of employees, and leadership style.

The purpose of the paper is to point out the main deficits in risk management in Bulgarian public sector from different perspectives and to summarize them in a holistic model - McKinsey's 7-S framework. As a perspective in the direction of improving the efficiency of the process, the possibility of transferring methodologies and practices to agile risk management is considered. The authors support the view that as an approach, it can solve many of the shortcomings of the traditional bureaucratic model and positively impact network collaboration in the context of digital transformation.

II. MATERIALS AND METHODS

A. Context

The development of interpretations regarding the content of the concept of risk goes from a complete lack of possibility to influence risky events [1], through its diagnosis and quantification of the influence and probabilities [2], to the construction of a well-organized management system [3]. There is more and more talk about intelligent risk management and a new approach [4]. In the context of digital transformation and the intensive penetration of artificial intelligence in the public sector, the challenges are related to the implementation of strategic alternatives [5]. They must ensure early diagnosis and adequate response to major risks. Successful risk management is associated with the presence of an appropriate organizational culture [6]. The new risk management paradigm is characterized by a high degree of knowledge and expertise, ensuring the effectiveness of the empowerment and delegation process. Organizations that strive for proactive risk management are characterized by a continuous drive for organizational change, improvement, and reengineering of work processes, investment in staff development and talent retention, working with stakeholders and formal and informal networks.

Intelligent risk management is associated with the understanding that it ensures informed decision making. This implies setting organizational goals at a high hierarchical level and planning and implementing sustainable actions to achieve them. An important aspect is the provision of expert and technological capacity to carry out adequate actions to manage the risks that would threaten the achievement of these goals.

Risk management in the context of financial management and control in the public sector in Bulgaria is perceived as "a process carried out by the management and the entire staff of the organization, which starts with the development of a strategy and covers the overall organizational functioning. It is aimed at identifying those events that may affect the achievement of the organization's objectives, managing the risks associated with those events, and also at controlling that the organization's risk appetite is not exceeded, and providing reasonable assurance, that the goals of the organization will be achieved." [7]. This definition emphasizes several key features that are defining for the process [8]:

- goal setting is the basis of risk management;
- it is a continuous process;
- requires the commitment and participation of all employees in the administration from all hierarchical levels;
- network collaboration is a basis for performance;
- keeps the risk at levels that are within the risk appetite of the organization;
- gives reasonable assurance that the organization's objectives will be achieved.

In recent years, emphasis has increasingly been placed on whether the institutionalization of certain tools in the organization leads to effective risk management and ensures the achievement of its objectives. The relationship between the impact of the environment and intra-organizational dynamics and change is becoming increasingly important to achieve of the intended goals [9], [10]. The researches show [11], [12] that very often the change in the environment and the regulations regarding the risk meet organizational resistance and hardly manage to be imposed in the practice of the administrations.

An interesting study in the public sector outlines some key challenges for it in the context of process management and the implementation of agile approaches [13]. Documentation, or too much documentation, emerged as a significant organizational problem. Insufficient education and experience, low organizational and personal commitment, ineffective communication and limited stakeholder involvement, processes that are not results-oriented, complex or conflicting hierarchical structure and functional interdependence, overly strict internal and external regulatory regulation, complete the list of challenges. The introduction of agile management methodologies in organizations presents new challenges to risk management. Although some of the conventional methods can be applied, it is important to take into account the specifics of flexible methodologies. This implies a more dynamic application of a complex of methods and techniques for risk planning, identification, analysis, assessment and impact.

B. Research approach

The research is based on an established approach, including a review of scientific literature, a situational analysis built on secondary and primary sources of information and a survey, defining conclusions and generalizations.

The review of scientific literature emphasizes the risk management in the public sector as a process, the deficits and the prospects for its improvement. The secondary sources of information include a study of the annual consolidated reports on the state of internal control in the public sector in Bulgaria for the period 2016-2023. They are developed in accordance with the normative regulation of the Law on Financial Management and Control in the Public Sector by filling in a standardized questionnaire for self-assessment approved by the Minister of Finance for each individual year. The consolidated reports cover the self-assessments of the first-level budget managers on the

level of development of financial management and control systems in individual administrations. Reports cover all units of monitored units.

To test hypotheses, the authors also use data from electronic surveys conducted by the team on a defined questionnaire for multi-criteria assessment of administrative capacity. The period of the empirical study covers 2018 - 2023 years, and the sample was formed on a non-random basis and included representatives of all 12 groups of administrations from the executive authority structure - 6 from the central and 6 from the territorial administration. In this sense, the sample reproduces the structure of the general population. The methods used for processing and researching information are statistical methods for analysing structures, one-dimensional distributions, and temporal grouping. Conclusions and recommendations were made through the methods of deduction, induction and translation.

III. RESULTS AND DISCUSSION

A. Content Analysis

The general assessment made in the consolidated annual reports on internal control in the public sector is that risk management needs improvement. For example, the 2016 report states that "Risk management in public sector organizations still needs consistency of effort, stability and ensuring commitment to identified objectives." [14]. The 2018 report states confirm the findings made in the previous year and it added that it is necessary to "ensure the participation of employees in training related to the introduction and functioning of risk management in public sector organizations, to ensure effective and adequate risk management procedures". [15].

The consolidated report for 2020 notes that risk management continues to be an area in need of improvement in public sector organisations. The identified needs are related to the need for "ongoing review and updating of Risk Management Strategies; preparation and updating of risk registers; engaging managers at all levels in the process; determining risk management coordinating the pro-cess." [16].

The latest public report for 2023 highlights the need to increase the capacity of public organizations in terms of risk management. The weaknesses are again related to the overall process of identifying, assessing, responding to and monitoring risks [17].

Heads of organizations are responsible for building effective risk management mechanisms, as well as implementing tools for ongoing monitoring and updating. A large part of managers indicate that they understand the benefit of risk management for the organization and especially in terms of the process of making a management decision [15]. In the year 2023 again, a large number of government organizations continue to have difficulties, related to the execution of the risk management process, which limits the effectiveness of risk management [17].

From the cited report, it is clear that almost all public sector organizations have risk management strategies in accordance with the provisions of the Law on Financial Management and Control in the Public Sector, Art. 12, para. 3. To what extent the risk management strategies are qualitative, whether they are working documents, is a question that is not yet subject to attention from the control authorities. In 2023, almost 56% of administrations have updated their risk management strategies. Not a small number of organizations, however, do not carry out ongoing monitoring of their strategies, which are a tool for ensuring the risk management process in organizations with rules, procedures and instructions and committed officials.

Another weakness in risk management practice relates to the maintenance of risk registers. In 50% of cases, it is stated that the administrations do not adequately document the risk management process, which is a threat to the achievement of organizational goals. It is extremely worrying to find that only 48% of the administrations, which are budget managers of the first degree, have created bodies, committees, councils, commissions, etc., with a functional specialization in risk management. In the remaining 52% of cases, there are no formal structures charged with administrative-organizational risk management and integration activities [17].

The commitment of management personnel in the administration of risk management and its documentation in the risk register is increasing. In 2018, only 13% actively participate in the process of identification, assessment, targeting and implementation of response, monitoring and reporting, and for 2023 this share is already 48%. A negative indication is that approximately 13% of the heads of organizations report that they partially or do not meet the criterion regarding the commitment of managers at all levels in risk assessment and completion of the risk register. In terms of keeping the risk registers up to date, 60% of organizations conduct an annual review and update of significant risks. All these findings are part of the Consolidated Annual Report on Internal Control in the Public Sector - 2023 [17].

The risk management process in public sector administrations is subject to annual self-assessment and reporting to the Ministry of Finance in Bulgaria. In this regard, it is essential to note that there are drastic differences in the assessments in individual years. For example, if in 2018 72% of administrations rated themselves as good, in 2022 only 34% gave themselves such a rating (see Fig. 1). At the same time, during the period, very good ratings did increase significantly, which shows that the methods of self-assessment through vague criteria, based on several control questions in the questionnaire of the Ministry of Finance, are not sufficiently objective and do not represent the real picture.

The findings that are made in the 2023 report emphasize the need for efforts to ensure the quality of the risk management process and provide an environment for achieving organizational goals. Weaknesses in risk

management negatively impact control mechanisms. In this case, organizational risk levels in a rapidly changing environment increase significantly.

A review of the consolidated reports shows that overall risk management is evolving and more administrations are giving this element higher self-ratings. Despite that, it remains the least developed of the five elements of the financial management and control framework of the COSO model [7].

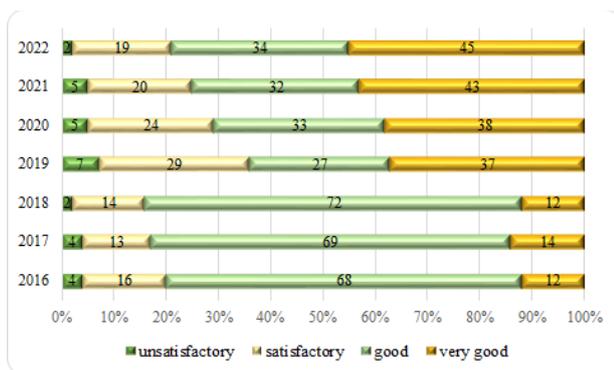


Fig. 1. Self-assessments of the administrations of the risk management process during the period 2016-2022 (authors' calculations based on [14] - [19] and [21] - [22])

The question of how objective these self-assessments are will not be analysed here. It will be mentioned that the self-assessment questionnaires in the last five years are almost identical, with the questions included covering a minimum level of risk management. But the administration in Bulgaria at this stage is not prepared to ensure that higher requirements are met, because there are deficits in the risk management expertise in the public sector. That is why it is precisely in this area that the administrations most often indicate that they need training [16], [17].

C. Empirical research

The identified shortcomings of the risk management system are confirmed and supplemented by the empirical study of the administrative capacity of the central and territorial administration in Bulgaria, conducted by the authors.

The research was conducted electronically using a survey card with closed questions in four consecutive years - 2018 - 2023. The sample was formed on a non-random basis and included representatives of 12 groups of administrations - 6 from the central and 6 from the territorial administration. The number of respondents is as follows: 2018 - 142 people; 2019 - 159 people; 2020 - 125 people; 2021 - 119 people; 2022 - 91 people; 2023 - 88 people. The respondents cover all groups of administrations and in this sense, it can be concluded that the sample consists of typical data for the general population and reproduces its structure. Due to the broader scope of the study, only a few descriptive summaries are presented in this article that outline the risk management practice and capacity of the administration.

Each of the questions in the survey has four answers that describe possible states and practices in the

administration. The rating direction is from worst to best. The highest grade is awarded when the administration covers the best de-scribed condition. Respondents are the ones who mark the answers on the survey card. The evaluations are made by the researchers according to established author's methodology.

The main assumption in the study was that there are gaps in risk management in several directions described in separate hypotheses.

—The **first hypothesis** is related to the assumption that respondents do not always understand the significance of the administration's strategic and operational goals, and do not realize the relationship between goals and risks.

Therefore, the question was asked whether the organization has set strategic and operational goals for each year with indicators for results, deadlines, re-sources and responsibilities, which are subsequently the starting point for the risk management process.

In general, almost all respondents claim that administrations set annual goals, but some respondents mistakenly equate organizational goals with those of the region or municipality (about 19% with a variation of 11% to 26% in different years). On average, about 16% indicate that such goals are defined, but they are not sufficiently well communicated - they are not published on the website and their monitoring is not arranged. About 2/3 of the respondents indicate that there are organizational goals and their implementation is monitored accordingly.

As noted above, goal setting is at the heart of risk management. There is a need for a more in-depth study of the planning function in administrations and its connection with risk management.

—The **second hypothesis** is related to the assumption that the work processes are not always described in the administrations, or if so, the description is partial and the control systems do not always register them. The digitalization of pro-cesses is unsatisfactory.

Respondents were asked to indicate which of the listed situations corresponds to the situation in their administration. Slightly more than 2/3 (70% on average for the period) indicate the best state as relevant to their organization – “All basic work processes are specified with written basic procedures, internal rules, regulations, etc. Employees refer to them and rarely allow deviations that are registered by the control systems.” About 14% also indicate that the work processes are scheduled, but at the same time that “Sometimes deviations from the prescriptions are found, but the control systems do not always detect them register”. The rest (16% in total) claim that there are no scheduled work processes, and that everything is regulated in the Statute of the administration. In about 9% of the answers, it is indicated that, in addition to the Statute, there are other documents - work maps or technological maps that describe the main steps of a given work process.

This result shows that some of the administrations do not comply with the financial management and control

systems in the public sector. Although they are mandatory, they remain formal.

Over 68% of respondents indicate that work processes are performed predominantly analogically. Automation based on digitalization is rather an exception in their implementation.

—The **third hypothesis** is related to the fact that only some management systems are implemented in the administrations.

Respondents had to choose from a list that included: risk management systems, knowledge management, public procurement, quality management, financial management and control, environmental management, food safety, human resource management, information management, supply management, etc. The majority of administrations indicate up to 5 systems, with half of them even as few as 3 management systems implemented in them. About 10% (average for the period) are the administrations that have implemented more than 8 management systems.

This hypothesis refutes the credibility of the answers in the second hypothesis, where 70% of the respondents note that all the main work processes are specified with written basic procedures, internal rules, regulations, etc. and employees refer to them.

In general, this is also one of the problems of monitoring risk management in the public sector, which is carried out through self-assessment cards without triangulating with additional data.

—The **fourth hypothesis** is related to the assumption that not all administrations have developed strategies for risk management, respectively risk registers, or if there are, they are not regularly updated.

About 56% on average (from 48 to 68% in different years) of the respondents indicate that risk management strategies have been developed and implemented in the administrations. However, there are variations in terms of updating strategies and risk assessment. About 14% said their organization's risk management strategy was developed more than three years ago without being updated since then, and the risk assessment was more than a year ago. However, over time this relative share is decreasing, from 23% in 2018 to 7% in 2023. This somewhat contrasts with the responses given in the self-assessment reports and the finding in the consolidated report on the state of internal control, which turns attention to the need to intensify efforts to "ensure ongoing review and update of Risk Management Strategies" [16] and reducing the formality of process execution [17].

About ¼ of the respondents (with a variation of 19% to 32%) also answered that the strategy is long-term (for more than three years), but the risk assessment is done every year. Good practices require more frequent review of risk registers and keeping them up-to-date, as risks are dynamic and must be monitored on an ongoing basis. In this sense, the administrative practice on the matter is rather static.

— The **fifth hypothesis** is complementary, as it concerns the assessment of the risk of political instability. The question concerns the period 2020 - 2023.

TABLE 1. 7-S MCKINSEY FRAMEWORK OF RISK MANAGEMENT IN THE PUBLIC SECTOR (AUTHORS' CALCULATIONS BASED ON [14]- [19])

Elements	Conclusions
Structure	Weaknesses noted: There are administrations in which there is no structure. "In 49% of cases, there are no formal structures charged with administrative-organizational risk management and integration activities" [16] „...involving managers at all levels in the process...” [17].
Strategy	Weaknesses identified: "Linkage to identified objectives' not always achieved" [14]. "Ongoing review and update of Risk Management Strategies" required [16]. „Changes are needed in almost all stages of the risk management process – preparation, implementation, monitoring and updating of Risk Management Strategies in public sector organizations“ [17].
Systems	Weaknesses identified: "Effective risk management mechanisms, implementation of tools for ongoing monitoring and updates" are needed [15]. "Risk registers updated" needed [16] - [17].
Shared values	Contradiction of opinions. On the one hand, "96% of managers understand the benefit of risk management for the organization and especially for the process of making a management decision" [16]. At the same time, the authors' observations show that very often the change in the environment and the regulations in relation to risk meet with organizational resistance and hardly manage to be really imposed in the practice of administrations [18] - [19].
Staff	Weaknesses identified: The lack of structure in small administrations leads to "insufficient functional specialization" [16] of the employees involved, which impairs the quality of risk management [17].
Skills	Weaknesses identified: it is necessary to "ensure the participation of employees in training related to the introduction and operation of risk management" [15], [17].
Style	Weaknesses noted: Insufficient commitment of executives. For example, "engagement of managers at all levels in the process" is considered necessary, as only 13% show commitment [16]. The style is rather traditional and bureaucratic. It is stated that "administrations do not adequately document the risk management process, which is a threat to the achievement of organizational goals" [16]. It is recognized that it is necessary to provide an "environment to achieve organizational goals" [16], but at the same time the administration is not ready for changes in leadership style.

The question was asked whether this risk was included in the risk register at the beginning of the year. 12% of respondents answered negatively to the question. About 1/6 estimated that the risk was identified and assessed as serious at the beginning of the period. In addition, respondents had to assess the measures to address it at the organizational level. Over 78% assessed them as insufficient.

B. Discussion

The conclusions drawn from the analysis of the state of risk management can be summarized by the well-known 7-S McKinsey model (table 1). In general, the identified weaknesses are noticeable in all elements of the model.

These results show that administrations are relatively static structures in terms of identifying and marking responses to significant but unplanned risks. The lack of flexibility, adaptability and proactivity are the main weaknesses in the risk management process in the public sector in Bulgaria.

Successful risk management is associated with the presence of an organizational culture. Culture is defined not only by the risk appetite of the organization, but also by teamwork skills, efficiency, distribution of ownership of work processes and related risks.

The leading motives for risk management, even if normatively regulated, should not be limited methodologically. Agility as a process management practice is increasingly discussed in the context of new public management. Agile tools and approaches improve communication and interaction between stakeholders, support process efficiency and help develop an institutional culture [20].

The existence of normative regulation in a normative and sub-normative act and the presence of numerous methodological developments clearly do not ensure adequate risk management in the public sector. In practice, a situation is reached in which, strictly complying with the requirements of the law, the efforts in the organization are mainly aimed at ensuring formal compliance with it and with the instructions of a higher level. This practice largely stems from the fact that control bodies monitor the availability of rules, procedures and instructions, rather than their applicability and contribution to organizational functioning and achievement of goals. In this way, the bureaucratization of the process is complicated, and its functionality is reduced to the creation of documents, rules, procedures, etc., as a response to external institutional requirements.

The main problems related to building real capacity and culture for risk management, involvement of key stakeholders, early diagnosis and real implementation of management measures are displaced by formal documents that are not working [21] - [22].

The application of strategies that do not cover the generally accepted understanding of strategy, the reconfirmation of risk registers in years with the same content, the impossibility of indicating potential risks for the administration by the persons in management positions, the lack of a process approach to risk management and its adequate integration into management systems, etc. shows that the normative approach and the strict regulation of this process in the organizations that manage the budget are ineffective. The need to search for working solutions based on the specifics of the organization, the accumulated experience and the possibilities for adequate transfer of good practices is outlined.

It is necessary to intervene on the registered insufficient capacity of public organizations to manage risk. The methodological guidelines and instructions, recommendations, trainings and implemented projects developed so far are insufficient. This requires rethinking the model and applying a specified and individualized approach. External control does not solve the problems with risk management, but only confirms them, since the formal presence of certain documents that are approved in the organization is sought. Trainings on various programs and projects also do not achieve the desired effect. The search for alternative solutions, which are increasingly being imposed in various sectors and functions, is an opportunity to improve the risk management process.

Agile management and adapting its principles to risk management in the public sector is a suitable approach for building a new model. Emphasis can be placed on:

1. Less standardized documentation, written procedures and rules, more visualization and organization-specific ICT-based tools.
2. Less theoretical training, more practical solutions and mentoring.
3. Less regulation external to the organization, more shared experience and lessons learned.
4. Wider participation in the risk management process vertically and horizontally, knowledge sharing, interaction and active communication, fewer regulations.
5. Working in formal and informal networks.
6. Simplified rules, short communication channels, regular monitoring and reporting.
7. Encouraging initiative at all levels, the use of various tools for understanding context and events, strategic and operational analysis of the prerequisites and consequences of risks and implemented responses.

These emphases are in contrast to the widespread practice of ubiquitous documentation, long descriptive procedures, long and complex reporting and communication paths, application of foreign practices with unclear effect in the organization. At the moment, they have not shown a positive effect on their implementation in the public sector in Bulgaria, which is also the reason for the weaknesses in risk management, as well as for the achievement of organizational goals. The concept and model of risk management definitely needs a transformation that integrates this process not only in the management systems, but also in the organizational culture of the public sector.

IV. CONCLUSIONS

Several key conclusions emerge from the study. First of all, there is relative agreement on the need for risk management in the public sector, but the efficient solution for how to conduct it has not yet been found in the Bulgarian administration.

Research into the factors influencing the process can complement monitoring, but government collaboration with relevant higher education institutions is need-ed.

Universities have a lot to say, to help, not only in training the necessary personnel, but also in conducting research.

Serious attention should be paid to the way in which the self-assessment of the administrations is linked. It is obvious why the "One size fits all" strategy is applied, but it is not suitable for such a large variety of structures, scope and tasks of individual administrations. Furthermore, the introduction of more and more working and reporting norms seems inadequate in the context of the increasingly widespread application of agile approaches.

Commitment to the process is weak. There is still no mechanism to ensure adequate knowledge transfer to the public sector and network impact in improving risk management.

The problem with the fact that some of the reports have a design that implies formal self-assessment is also significant. The administration prefers to inflate its estimates when there are no mechanisms for data triangulation, evidence, etc.

Last but not least, today's public sector organizations are entering into new and increasingly complex partnerships with companies, some of which have different risk profiles. These circumstances should be taken into account when preparing joint decisions for public private partnerships, etc.

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