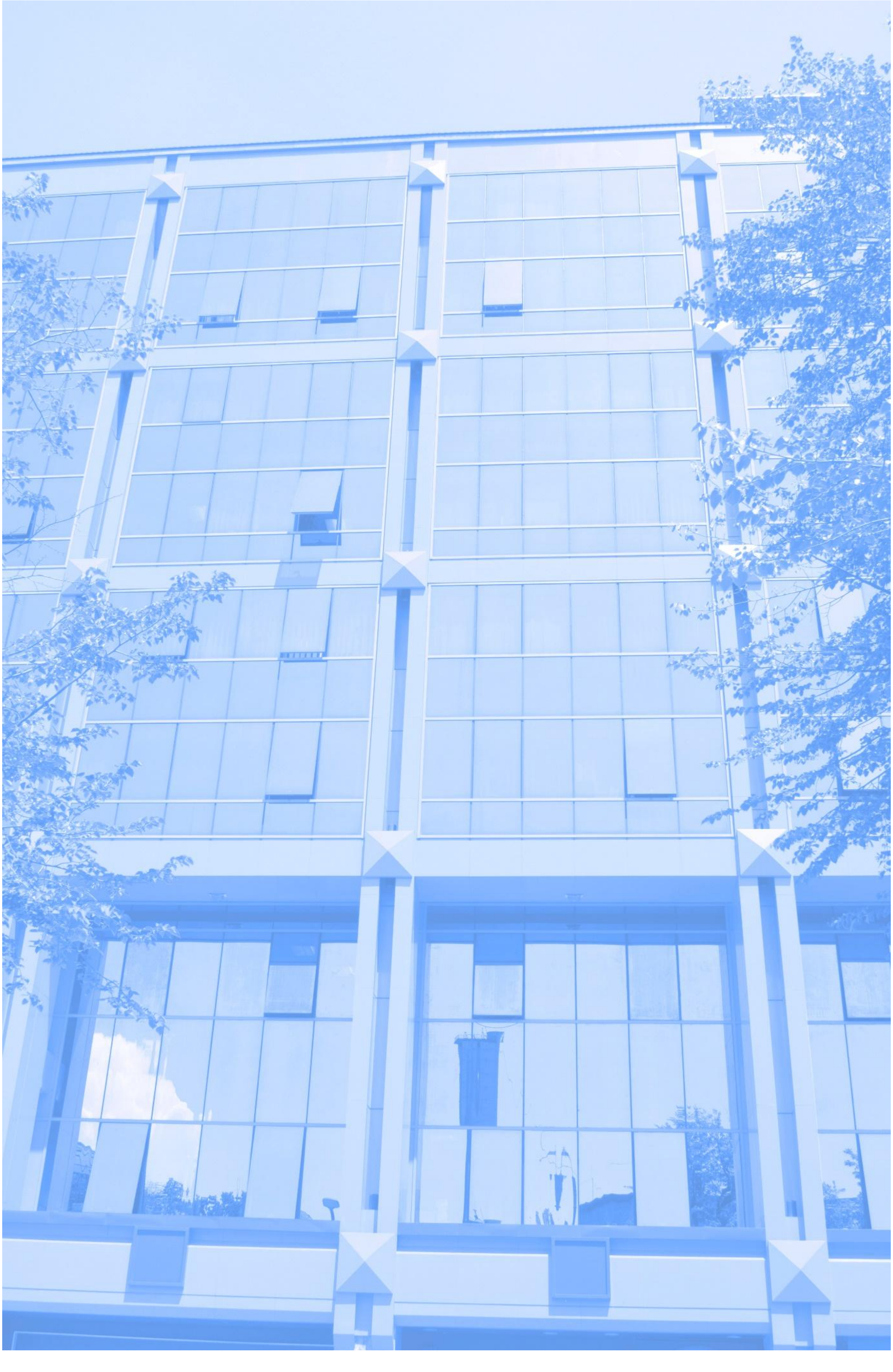
REPORT

on the outcomes of financial audits engagements conducted by the Bulgarian National Audit Office in 2025

СМЕТНА ПАЛАТА

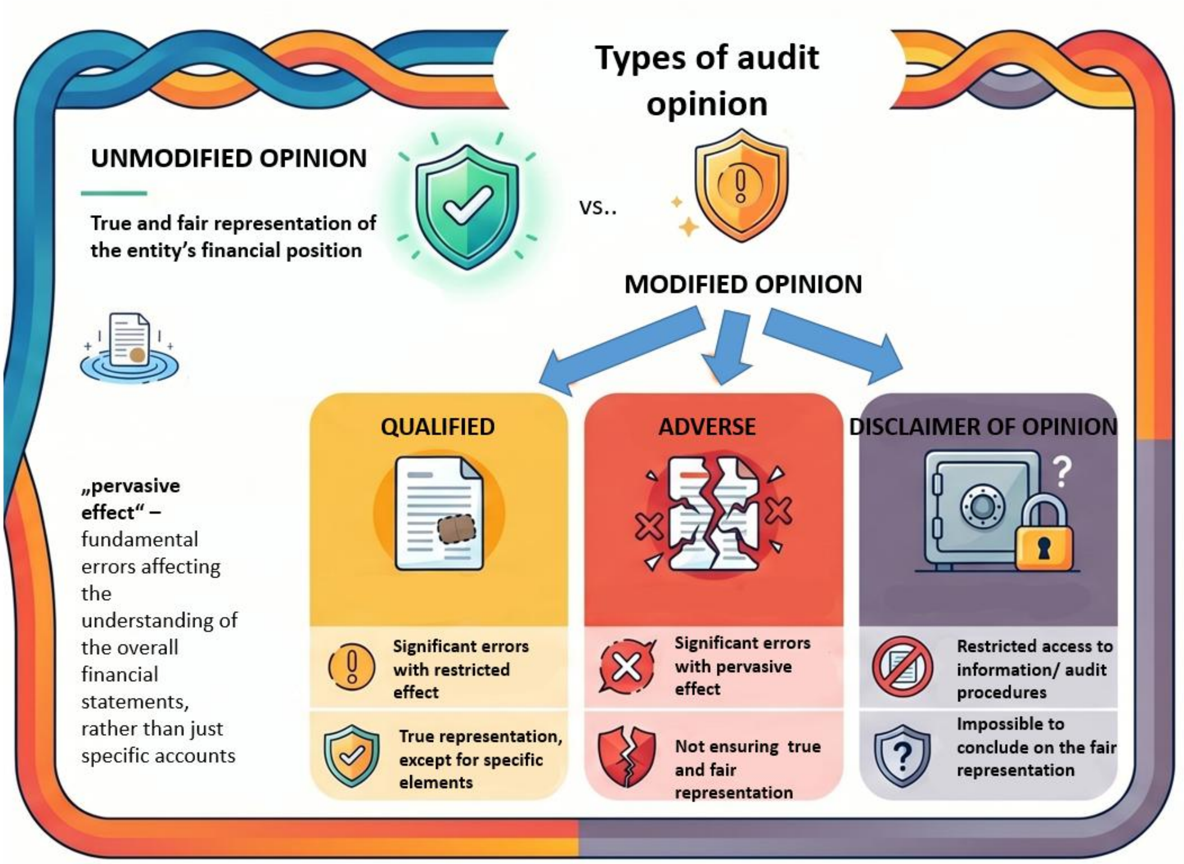


REPORT
on the outcomes of BNAO’s financial audits in 2025

CONTENTS

1. Financial audit goals

In 2025, the Bulgarian National Audit Office (BNAO) audited the 2024 Financial Statements of public sector entities whose operations are financed by the state budget. Financial auditing is **an expression of an independent audit opinion with a reasonable degree of assurance** on whether the annual financial statements of public sector entities are in line, in all material aspects, with the generally applicable financial reporting framework. Therefore, the audit opinion on them does not express certainty regarding the future viability of the public sector entity, or the efficient and effective conduct of its business. It **helps increase the users' confidence** in the information contained in the financial statements. In line with the internationally accepted standard of auditing, once they have obtained **reasonable assurance,** the auditors are required to express an opinion if the financial statements as a whole contain any material misstatements, regardless of whether these are due to fraud or error. The audit opinion may be unmodified or modified. The modified audit opinion may be qualified, adverse or a disclaimer of opinion.



The unmodified opinion indicates that **the audited financial statements are free from material misstatements,** and the notes to them do not contain any omissions of significant nonfinancial information. Financial statements on which the National Audit Office has expressed an unmodified opinion **provide a true and fair representation** of the financial position, financial performance and cash flows of the public sector entities.

A qualified audit opinion is expressed when the **audited financial statements contain material misstatements** or omission of important non-financial information, **whose impact is not pervasive.** Financial statements on which the National Audit Office has issued a qualified opinion **provide a true and fair view** of the financial position, financial performance, and cash flows of the public entities, **except to the effect of the misstatements or omissions contained in them.**

An adverse opinion is issued when **the audited financial statements contain material misstatements or omissions** of important non-financial information that have a **pervasive effect**[1]**.** Financial statements on which the National Audit Office has expressed an adverse opinion **do not provide true and fair representation** of the financial position, financial performance, and cash flows of the public sector entity.

In rare occasions, when the **circumstances** [2]**, prevent the auditor from performing the necessary audit procedures,** the SAI issues a **disclaimer of opinion.** When the National Audit Office has issued a disclaimer of opinion on a set of financial statements, it **is impossible to conclude whether those statements provide a true and fair representation** of the financial position, financial performance and cash flows of the respective public sector entity.

This brief outline of the financial audit characteristics points to the fact that the value of the audit is conditioned upon two factors. First, executing the audit in line with the internationally recognized standards of auditing, and second, applying a public sector financial reporting framework that contributes to improving the quality and transparency of financial reporting and provides information for decision-making.

2. Quality of BNAO's financial audits

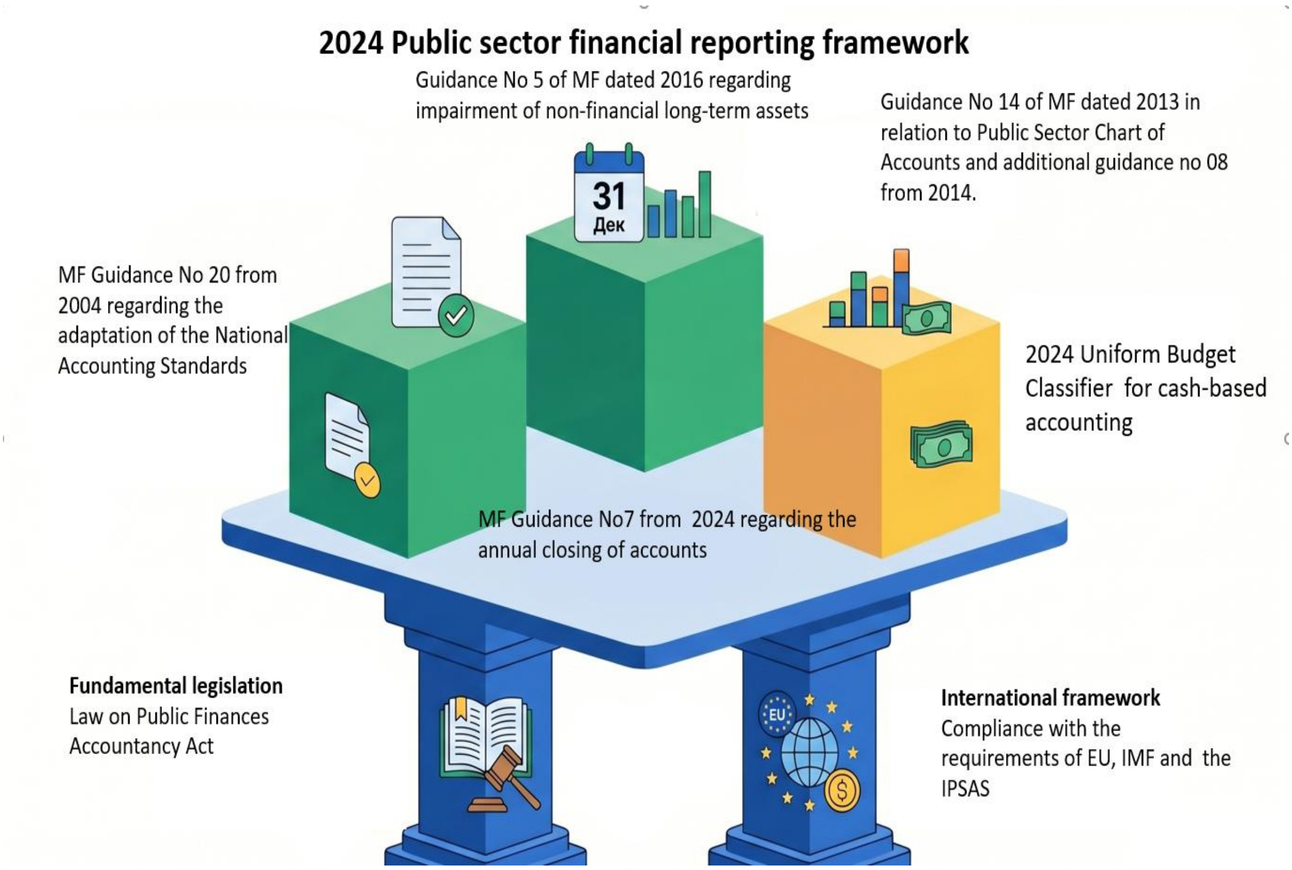
BNAO conducts its audits in line with the Intarnational Standards on Auditing (ISA) and the International Standards of Supreme Audit Institutions (ISSAIs). Its audit methodology is detailed in the *Manual on the implementation of the International Standards on Auditing and the audit function of the National Audit Office.* This manual is updated regularly following an analysis of its implementation and in line with the development of the standards on auditing. Quality control is part and parcel of the requirements laid down in the auditing standards. The quality control function ensures the application of ISSAIs through different policies and procedures.

3. The 2024 Financial Reporting Framework

Public sector financial reporting in Bulgaria is regulated by:

- The Public Finance Act;
- The Accountancy Act;
- The National Accounting Standards (repealed, but still applicable for the budget-financed entities);
- Guidance issued by the Ministry of Finance's Treasury Directorate in letter No 20 from 2004 on the adaptation of the National Accounting Standards;
- Guidance issued by the Ministry of Finance's Treasury Directorate in letter No 14 from 2013 regarding the implementation of the Chart of Accounts for public sector entities and additional guidance contained in letter No 08 from 2014 regarding the reporting of specific transactions, assets and liabilities in applying the Chart of Accounts for Public Sector Entities;

- Guidance issued by the Ministry of Finance's Treasury Directorate in letter No 01 from 2015 and letter No 02 of the Municipal Finances Directorate from 2015 regarding the approach for reporting the advance financing paid out of the budget of public sector entities for projects financed through EU funding;
- Guidance issued by the Ministry of Finance's Treasury Directorate in letter No 05 from 2016 regarding the impairment of non-current non-financial assets of public sector entities;
- Guidance issued by the Ministry of Finance's Treasury Directorate in letter No 7 dated 16/12/2024 regarding the annual closing of accounts and the presentation of the annual cash execution statements and other information in relation to the 2024 accounts, and the publication of the 2024 annual financial statements of public sector entities;
- The 2024 Uniform Budget Classifier approved by the Minister of Finance for the purpose of cash-based accounting;
- Other guidance issued by the Minister of Finance in line with article 133, paragraph 5, article 167 and article 170 of the Public Finance Act.



The financial reporting framework in Bulgaria's public sector is regulated mainly through Chapter 15 "Budget Sector Accounting" of the Public Finance Act. The Minister of Finance **approves the accounting standards and Chart of Accounts** and issues guidance to the public sector entities. This guidance should be compliant with:

- The EU requirements for public sector accounting, statistics and budgeting;
- The accounting framework, principles and concepts laid down in the Government Finance Statistics Manual issued by the International Monetary Fund;

- The International Public Sector Accounting Standards of the International Federation of Accountants;
- The requirements of the Bulgarian legislation relevant to budgeting, reporting on the execution of the consolidated fiscal programme, and the management and control of the funds and expenditure of public sector entities[3].

In 2024, Guidance No 20/14.12.2004 of the Minister of Finance regarding the application of the National Accounting Standards by public sector entities remained in effect[4]. Between 2004 and 2024, the *Treasury* Directorate and the *Municipal Finances* Directorate issued a significant number of additional instructions. These regulate various financial reporting matters, such as the Annual Uniform Budget Classifier; Chart of Accounts; guidance on the monthly, quarterly, and annual financial statements; requirements for disclosure; and, last but not least, amendments to the requirements for financial reporting of assets, liabilities, revenue, and expenditure[5].

In 2005, the Minister of Finance issued instructions[6] to **extend the effect of Treasury Guidance No 20/2004 for public sector entities, *regardless of the repeal of the National Accounting Standards (NAS)*[7].** NAS ceased to apply only for non-public sector entities. However, § 41, paragraph 3 of the 2005 *Law on the State Budget of the Republic of Bulgaria,* and article 5a, paragraph 3 of the *Accountancy Act*[8], do not require automatic revision or discontinuation of the NAS for public sector entities, unless a statutory guidance to that effect is issued by the Ministry of Finance.

According to the general provisions of the NAS that remained in effect in the public sector, the accounting practices should be based on the concept of maintaining the entity's equity. **This is in contradiction to the wide-spread understanding[9], that the main purpose of most public sector entities is provision of public services rather than generating shareholder profit and yield.** The above-mentioned guidelines help adapt the National Accounting Standards to the public sector needs but, in essence, the NAS remain tailored for the private sector.

The Accountancy Act adopted in 2001 requires from public sector entities to prepare and publish their annual financial statements based on accounting standards for the public sector developed in accordance with the International Public Sector Accounting Standards (IPSAS) [10]. Following the amendments to the Accountancy Act [11] in 2013 and 2015 the same requirement was introduced by force of article 164 of the Law on Public Finances that entered into effect on 01 January 2014. **BNAO would like to stress that despite the above legal requirements, to date Bulgaria has not yet adopted and published public sector accounting standards. This process should be accelerated.**

The above-mentioned circumstances pose a number of challenges for the public sector reporting entities, as well as for financial auditors. **The guidance issued by the Minister of Finance introduces requirements related to specific provisions and concepts of the former NAS that were repealed or amended in subsequent versions of the same standards.** An example is the initial recognition of assets and their subsequent valuation. According to the MF guidance [12] the valuation of non-current tangible assets after initial recognition should be done in line with the provisions of item 7.1 (recommended approach) and 7.2 (possible alternative approach) of NAS 16 (repealed). The provisions of item 7.2 of NAS 16 were repealed [13], however, MF has not issued any further methodological guidance regarding the accounting practices of public sector entities in such cases (although it is required to do so under the Public Finance Act). There are other similar examples of insufficient guidance by the Minister of

Finance, e. g. in relation to the classification of assets in the Public Sector Chart of Accounts; the application of cash-based accounting for economic operations, incl. capital expenditure; and some specific clarifications in relation to previously issued guidance (e.g. for concepts such as "adjoining land/ terrain," infrastructure,etc.).

Some MF guidelines contain requirements that are not strictly in line with the principles set out in the Accountancy Act [14]. Examples are item 18.1 of Treasury Guidance No 20/ 2004, and item 21 of Treasury Guidance No 10/2 009 requiring the **recognition of revenues from taxes, customs duties, and other taxation proceeds on cash basis. As a result, such revenues and the relevant receivables cannot be recognized on accrual basis but should rather be reported once the cash flows are received by the entity.** This is in contradiction to **the accrual basis principle [15], according to which the effect of transactions and other events should be recognized at the moment of their occurrence (regardless of the moment of receipt of the cash payments or their equivalents), and should be disclosed in the financial statements for the period of their occurrence. Reporting taxes on accrual basis is a challenge that has been identified at EU level in a number of analytical documents and a joint action has been planned.[16].**

Another example is the requirement (laid down in item 86 of Treasury Guidance No 7 from 2017) that as of 2018 a depreciation review should be carried out at least **once every three years.** In effect, this means **that public sector entities are not obliged to carry out annual reviews, i.e. to check through the end of each reporting period [17] for possible indications that the value of a specific asset has diminished and, if so, to calculate the asset's recoverable amount. This is in contradiction to the prudent principle [18], that requires evaluation and reporting of the probable risk and the possible expected losses in accounting business operation with the aim of disclosing the actual financial results.**

The provisions of MF Guidance No10 from 2017 are also noteworthy. According to them, stocktaking of specific assets of public sector entities may be conducted with periodicity longer than one year – e.g. for non-current tangible and non-tangible assets – **at least once every three years**. In practice, such an approach restricts the control over the physical availability and status of the assets, possibly resulting in discrepancies between the accounting and factual information on the one hand, and on the other - in uncertainty regarding the value of the reported assets.

As of 01 January 2017, a new element was introduced in the public sector accounting, namely a requirement for **impairment of non-current non-financial assets** regulated through MF Treasury Guidance No 05/2016. In the process of auditing the 2017 annual financial statements, the National Audit Office identified[19] **non-consistent practices in the interpretation and application of these rules in revising the impairment schedules of individual assets. Therefore, BNAO issued the following recommendations to the Ministry of Finance, which have remained unmet to date:**

- Clarifying the definition of 'depreciable value' laid down in item 9g of Treasury Guidance No 05/ 2016 by adding a sentence to the following effect: *„In case of changes in the depreciation schedule, the depreciable value should be calculated as the difference between the asset's cost, its residual value and the accumulated depreciation."* or *„In case of changes to the depreciation schedule, the depreciable value should be calculated as the difference between the asset's carrying value and its residual value".* **The current definition of '*depreciable value*' is unclear because it fails to take into consideration the depreciation accumulated up to the moment of the**

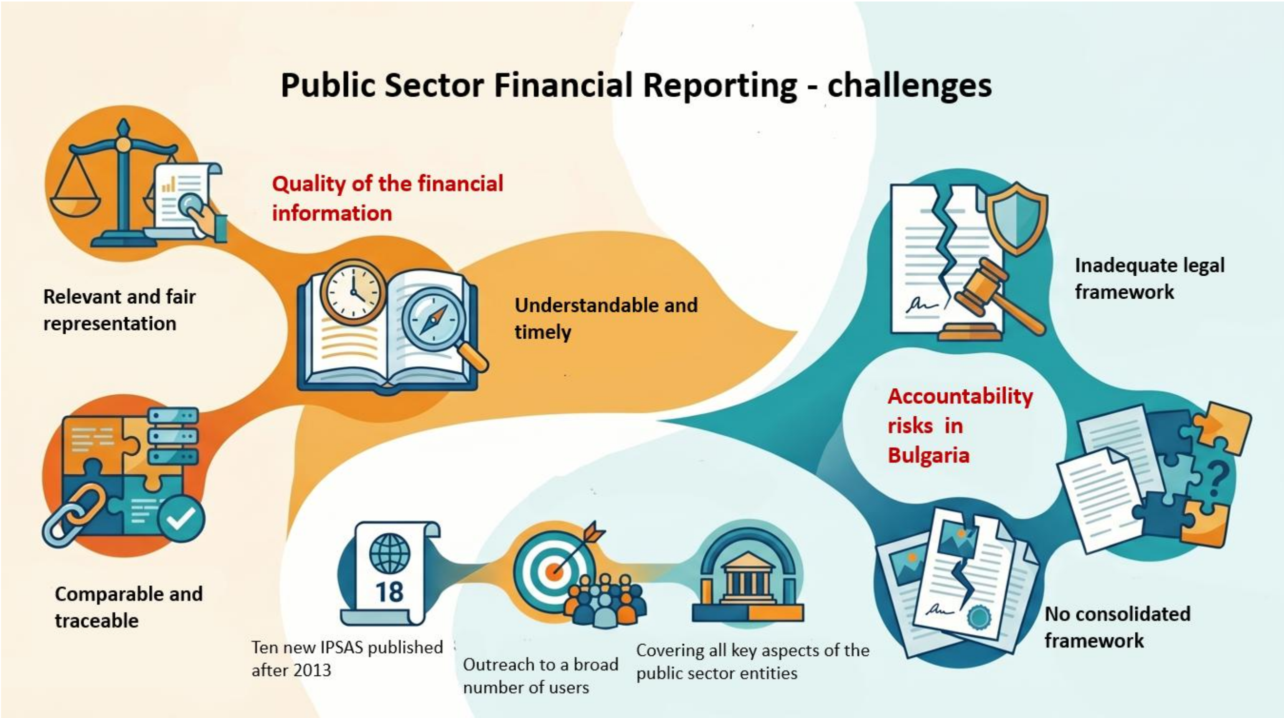
impairment review, which may lead to potential errors. BNAO is of the opinion that the clarification of 'depreciable value provided in the MF's *Comments on methodological issues* published at the end of 2019 simply reiterates the current definition and will not contribute to a better understanding.

- Setting out a clear requirement that in case of changes in the parameters of the depreciation schedule, the depreciation rate should be recalculated to reflect the useful life of the asset, i.e. the recalculation should be performed for the remaining and not for the total useful life of the asset, since this is not initial but a follow-up depreciation;
- Specifying the approach to be followed in case of changes in the depreciation schedule resulting from revaluations and impairment; applying a new depreciation method; revising the expiry date or applying a new residual value; capitalization of subsequent costs and other events, including specifying the moment in time when the depreciation schedule should be revised (e.g. the month following the month of revision; next quarter; next reporting period).

The issue of reporting on going concern basis gained greater importance following the introduction of the state of emergency in 2020. A definition of going concern is contained in article 26, paragraph 1 of the Accountancy Act, however the relevant provisions of National Accounting Standard 1 are not applicable for public sector entities in line with item 7 of MF Treasury Guidance No 20 from 2004. Meanwhile, the National Audit Office has specific responsibilities under ISSAI 2570, regardless of whether the financial reporting framework contains concrete requirements or simply introduces the going concern principle. This is why, in 2021 the BNAO informed the Ministry of Finance and the audited entities of its responsibilities to audit the going concern principle.

The Ministry of Finance is the contracting authority [20] in a project for the introduction of an Integrated Financial Information System for Municipalities (IFISM) and a Uniform Integrated Financial Information System (UIFIS) for all other public sector entities that are first-line budget-funded entities. In line with article 97 of the 2024 Law on the State Budget and the 2025 Law on the State Budget, to achieve uniform accounting processes in all budget-funded organizations, their management will be required to introduce the Integrated Financial Information System for Municipalities and the Uniform Integrated Financial Information System (first-line budget entities). Due to the lack of official information by the Ministry of Finance on the progress of the above project, in 2022 the National Audit Office requested information on the current state of play from all public sector entities in order to establish the current situation, progress and potential difficulties in implementing the new IT product. BNAO analysed the received information and is conducting continuous monitoring of the project's development. It will continue to take into consideration the challenges in the implementation, use and application of IFISM and UIFIS.

4. Public sector financial reporting framework



International Standard of Supreme Audit Institutions (ISSAI) 2210 - *Agreeing the Terms of Audit Engagements* outlines the requirements and guidance relating to the auditor's judgment on **the acceptability of the applicable financial reporting framework**. To make such judgment, BNAO takes into consideration factors such as the nature of public sector entities, purpose and nature of the financial statements, legal framework,etc. Public sector entities in Bulgaria publish **general-purpose financial statements and therefore, these statements should satisfy the general information needs of a broad range of users**. The quality of information in the general-purpose financial statements of public sector entities should be assessed against the **only set of available internationally recognized accounting standards** [21] **– the International Public Sector Accounting Standards** [22] issued by the International Federation of Accountants. A total of 18 standards have been published since 2013 and at present the IPSAS cover all key aspects that the public sector entities need to include in their financial statements. The characteristics contributing to the usefulness of this information and to achieving the goals of financial reporting are as follows[23]:

- **Relevance** – information should help corroborate or deny former or current expectations of users, and offer to a certain extent an estimation of the entity's capability to continue providing public services, attain its goals, and have access to the necessary resources for that.
- **Faithful representation –** it is achieved by providing a description of the economic and other events that is complete, neutral, and free from material misstatements. Omissions of information may mislead the users. Neutrality is important because the unbiased disclosures preclude the presentation of predefined results.
- **Understandability –** information should be presented in a way that corresponds to the users' needs and level of competence. It is generally assumed that users have a reasonable understanding and knowledge of the functioning of the respective public sector entity and its environment, and that they are capable of understanding and analysing information contained in

the financial statements.

- **Timeliness** – it should be kept in mind that information might get obsolete before it is presented to the users.
- **Comparability –** disclosures should enable the identification of similarities and differences in the operations, processes, and performance of public sector entities. IPSAS point out that comparability is not a characteristic feature of separate elements of the information, but rather refers to the correlation between these elements. Comparability should not be confused with consistency meaning the application of the same accounting principles over time or across the public sector. Comparable does not mean identical, i.e. making different aspects look the same.
- **Verifiability –** often associated with enabling independent observers who possess different level of knowledge to reach a common agreement that the information presents the entity's operations and positions without any significant discrepancies; and that the accounting methods for recognition, estimation or disclosure are applied free from errors or misstatements.

Compliance with the stringent requirements of the internationally recognized financial reporting framework is at risk in Bulgaria due to the considerations presented here in summary:

- Public sector financial reporting requirements are developed based on accounting standards intended for the private sector;
- Lack of consolidated financial reporting framework, which is offset by issuing numerous general and specific accountancy guidelines.

5. Future development of the public sector financial reporting framework

Bulgaria should be mindful of the global and European trends, and more specifically, the application of the International Public Sector Accounting Standards by a large number of countries and the attempts at introducing European Public Sector Accounting Standards (EPSAS)[24]. This initiative of the European Commission (strongly supported by Eurostat) is being followed closely by the European Court of Auditors. The latter keeps the members of the Contact Committee (the liaison structure of the ECA and the member states' SAIs) informed of the EPSAS project development and the related debates. The initiative for the introduction of EPSAS aims at achieving harmonisation of the public sector accounting practices based on the accrual basis principle in line with the EU needs.

The introduction of EPSAS will bring about key benefits such as ensuring a better foundation for the understanding of the financial positions and performance of public sector entities at all levels, and on the other hand, for improving transparency of public finances in the member states and comparability of the accounting information across the EU.

An agreement has been reached[25], that through 31 December 2025 and once every five years after this date, the Commission will report on the current state of play of the public sector financial reporting[26].

Over the past five years the European Commission[27] has achieved progress on the development of the European Public Sector Accounting Standards with the help of a designated Task Force[28]. The work on these standards entails systemic communication with the stakeholders, refining the technical aspects in preparation of a possible future introduction of the European standards, cost-benefit analysis and ensuring technical and financial support for the introduction of the accrual principle in the member states' public sectors.

In 2024, an updated analysis of the EPSAS Conceptual Framework[29] was published, containing the conclusion that the IPSAS were compliant with the draft EPSAS Conceptual

Framework[30]. The backbone of the future EPSAS was developed encompassing eight accounting areas that may be regulated in 13 future standards.

The European Commission has ensured technical and financial support[31] to the member states for their public sector accounting reforms. EUROSTAT has discussed with accounting experts from the member states the benefits and challenges of the reforms introducing the accrual basis principle, and has encouraged the exchange of experience among them.

The EPSAS initiative contributes to the Commission's overarching goal for strengthening the capacity of public administrations in the EU. In a communication[32] on enhancing the EU administrative space, the Commission encourages the introduction of the accrual basis principle. Among the universal principles for ensuring quality in the public administration it points to the "stable and sustainable public finances, backed with integrated and overarching accounting systems based on the accrual principle".

The Commission's initiatives for public sector reforms have contributed to some significant achievements in the member states. As early as 2019, ten member states[33] (including Bulgaria) launched the introduction of the accrual principle of accounting. Some member states included their reforms as part of the national plans for recovery and resilience[34], others made use of the proposed technical assistance[35], while in a third group of countries there has not been any national commitment to such reforms, however they are improving their accounting systems[36]. In general, the national plans may include elements such as the introduction of a National Chart of Accounts based on the IPSAS/ EPSAS including the accrual principle, establishing a central governmental body for accounting, automation of accounting processes, policies for the introduction of the accrual principle, training the relevant officials and developing and introducing ERP in public sector entities.

Having regard to the development of the EPSAS project and its potential positive impact over the public sector financial reporting in Bulgaria, BNAO adopted [37] a principle position regarding these standards that consists of several key elements:

- BNAO supports **the full introduction of accrual-basis accounting in the public sector.** This will lay the foundations for adequate performance measurement and planning of public sector activities.
- BNAO is in favour of the **adoption of a consolidated public sector financial reporting framework** to replace the current framework that consists of numerous general and specific guidelines for financial reporting.
- BNAO **supports the initiative for developing and introducing the EPSAS** that will contribute to improving the quality and transparency of public sector financial reporting and ensure better financial management of the public resources and debt.
- BNAO **will support the efforts of the Ministry of Finance to modernize public sector accounting** and will continue to offer objective assessment of the development of financial reporting.
- BNAO will **monitor the progress of the EPSAS project** taking into consideration the challenges relating to the transformation of the public sector financial reporting framework.
- BNAO **will continue to take active part in forums and events on the topic of public sector financial reporting**.

We recommend **revising the financial reporting framework in Bulgaria,** and **starting as soon as possible the preparation for the introduction of the International Public Sector Accounting Standards**, taking into consideration the requirements of the Public Finance Act **or of the European Public Sector Accounting Standards.**

6. Outcomes of the financial audits of the 2024 annual financial statements

BNAO makes good use of ICT in its auditing, incl. for evidence gathering. All financial audits planned in the SAI's 2025 audit programme were completed successfully. BNAO's Board endorsed a total of 337 reports on the audits of the 2024 annual financial statements of public sector entities. All central government bodies were audited together with 98.74% (15,387 billion BGN) of the total municipal budgets. The largest share of issued opinions on the financial statements were unmodified 82 %[38] *(see Figure 1).* This is due to the fact that the audited entities were given the opportunity to **introduce corrections of the identified misstatements during the course of the financial audits**. The purpose of these corrections was to make sure that **the annual financial statements provide true and fair representation of the financial positions, financial performance and cashflows** of public sector entities, and therefore may serve as **a reliable basis for decision-making at institutional, regional and national level.** The number of unmodified opinions is an indicator **of the compliance with the requirements** of the applicable financial reporting framework, however it **is not indicative of the quality of public sector financial reporting, which is conditioned upon the nature of the financial reporting framework.**

There has been a downward trend in the number of issued modified opinions on the financial statements of municipalities. In the past three years their number remains roughly the same (from 30 % on the 2021 annual financial statements[39] down to 21 % on the 2022 , 2023 and 2024 annual statements), the main reason for this being the provided possibility to introduce corrections to the misstatements identified by the auditors in the course of the audits.

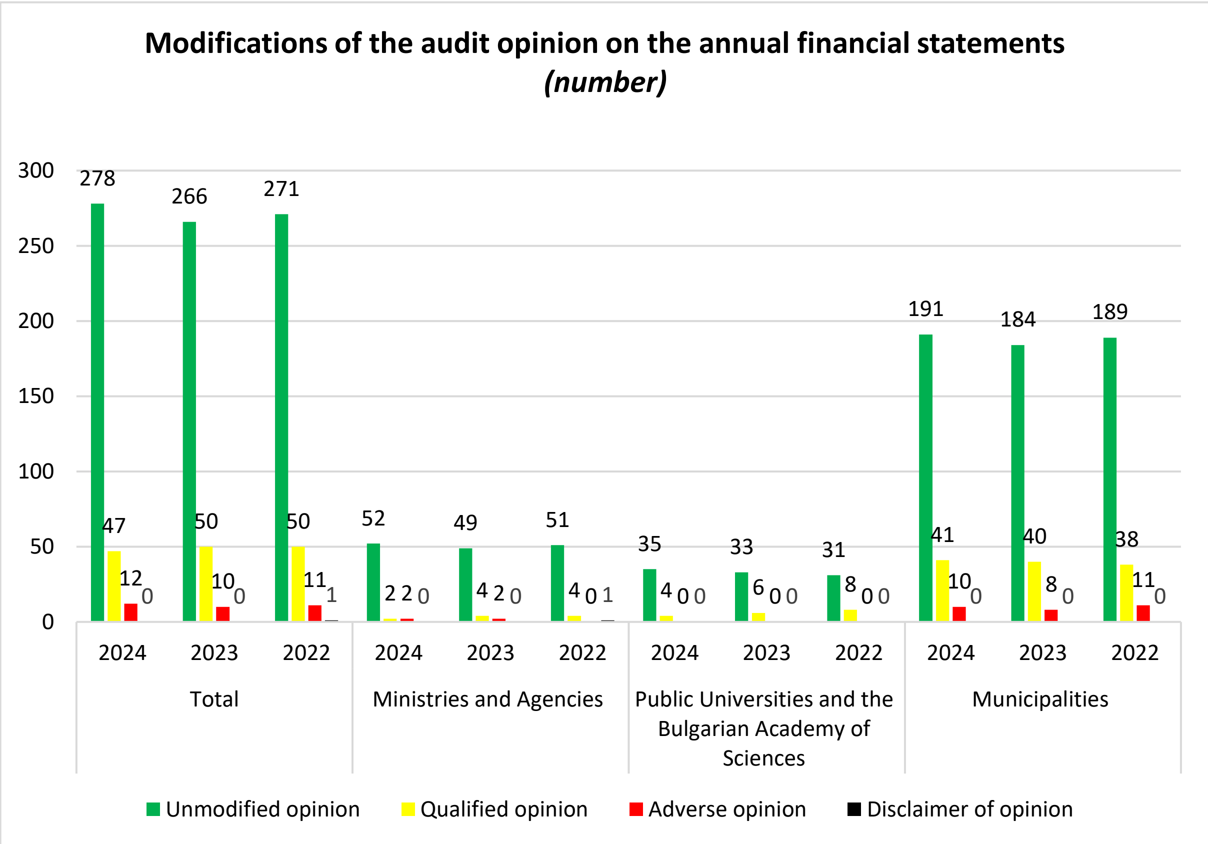


Figure 1

In 2025, BNAO conducted financial audits of all municipalities with population over 10,000. The trend for issuing unmodified opinion on the financial statements of municipalities with population over 100,000 was preserved together with the correlation of a higher number of modified opinions (qualified and adverse) in municipalities with smaller population.

Figure 2 shows the dynamism in the issued audit opinions in correlation to the size of municipalities. There is a positive development towards an increasing number of unmodified opinions vs. qualified opinions in the municipalities with population larger than 100,000, this increase being most obvious in municipalities with population between 50,000 and 100,000 citizens, while in municipalities with population below 10,000 there was only a slight decrease in the number of unmodified vs. qualified opinions.

Figure 2

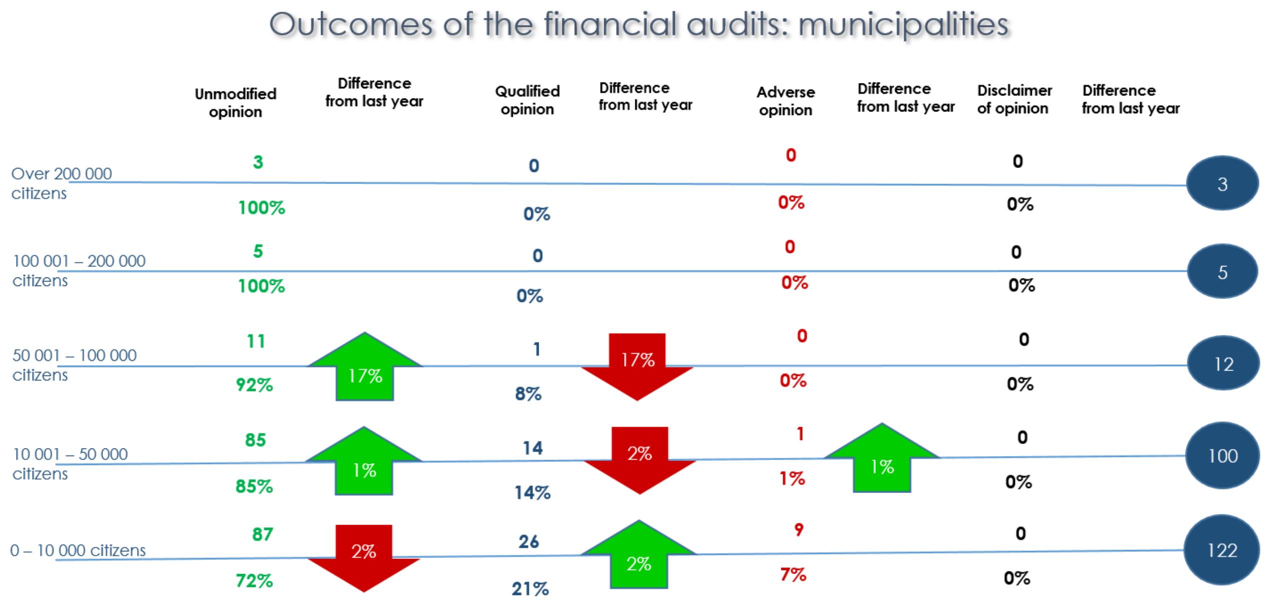


Figure 3

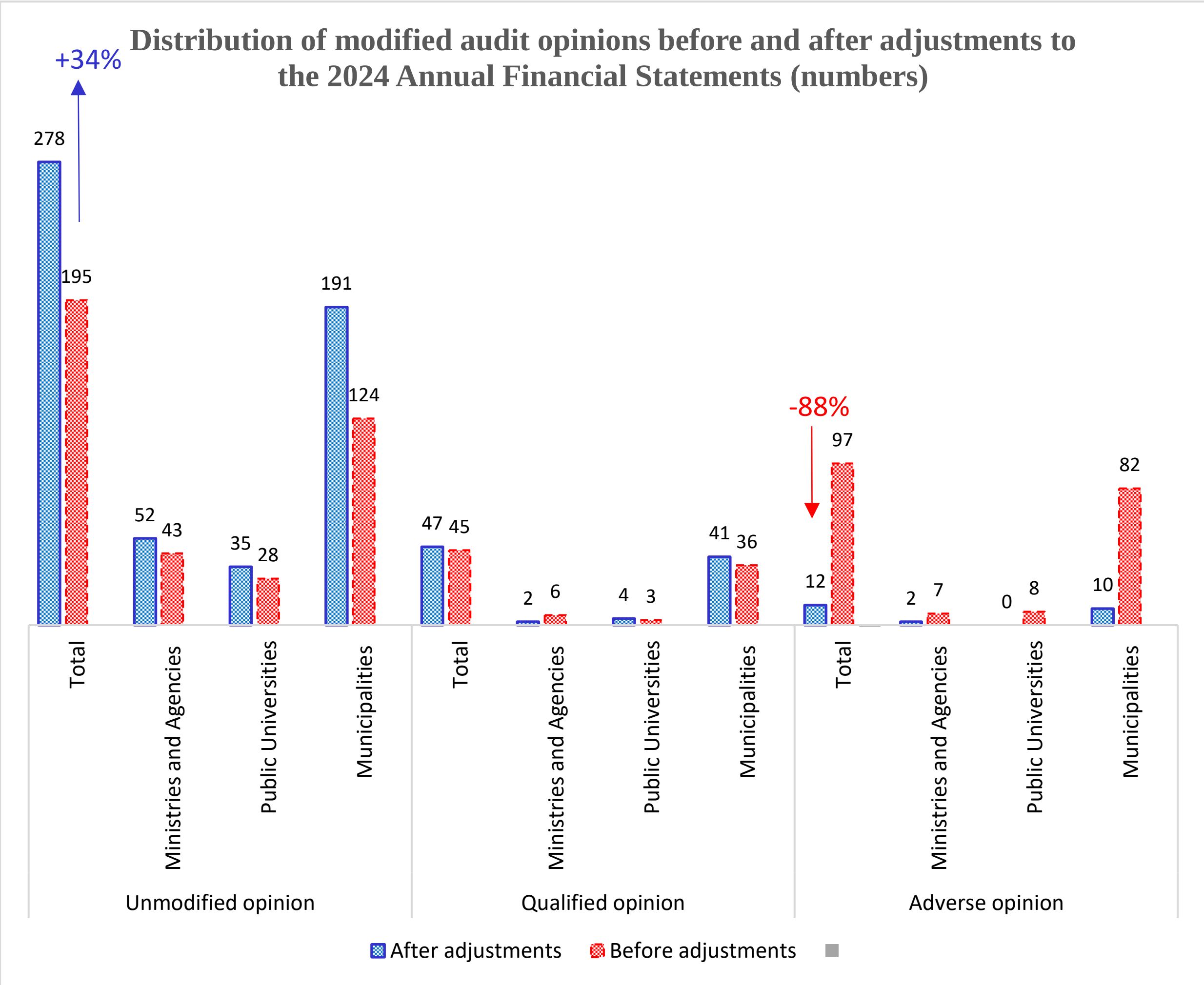
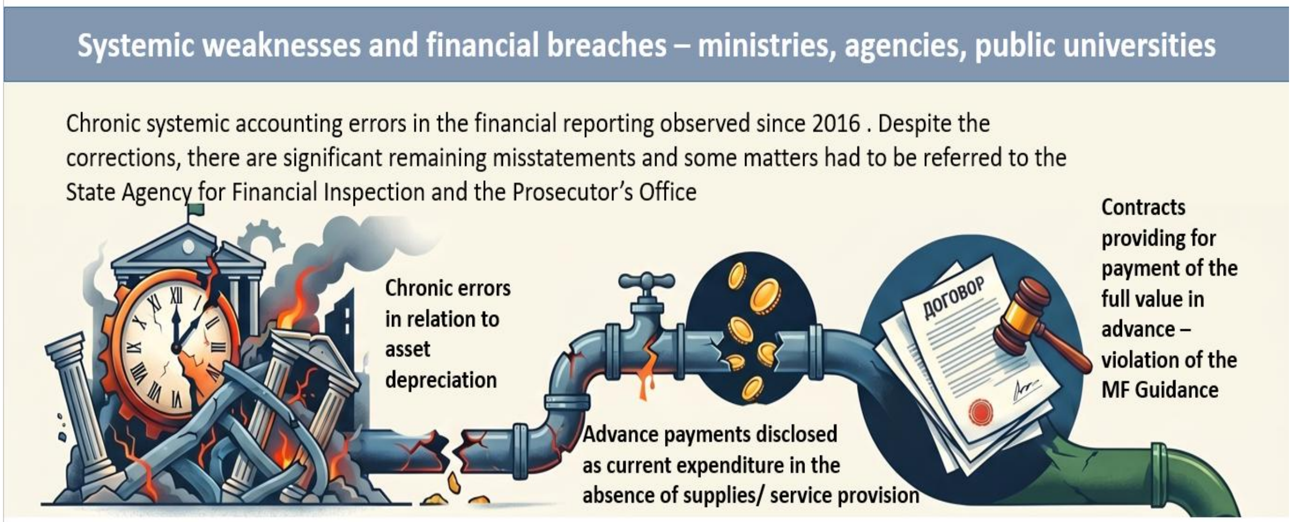


Figure 3 illustrates **the positive impact of the corrections**[40] of misstatements introduced during the course of the audits on the reliability of information contained in the annual financial statements. This is demonstrated by the number of modifications of the audit opinions in 2024. Without these corrections, BNAO would have issued **an adverse opinion** on the financial statements of 97 public sector entities and **a qualified opinion** on the financial statements of 45 entities. **As a result of the corrections, the number of adverse opinions was brough down by 88%, while the number of unmodified opinions grew by 34%.** This means that **as a result of the corrections of misstatements identified by BNAO, the number of financial statements providing a true and fair representation of the financial positions, financial performance and cashflows of public sector entities increased significantly.** The most noteworthy improvement was observed in the municipalities where 67 more unmodified opinions were issued, i.e. an increase by 54%.

In formulating its audit opinion, BNAO determines the impact of each accounting error based on its occurrence in the annual financial statement. The occurrence of errors is preconditioned on the rules for financial reporting. The error value is not a determinant factor in itself. Certain errors do not affect the values disclosed in the financial statements. They have zero impact and are therefore not taken into consideration in formulating the audit opinion. Other errors affect the totals disclosed in the financial statements, and result in misstatements. One error might affect several financial statement entries and therefore result in more than one misstatement. A set of rules is applied to determine the impact of errors in the annual statements, such as:

- values disclosed in the wrong category – a misstatement in one of the two reporting categories;
- an error in both the cash and accrual basis disclosure – as many misstatements as are the number of affected entries in the annual financial statements;
- an error which affects both the Income and Balance Sheet Statements –misstatements in both reports.

6.1. Systemic weaknesses identified in the course of financial audits of ministries, agencies, and public universities



The following groups of errors and irregularities were identified recurrently and remained unadjusted in the financial statements:

▪ ***Miscalculation of depreciation costs*** upon occurrence of events that should trigger revision of the depreciation schedule (overhauls, impairment etc.), incorrectly identified residual value and lifespan of the assets. The auditors identified discrepancies in the depreciation costs in the accounting system and in the depreciation schedule. All this affects both the depreciation costs and the balance sheet value of non-current non-financial assets (also identified in the audits of the 2023, 2022, 2021, 2020, 2019, 2018 and 2017 annual financial statements).

▪ ***Incorrect classification of assets, liabilities, revenues, expenses and transfers*** in the Public Sector Chart of Accounts and the Uniform Budget Classification (also identified during the 2023, 2022, 2021, 2020, 2019, 2018, 2017 and 2016 annual financial statements audits) resulting in misstatements in the balance sheet, income statement and cash-flow statement.

▪ ***Failure to perform stocktaking and analysis of assets and liabilities, incl. off-balance sheet, and of receivables*** on advance payments under contracts with suppliers of goods and services. This results in reporting advance payments to suppliers incorrectly as current expenses or in their recognition in the corresponding asset accounts in the absence of supplied goods, services or works. The management or designated officials in some entities failed to verify the supplies of works and/ or services against the advance payments, and failed to seek judicial collection of receivables in case of non-performance. Failure to produce accounting estimates for the unfinished construction works, usually resulting in understating assets and overstating receivables.

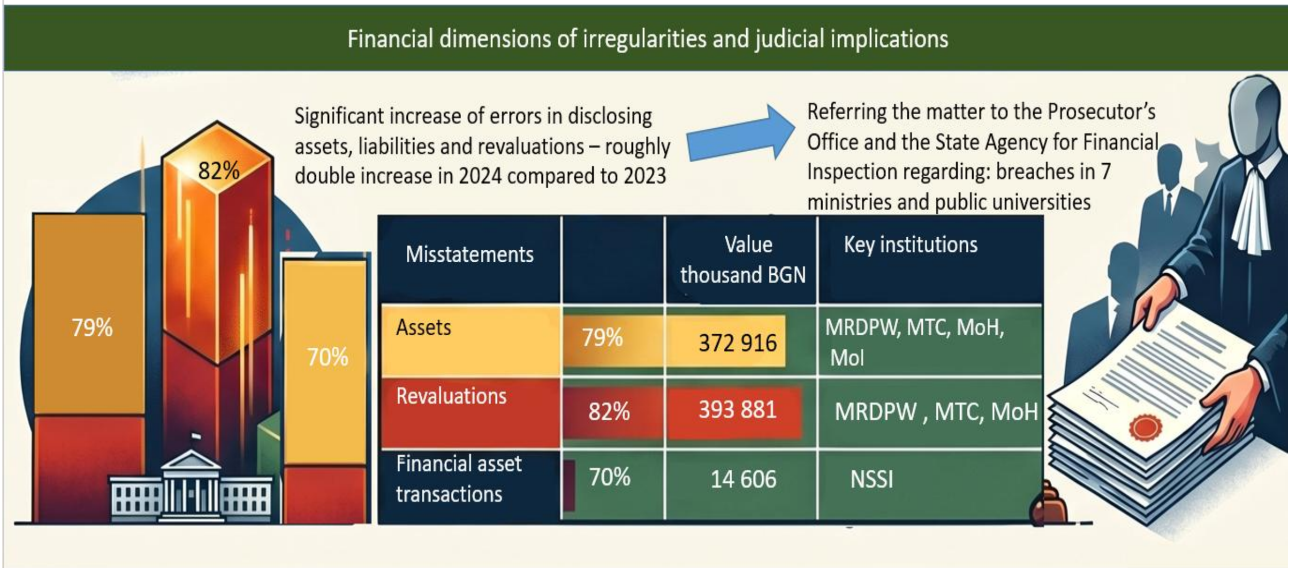
- ***Incorrect disclosures of bank guarantees, collaterals and engagements*** (also identified in the audits of the 2023, 2022, 2021, 2020, 2019, 2018, 2017 and 2016 annual financial statements), usually resulting in understating or overstating off-balance sheet assets and liabilities.
- ***Failure to disclose the changes in the shareholdings*** of public sector entities in commercial companies (also identified in the audits of the 2022, 2021, 2020, 2019, 2018, 2017 and 2016 annual financial statements). This results in misstating the shares, equity and the related income in the annual financial statements.
- ***Failure to calculate the corrections for non-absorbed grants and donations*** resulting in misstatements in the Balance Sheet and the Income and Expenditure Statement.
- ***Absence of valuation reviews following the initial recognition of the non-financial non-current assets,*** which precludes the possibility to confirm significant entries in the financial statements.
- ***Incorrect recognition of the amounts received and spent under EU-funded programmes*** – advance payments, off-balance sheet statistical reporting of the amounts at the expense of beneficiaries, the EU, and other donors. This results in misstatements in the balance sheet, income statement and cash-flow statement
- ***Non-compliance with the Guidance issued by the Ministry of Finance*** that public sector entities should avoid signing contracts with the possibility for advance payment[41] (including paying in advance the full value of the contract), which is not in line with prudent practices and whose implementation would not be completed within the current budget year.
- ***Exceeding the maximum admissible value of the payables to suppliers*** (also identified during the audits of the 2023 annual financial statements).
- ***Incorrect adjustment of errors*** from previous reporting periods (also identified during the audits of the 2023 and 2022 annual financial statements.) resulting in misstatements in the Income Statement.

Part of the errors and deficiencies in the financial statements of ministries, agencies, other central government entities and universities **were corrected** in the course of the audits, such as:

- ✓ Correction of depreciation expenses to ensure fair representation of the carrying amount of depreciable assets (also adjusted in the course of the audits of the 2023, 2022, 2021, 2020, 2019 and 2018 annual financial statements) ;
- ✓ Correction of errors (mainly technical) in the templates provided by the Ministry of Finance to ensure fair representation (also corrected in the course of the audits of the 2023, 2022, 2021, 2020, 2019, 2018 and 2017 annual financial statements);
- ✓ Revising the classification of assets, liabilities, revenues, expenses and transfers in the Public Sector Chart of Accounts and the Uniform Budget Classification (also adjusted in the course of the audits of the 2023, 2022, 2021, 2020, 2019, 2018, 2017 and 2016 annual financial statements), thus ensuring valid disclosures in the Balance Sheet, Income and Cash-flow Statement.

In 2024, there was a year-on-year increase of the misstatements in relation to assets, liabilities and revaluations. Roughly 79% (372,916 thousand BGN) of the misstated assets in the accounting balances were attributable to four ministries[42] *(Figure 4).*

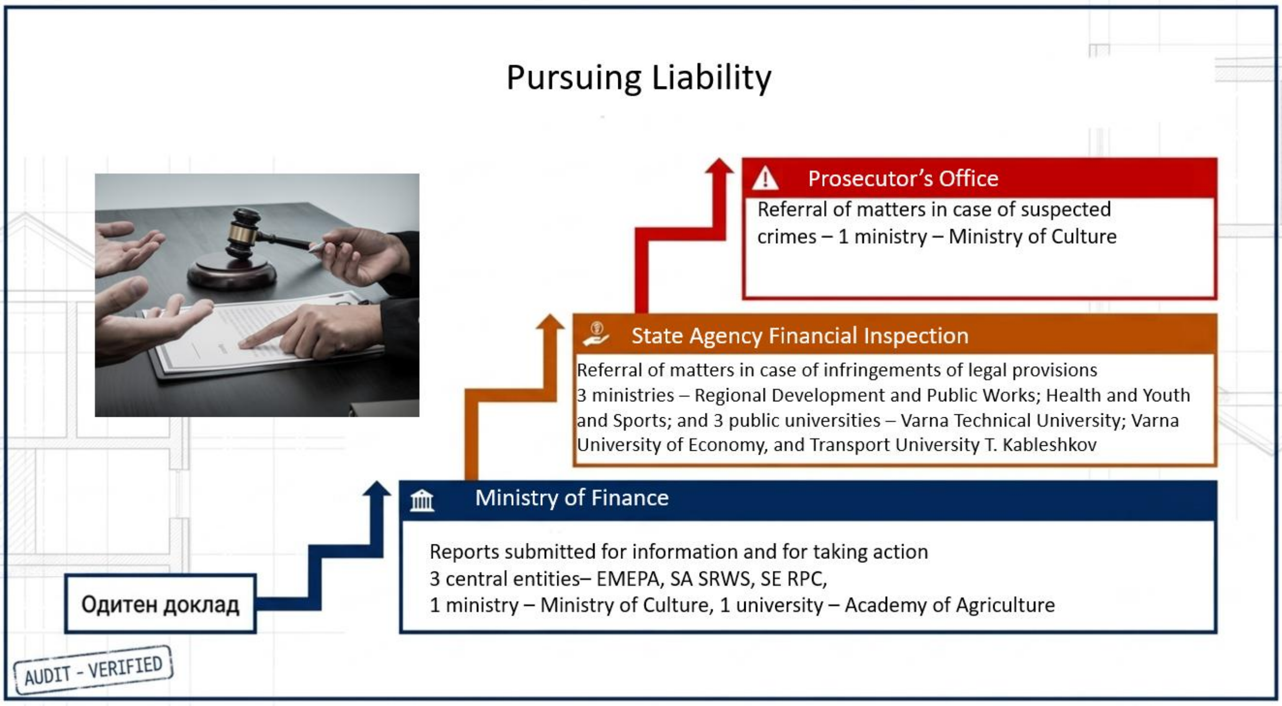
The misstated expenditure in the Income statements dropped down, while the misstated revaluations marked a double increased. In the Income Statements, roughly 82% (393,881 thousand BGN) of the misstated revaluations and other events, 81% (117,749 thousand BGN) of the misstated expenses and 49% (15,722 thousand BGN) of the misstated revenues were identified in three ministries[43] *(Figure 5)*.

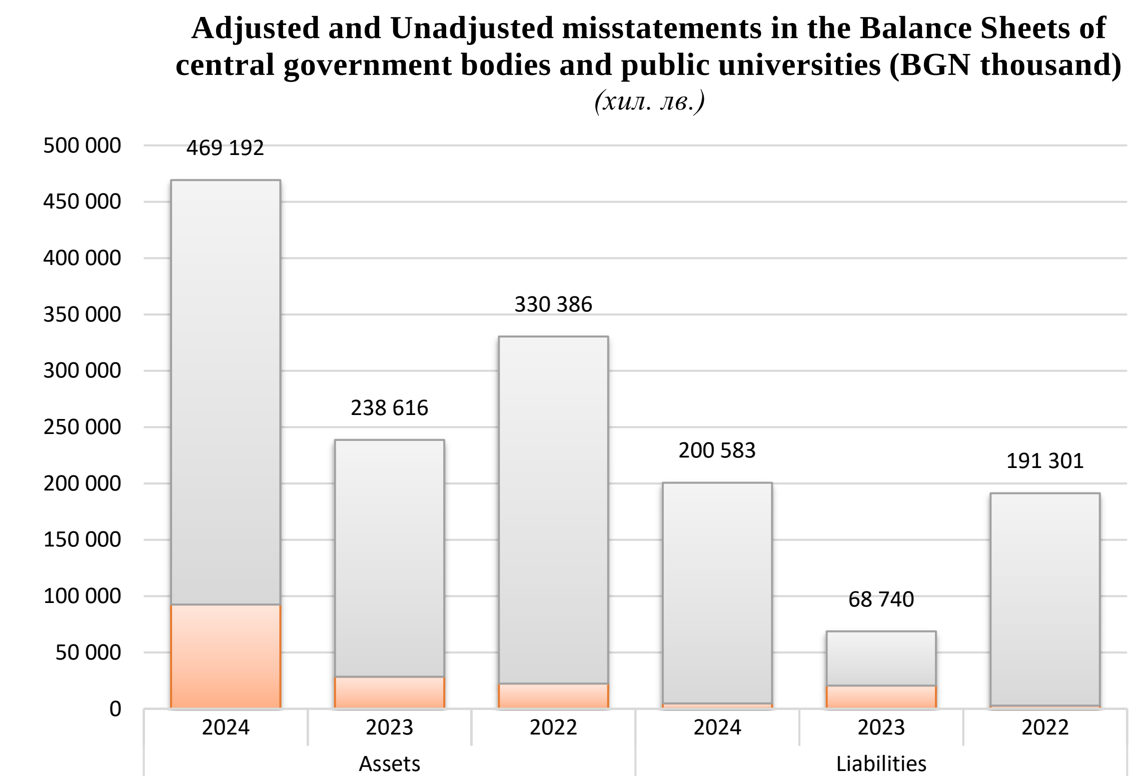


In 2024, roughly 70% (14,606 thousand BGN) of the misstated transactions with financial assets and liabilities were identified during the audit of one central governmental entity[44] *(Figure 6)*.

The audits identified non-compliance with the laws and authorities and in applying article 57, paragraph 1 and article 58, paragraph 1 of the BNAO Act our SAI informed the relevant competent authorities thereof – State Agency for Financial Inspection (regarding three ministries[45] and three public universities[46]) and the Prosecutor’s Office of the Republic of Bulgaria (regarding one ministry[47]), so that the latter could take appropriate measures.

In applying the provisions of article 49,paragraph 3 and article 54, paragraph 16 of the BNAO Act, in 2025 the SAI submitted its audit reports to other competent authorities for information or for taking action (Ministry of Finance – regarding three central governmental bodies[48], one ministry[49] and one public university[50]).



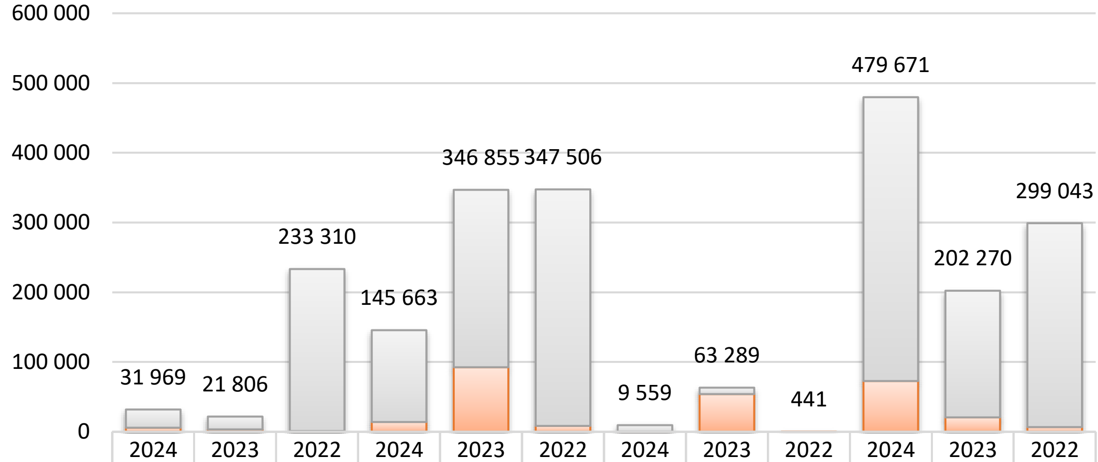


	Assets			Liabilities		
	2024	2023	2022	2024	2023	2022
Adjusted	376 675	210 142	308 019	195 811	48 152	188 477
Unadjusted	92 518	28 474	22 368	4 772	20 588	2 824
Total	469 192	238 616	330 386	200 583	68 740	191 301

Figure 4

Figure 5

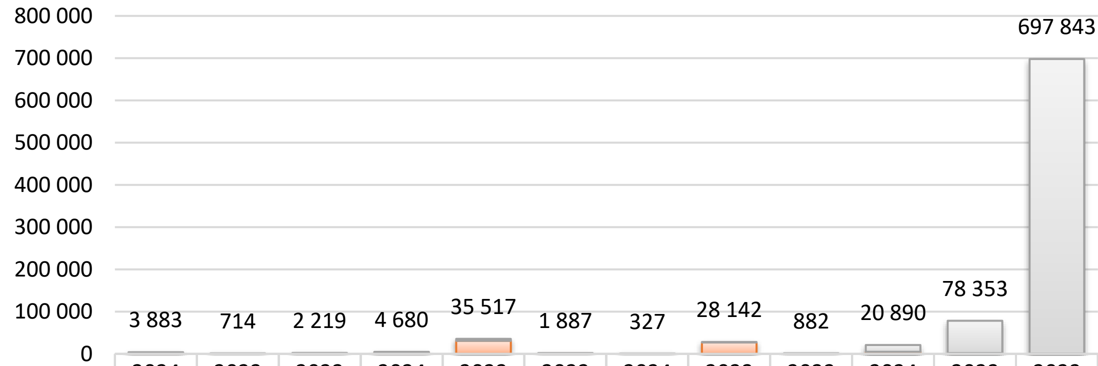
Adjusted and Unadjusted misstatements in the Balance Sheets of central government bodies and public universities (BGN thousand)
(хил. лв.)



	2024	2023	2022	2024	2023	2022	2024	2023	2022	2024	2023	2022
	Revenues			Expenses			Transfers			Revaluations and other events		
Adjusted	26 098	18 365	232 203	131 606	254 267	339 012	9 221	9 219	0	406 869	181 538	292 254
Unadjusted	5 871	3 441	1 107	14 057	92 588	8 494	337	54 070	441	72 802	20 732	6 789
Total	31 969	21 806	233 310	145 663	346 855	347 506	9 559	63 289	441	479 671	202 270	299 043

Figure 6

Adjusted and Unadjusted misstatements in the Balance Sheets of central government bodies and public universities (BGN thousand)



	2024	2023	2022	2024	2023	2022	2024	2023	2022	2024	2023	2022
	Revenues			Expenses			Subsidies and transfers			Transactions of financial assets and liabilities		
Adjusted	2 172	119	1 865	1 991	4 710	956	88	1 270	142	16 045	76 479	697 026
Unadjusted	1 711	595	354	2 689	30 807	931	239	26 872	741	4 845	1 874	817
Total	3 883	714	2 219	4 680	35 517	1 887	327	28 142	882	20 890	78 353	697 843

6.2. Systemic weaknesses identified during the financial audits of municipalities

The following groups of errors and irregularities were identified in the financial statements of municipalities that remained **non-adjusted**:

- Miscalculation of depreciation expenditure following events resulting in a revision of the depreciation schedule (overhaul, impairment, etc.). Failure to apply depreciation of depreciable noncurrent non-financial assets, and failure to write off the accumulated depreciation of assets that have been sold or written off. Incorrect depreciation of noncurrent non-financial assets resulting from the inadequate calculations of their residual useful life (not taking into consideration the year of acquisition, the physical wear and tear, and obsolescence), and failure to calculate the assets' residual value. Incorrect identification of parameters in the depreciation schedule and/ or applying non-approved approaches in selecting measures within the approved depreciation policy. This affects both the depreciation expenses and carrying values of non-current non-financial assets (also identified during the audits of the 2023, 2022, 2021, 2020, 2019, 2018 and 2017 annual financial statements).

- Misstatements of municipal holdings in commercial companies and failure to disclose the changes therein (also identified during the audits of the 2023, 2022, 2021, 2020, 2019, 2018, 2017 and 2016 annual financial statements) resulting in unfair representationof such investments and the related revenue.
- Absence of or partial sock-taking of assets and liabilities, incl. off-balance sheet ones - expenditure for assets whose process of acquisition was pending during previous reporting periods (also identified during the audits of the 2023, 2022, 2021, 2020 and 2019 annual financial statements). This indicates inability of internal controls to verify the information contained in the financial statements.

- Non-disclosed or misstated commitments (undertaken or executed) and newly committed expenditure, which usually results in understating of expenditure and balance-sheet and off-balance sheet liabilities (also identified during the audits of the 2023, 2022, 2021, 2020 and 2019 annual financial statements).
- Incomplete disclosure [51] of the current positions and changes regarding the assets, liabilities, revenues, and expenditure, and the applied accounting and depreciation policy, thus precluding an informed decision-making by the financial statements' users (also identified during the audits of the 2023, 2022, 2021, 2020 and 2019 annual financial statements).
- Incorrect disclosure of changes to property titles of municipal-owned estate recognized during earlier reporting periods. Incomplete reporting in the accounting registers and the balance sheet of all estate and assets. Recognizing municipal-owned estate at tax value rather than at fair value, oftentimes reporting significantly lower values, and thus understating the assets (also identified during the audits of the 2023, 2022, 2021 and 2020 annual financial statements).
- Capital expenditure for construction works and overhauls of long-term tangible assets are not recognized in the relevant accounts in accordance with the stage of completion of the works (respectively as assets and/ or construction in progress, production or overhaul). There are instances of writing off such assets (in the absence of analyses or managerial decision thereof). Some statements contain positions for long-term assets in the process of acquisition in the absence of reliable data for their disclosure in the balance-sheet statement. Misstated expenditures for overhaul of long-term assets reported on accrual or cash basis. Expenditure for acquisition or overhaul of infrastructure sites not disclosed under the "*Other accounts and operations*" reporting group or disclosed under the Budget reporting group. All these misstatements result in understating or overstating of assets in the Balance Sheet and of the depreciation expenses (also identified during the audits of the 2023, 2022, 2021, 2020, and 2019 annual financial statements).
- The applied accounting polices do not contain description of the selected approach for valuation following the initial recognition of long-term assets. Absence of or superficial depreciation and/ or revaluation review of long-term assets[52]. Incorrect approach for depreciation review applying a comparison against the carrying value and not the book value of the long-term assets.
- Failure to apply the linear method in recognizing revenues generated from the right of use[53] of the assets provided under the agreements with the Water Supply Operators in line with article 198o, paragraph 1 of the Waters Act. This results in misstating positions in the financial statements of municipalities. Incorrect accounting treatment of the difference between the value of reciprocal obligations provided by the Water Supply and Sewerage operator and the revenue recognized using the linear method since the inception of the contract. Significant net liabilities are accumulated in the municipalities as a result of non-updating the value of the operations included in the mandatory level of investments (pursuant to the contract), and non-revising the estimated total revenue for the entire duration of the contract (for revision purposes). Consequently, there are incorrect entries in the Balance Sheet and the Income Statement. (also identified during the audits of the 2023, 2022 and 2021 annual financial statements).
- No analyses of the advance payments to contractors for the purposes of estimating the acquisition costs of sites, and for initiating checks by the management and the responsible officials regarding the actually completed works and/ or other services against the advance payments, and seeking judicial remedy in case of non-delivered works or services. All this results in incorrect recognition of advance payments as current expenditure under the Assets accounts in the absence of supplies of goods, services or works. No accounting estimates for construction works in progress

which, usually resulting in understating assets and overstating liabilities (also identified during the audits of the 2023, 2022, and2021 annual financial statements).

- Failure to disclose bank guarantees and collateral and to write off expired bank guarantees and collaterals (also identified during the audits of the 2023, 2022, and 2021 annual financial statements).
- Incorrect reporting of subsidies extended to non-governmental organizations (charities and associations) for the provision of social services that are financed as operations delegated by the Government.
- Absence of underlying documents for economic operations. As a result, the annual financial statements contain unverifiable entries (also identified during the audits of the 2023, 2022, 2021, 2020, 2019 and 2018 annual financial statements).
- Incorrect reporting of allocations extended for advance financing of EU funded projects as short-term interest-free loans based on an agreement in principle by the Municipal Council without actual voting on whether, when and what size of the interest-free loans may be extended. As a result, the annual financial statements contain incorrect disclosures of the transfers and the short-term interest-free loans.
- Failure to apply the guidance[54] issued by the Minister of Finance regarding the "red reversal" procedure that may be applied only in the course of the financial year in case of mathematical of technical errors when reporting economic transactions, i.e. for cases of incorrect entries in the credit or debit accounts of values that are higher than the actual ones subject to recognition.
- Errors during the consolidation of the annual financial statements in the system of first-line budget spending entities and in transferring the data into the templates approved by the Ministry of Finance (also identified during the audits of the 2023, 2022 and 2021 annual financial statements).
- Absence of or non-application of existing controls regarding the following: correct recognition of assets in the balance sheet in relation to the calculation of depreciation expenditure; reliability and validity of the reported data by the secondary budget spending entities included in the structure of the municipalities; identity of the information from the accounting system presented for consolidation by the municipality, respectively presented to the Ministry of Finance and the National Audit Office; consistency between the provisions of the signed contracts and their implementation, incl. provision of guarantees for the provided advance payments under contracts.

Without prejudice to the audit opinion, the reports on the annual financial statement of some municipalities contain emphasis of matter regarding the use of short-term interest-free loans out of third-party accounts contrary to the legal provisions.[55].

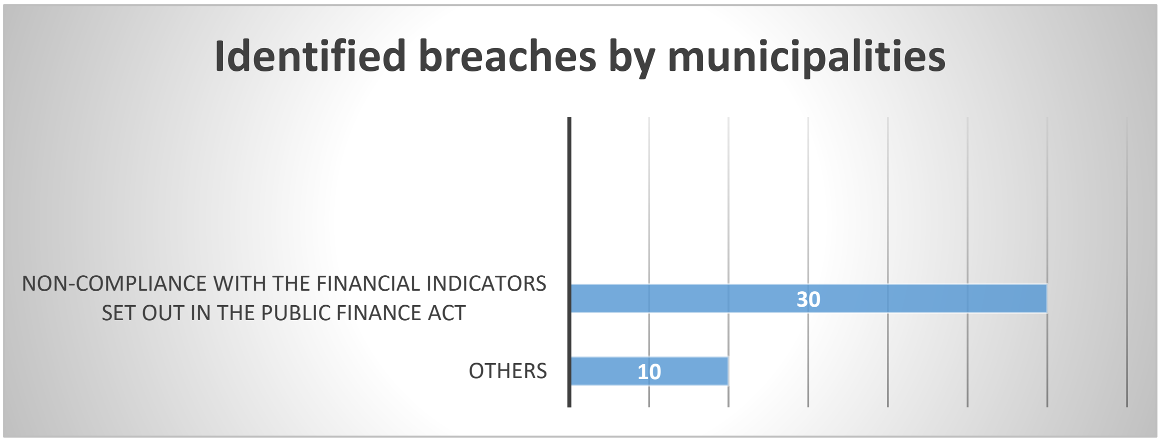
The audits identified some instances of non-compliance with the legal framework. Therefore, BNAO initiated procedures in line with article 57, paragraph 1 of the National Audit Office Act *(Figure 7)* and referred the cases to the relevant competent authorities (State Agency for Financial Inspection– regarding 38 municipalities[56], National Revenue Agency – regarding 6 municipalities[57] and Executive Agency Chief Labor Inspectorate – two municipalities[58]) for taking actions (also identified during the 2023, 2022, 2021, 2020 and 2019 audits of annual financial statements). Some examples are:

- Non-compliance with the financial indicators set out in the Public Finance Act – regarding expenses, commitments for expenditure and arrears under the Public Finance act, which is considered a breach of the financial discipline in line with § 2 of the Supplementary Provisions of the Public Finance Act (also identified during the audits of the 2023 annual financial statements).

- Absence of internal control units in line with article 12, paragraph. 2, item 3 of the Public Sector Internal Audit Act, or availability of internal audit units that are understaffed[59].

- Some municipalities have not established Audit Committees despite falling within the scope of the provisions of article 18, paragraph 1 of the Public Sector Internal Audit Act in relation to article 21 of the Public Finance Act that require from municipalities with internal audit units to also establish audit committees.

Figure 7



In compliance with article 57, paragraph 1 of the National Audit Office Act, the State Agency for Financial Inspection keeps BNAO regularly informed of its ongoing financial inspections and outcomes thereof.

In line with article 49, paragraph 3 and article 54, paragraph 16 of the National Audit Office Act in 2025, BNAO referred some of its audit reports to other government authorities *(Figure 8)* for information or for taking competent action (Ministry of Finance – audit reports on 125 municipalities)[60], National Association of the municipalities in the Republic of Bulgaria – regarding 51 municipalities[61] and the Anti-corruption Commission – regarding 1 municipality[62]). In line with article 49, paragraph 3 of the BNAO Act, all endorsed audit reports were sent to the relevant municipal councils.

Where the audits identified possibilities for non-compliant collection and spending of public funds, and in case of infringements, BNAO applied the provisions of art. 58, paragraph 1 of the BNAO Act referring the matters to the Prosecutor's Office (in case of one municipality[63]).

Figure 8

Some misstatements and irregularities in the Financial Statements of the municipalities were adjusted in the course of the audit engagements as follows:

✓ Adjustments of depreciation expenditure to achieve fair representation of the carrying value of depreciable assets (such adjustments were also introduced in the course of the audits of the 2023, 2022, 2021, 2020, 2019 and 2018 annual financial statements) .

✓ Adjusting the disclosure of the changes in the municipal shareholdings in commercial companies (also adjusted in the course of audits of the 2023, 2022, 2021, 2020, 2019, 2018, 2017 and 2016 annual financial statements) to achieve fair representation of the investments and the related revenue.

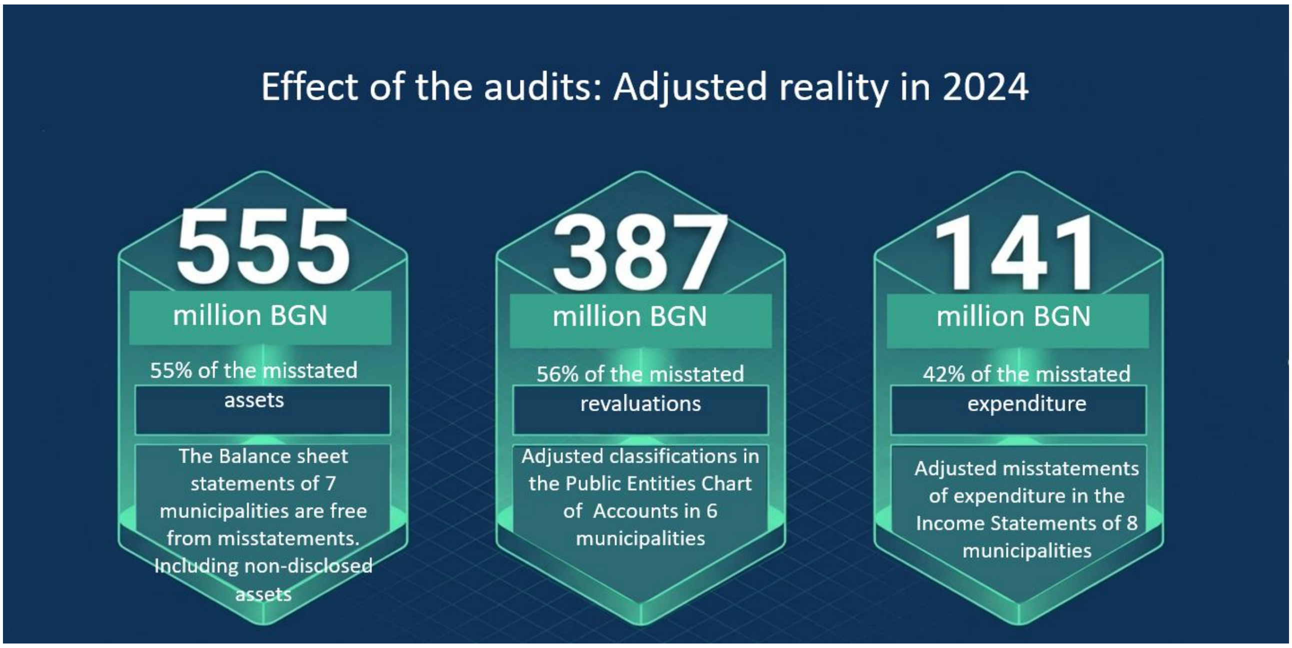
✓ Disclosing commitments (taken and implemented) under contracts and bank guarantees (also adjusted in the course of audits of the 2023, 2022, 2021, 2020, 2019, 2018, 2017 and 2016 annual financial statements). These corrections helped achieve fair representation and complete disclosure of off-balance sheet assets and liabilities in the financial statements.

✓ Recognition of non-disclosed assets, liabilities, revenues, and expenses (also adjusted in the course of audits of the 2023, 2022, 2021, 2020, 2019, 2018, 2017 and 2016 annual financial statements). These corrections ensured fair representation and complete disclosure in the financial statements. In 2024, roughly 55% (555,056 thousand BGN) of the misstated assets in the Balance Sheets statements (Figure 9) were attributable to seven municipalities[64].

✓ Adjusting misstated income and expenditure (also adjusted during the audits of the 2023, 2022, 2021, 2020, 2019, 2018, 2017 and 2016 annual financial statements). These adjustments ensured fair and complete information in the financial statements. In 2024, roughly 42% (141,370 thousand BGN) of the misstated expenditure in the Income Statements (*Figure 10*) were attributable to eight municipalities[65].

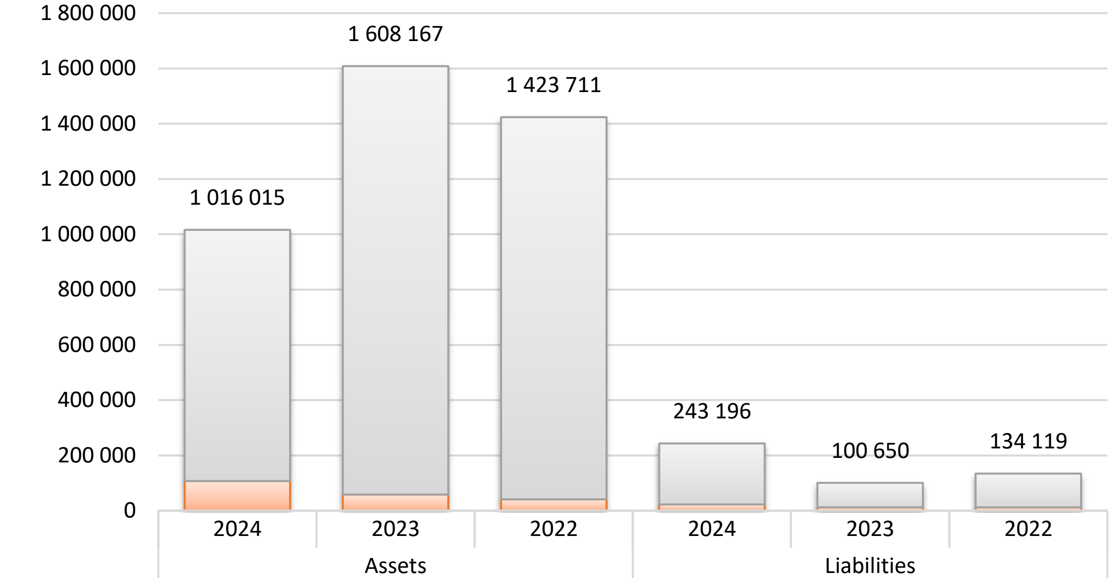
✓ Corrections of errors (mainly technical) that occurred during the consolidation of the financial statements in the system of first-line budget organizations, the aim being to ensure fair representation (also adjusted in the course of the audits of 2023, 2022, 2021, 2020, 2019 and 2018 annual financial statements). In 2024, roughly 33% (6,257 thousand BGN) of the misstated expenditure (*figure 11*) in the Cash-flow statements were attributable to four municipalities[66].

✓ Adjusting the classification of assets, liabilities, revenues, expenses and transfers in the Public Sector Chart of Accounts and the Uniform Budget Classification (also corrected in the course of audits of the 2023, 2022, 2021, 2020, 2019, 2018, 2017 and 2016 annual financial statements) resulting in correct representation in the balance sheet, income statement and the cash-flow statement. In 2024, fifty-six percent (387,851 thousand BGN) of misstated revaluations and other events in the Income Statements *(Figure 10)* were attributable to misstatements in 6 municipalities[67].



Between 2022 and 2024 there was a drop in the identified misstatements of revaluations and other events, while the structural relative share of non-adjusted misstatements increased compared to the adjusted ones – from 4% in 2023 to 16% in 2024. (*Figure 10*).

Adjusted and Unadjusted misstatements in the Balance Sheets of Municipalities (BGN thousand)



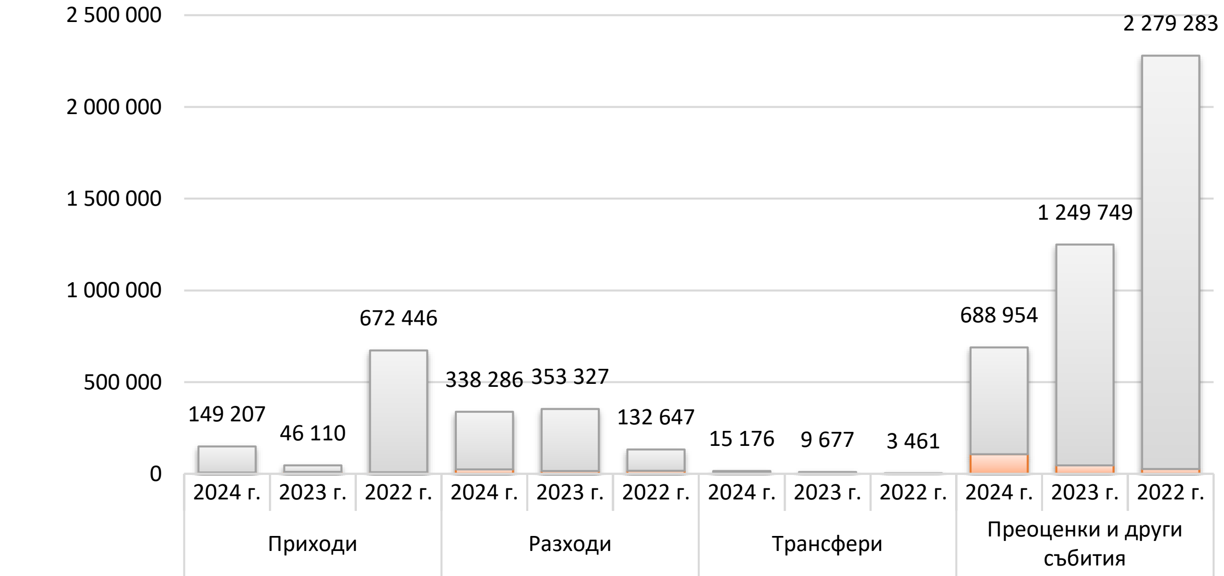
	Assets 2024	Assets 2023	Assets 2022	Liabilities 2024	Liabilities 2023	Liabilities 2022
Adjusted	908 760	1 549 881	1 382 532	220 546	88 517	122 044
Unadjusted	107 254	58 286	41 178	22 650	12 133	12 075
Total	1 016 015	1 608 167	1 423 711	243 196	100 650	134 119

Figure 9

Figure 10

Коригирани и некоригирани неправилни отчитания в ОПР на общините

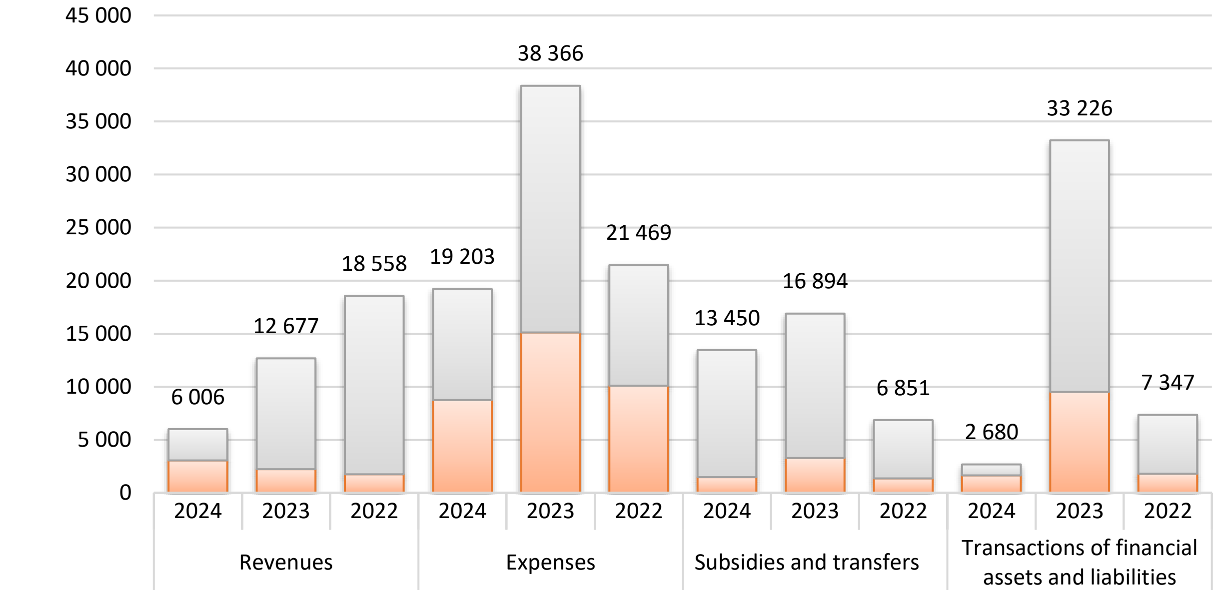
(хил. лв.)



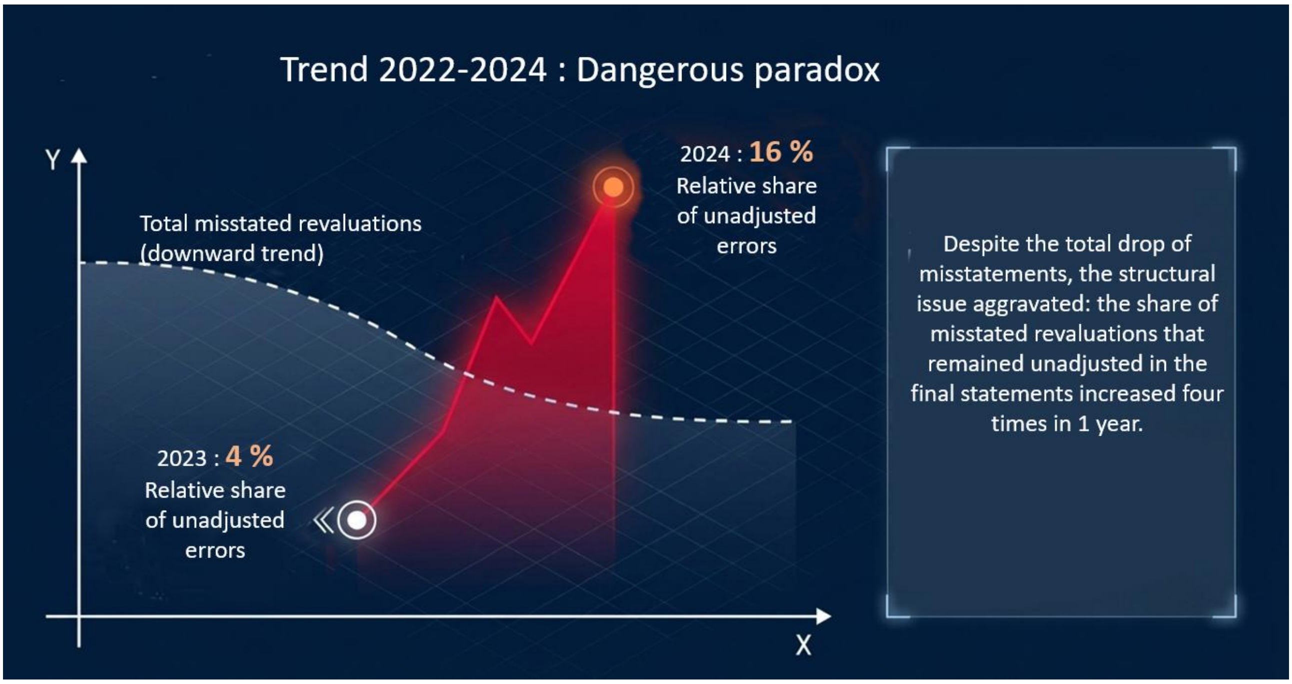
	Приходи 2024 г.	Приходи 2023 г.	Приходи 2022 г.	Разходи 2024 г.	Разходи 2023 г.	Разходи 2022 г.	Трансфери 2024 г.	Трансфери 2023 г.	Трансфери 2022 г.	Преоценки и други събития 2024 г.	Преоценки и други събития 2023 г.	Преоценки и други събития 2022 г.
Коригирани	142 125	35 863	663 869	314 177	338 045	115 972	10 597	9 235	2 370	582 079	1 203 7	2 253 0
Некоригирани	7 082	10 246	8 578	24 109	15 282	16 675	4 579	442	1 091	106 875	46 027	26 248
Общо	149 207	46 110	672 446	338 286	353 327	132 647	15 176	9 677	3 461	688 954	1 249 7	2 279 2

Figure 11

Adjusted and Unadjusted misstatements in the Budget Execution Statements of Municipalities (BGN thousand)

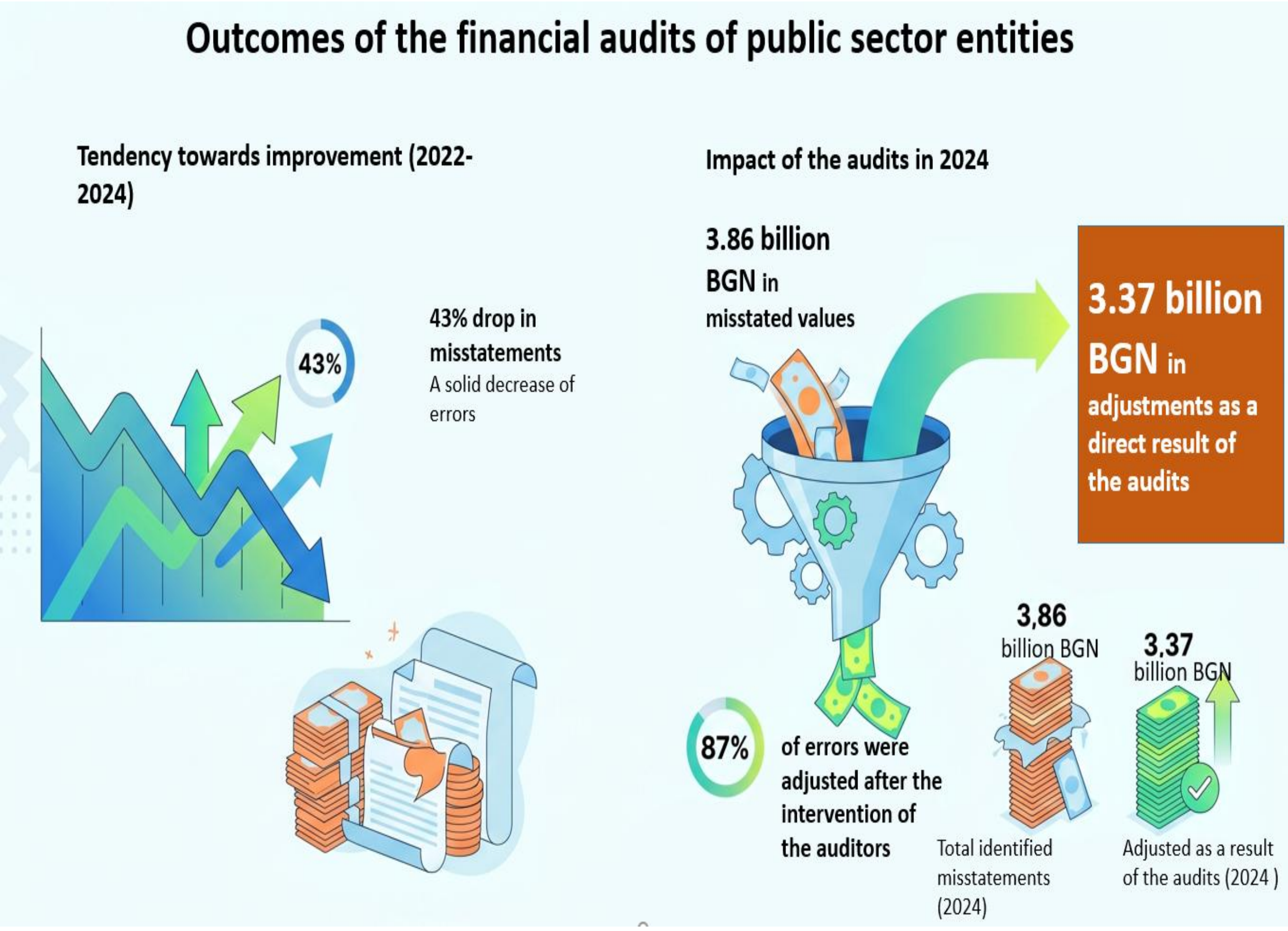


	Revenues			Expenses			Subsidies and transfers			Transactions of financial assets and liabilities		
	2024	2023	2022	2024	2023	2022	2024	2023	2022	2024	2023	2022
Adjusted	2 950	10 445	16 806	10 458	23 251	11 365	11 970	13 608	5 489	1 033	23 714	5 549
Unadjusted	3 056	2 231	1 752	8 746	15 116	10 103	1 480	3 286	1 361	1 647	9 513	1 798
Total	6 006	12 677	18 558	19 203	38 366	21 469	13 450	16 894	6 851	2 680	33 226	7 347



7. Conclusions of the audits on the 2024 annual financial statements

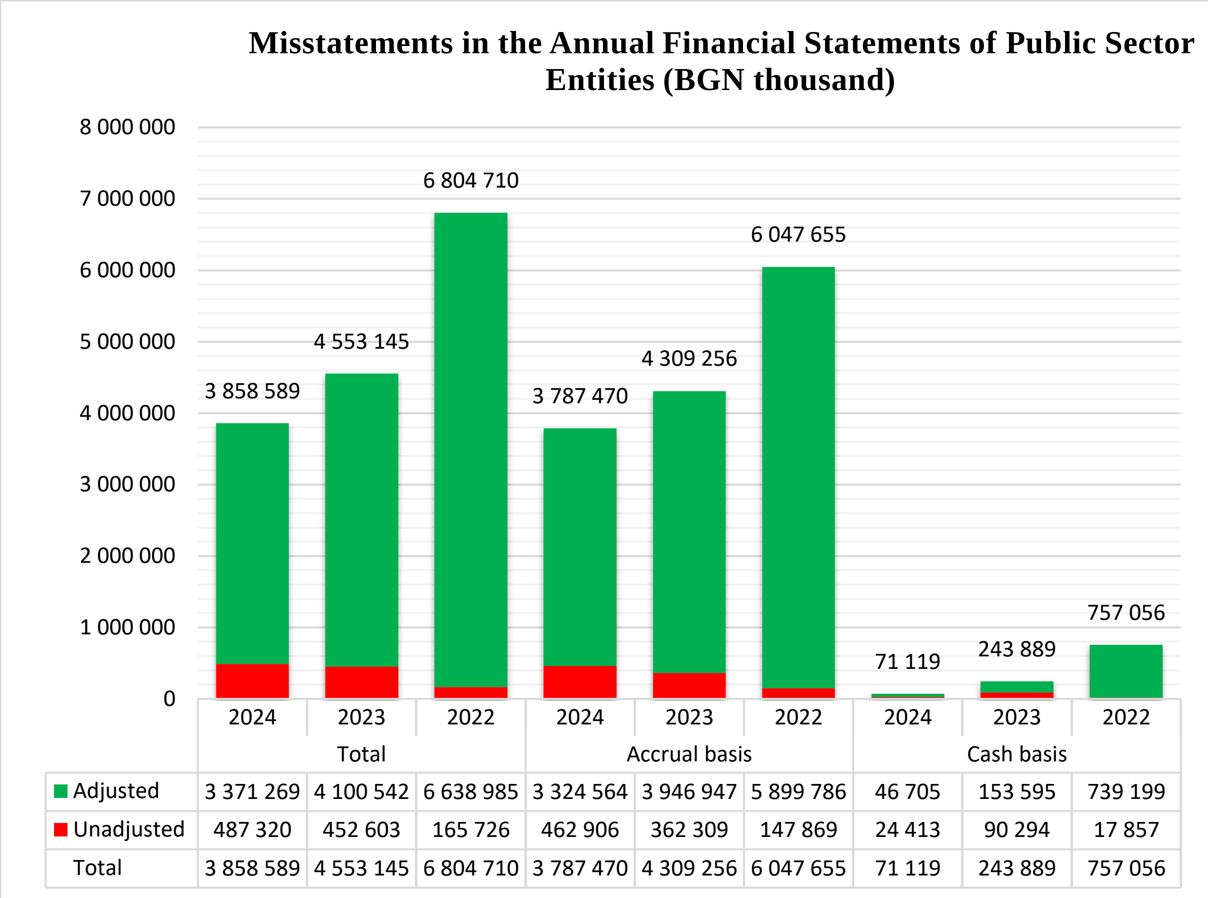
In the past three years (2022 – 2024) there has been a persistent reduction of the errors in the financial statements of public sector entities *(Figure 12)* marking a decline of 43 % down to 3,86 billion BGN in 2024. The financial audits of the 2024 annual financial statement **contributed to the adjustment of misstatements amounting to 3,37 billion BGN, i. e. 87% of all identified misstatements.** There has been a slight grown in the relative share of misstatements year-on-year.



Some of the reasons for non-adjusted errors in the annual financial statements are as follows:

- Differences of opinion between the auditor and the management of the audited entities regarding the accounting treatment of specific events and transactions.
- Impossible adjustment of misstatements from previous periods that continue to affect the annual financial statements of the audited accounting period.
- The value of misstatements is insignificant and does not influence the audit opinion.

Figure 12

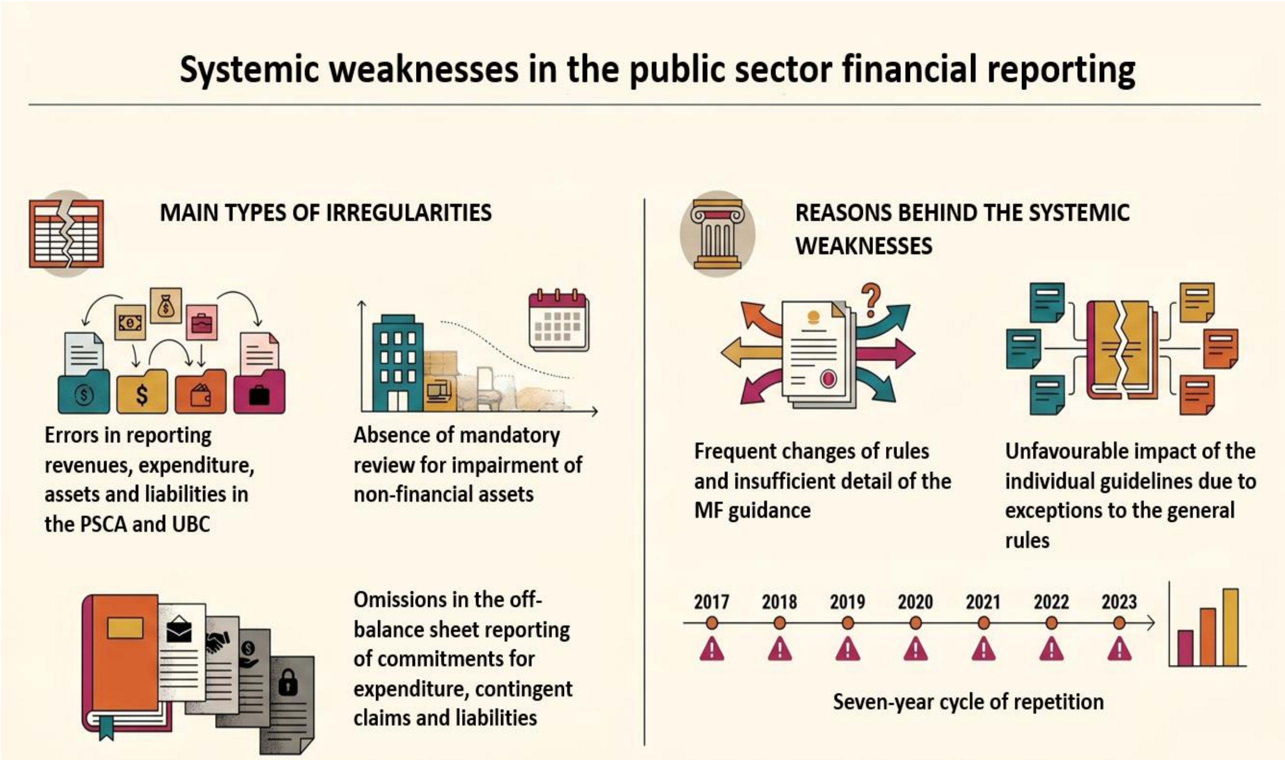


	Total			Accrual basis			Cash basis		
	2024	2023	2022	2024	2023	2022	2024	2023	2022
Adjusted	3 371 269	4 100 542	6 638 985	3 324 564	3 946 947	5 899 786	46 705	153 595	739 199
Unadjusted	487 320	452 603	165 726	462 906	362 309	147 869	24 413	90 294	17 857
Total	3 858 589	4 553 145	6 804 710	3 787 470	4 309 256	6 047 655	71 119	243 889	757 056

7.1. Weaknesses in drafting financial statements

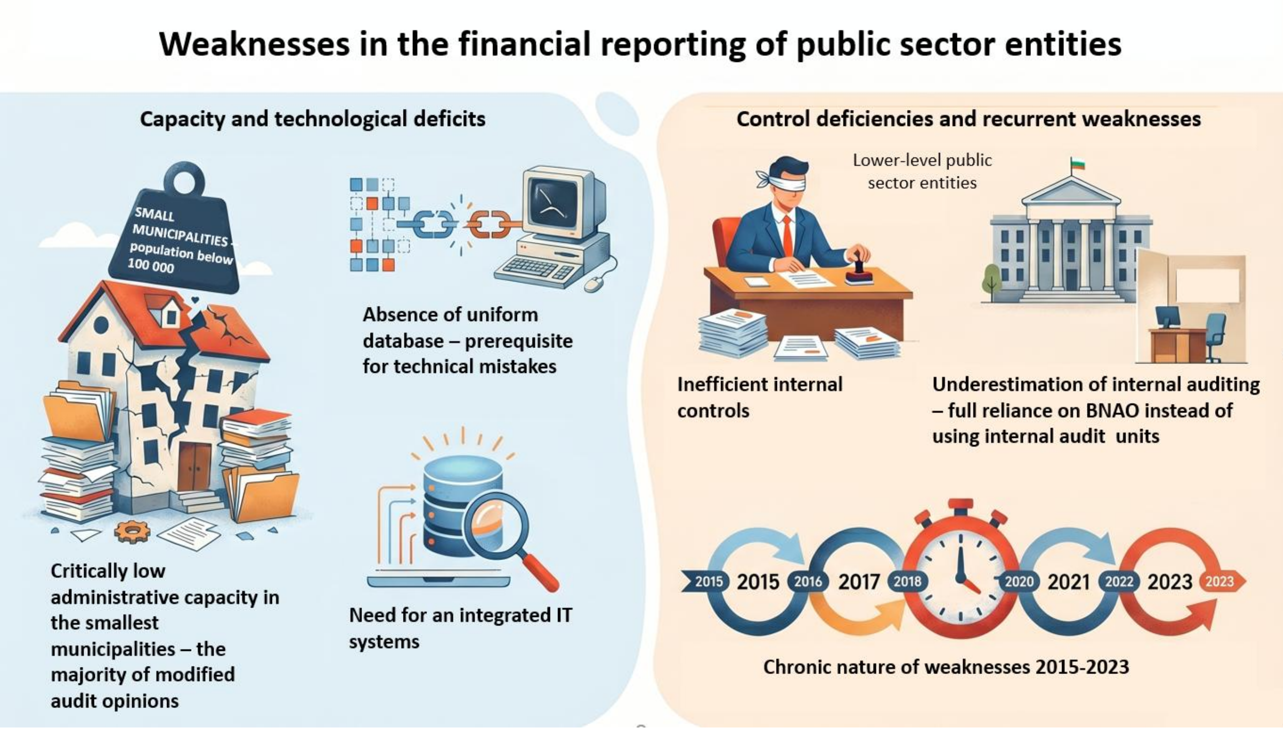
- All three groups of audited public sector entities (central government bodies, public universities, and municipalities) make similar misstatements due to wrong classification of revenues and expenses, assets and liabilities in the relevant accounts of the Public Sector Chart of Accounts (PSCA) and respectively in the relevant paragraphs and sub-paragraphs of the Uniform Budget Classification (UBC). We believe that the main reason for this are the frequent amendments to the financial reporting framework, incl. insufficient and incomplete guidance by the Ministry of Finance on its implementation (e.g. the definition land adjacent to premises and facilities, classification of certain groups of non-current assets, etc.). Some individual additional instructions issued by the MF may also have a negative impact, since very often they introduce exceptions to the general rules.
- Non-compliance with the MF guidance regarding the mandatory **reviews for impairment of non-current assets at least once every three years**.
- Failure to follow the MF guidance regarding **off-balance sheet disclosure** of the undertaken or implemented commitments and/ or new commitments for expenditure, contingent claims and liabilities.
- Difficulties in identifying and applying the relevant principles in the Accountancy Act.

Similar weaknesses in the organization of financial reporting were identified during the audits of the 2023, 2022, 2021, 2020, 2019, 2018 and 2017 annual financial statements.



7.2. Weaknesses regarding the organization of the accounting process

- The highest relative share of modified opinions (qualified and adverse) were issued on the annual financial statements of municipalities with less than 100 000 citizens, which is an indication of **insufficient administrative capacity**.
- There is no requirement to maintain an **adequate uniform electronic database** of all accounting entries on cash and accrual basis **for the first-line public sector entities**. On the one hand, this is a prerequisite for mistakes in compiling and summarizing the information in the consolidated annual financial statements, and on the other, it prevents the use of CAATs during the audits. The introduction of an integrated financial information system for all ministries and the rest of the public sector entities financed out of the budget will be a lengthy process. However, using a uniform database for the compilation of financial statements reduces the risk of technical mistakes, ensures **an audit trail and does not restrict the scope of computer-aided audits**.



- Inefficient internal controls in the first-line budget spending entities regarding the accounting and budget discipline of their subordinate entities, incl. the autonomy of subordinate entities.
- With regard to the obligation of the first-line public sector entities to prepare and ensure fair representation in the consolidated financial statements, the management of these entities **fails to implement effective controls** on the completeness and validity of the information included in the financial statements of the lower-level public entities. The **possibility for conducting internal audits** on compliance with the applicable financial reporting framework is underused, incl. in the cases when modified opinions have been expressed, while fully relying on the audits by the National Audit Office.

All of the above weaknesses concerning the organization of the accounting processes were also identified during the audits of the 2023, 2022, 2021, 2020, 2019 and 2018 annual financial statements, while the first two weaknesses were also present in the 2017, 2016 and 2015 annual financial statements.

7.3. Positive trends in the financial reporting and discipline

- The first-line budget spending entities have updated their accounting policies to ensure the application of the guidance issued by the Minister of Finance and uniformity of the accounting policy within the entire system of their subordinate public entities.
- Timely update of the Risk Management Strategy and reviews of the risk register to identify potential risky events or situations that might affect the meeting of the municipal goals.
- Identifying and recognition of accounting estimates for construction works in progress at year-end.

- Accrual at year-end of the relevant current share of the payments on the principal of long-term loans.
- Expenses for personnel provisioning (compensated absences and similar) are correctly accrued and reported, with the accrued amount being fully reversed (by red or black reversal) by the public sector entity at the beginning of the next reporting year all at once.
- Conducting competitions for the appointment of internal auditors in municipalities where the required staffing levels of the internal audit units have not been met.
- Setting up audit committees in municipalities falling within the scope of article 18, paragraph 1 of the Public Sector Internal Audit Act, which have internal audit units in place.

8. Conclusion

The audits of the interim and annual financial statements of public sector entities are not merely a tool for identifying irregularities, but a key mechanism **contributing to the improvement of the financial reporting quality, the effectiveness of management and strengthening the confidence in public sector entities.** Financial audits encourage the managing bodies to revise processes and strengthen their internal controls and accounting practices by enhancing the transparency and effectiveness of public finances.

The benefits of good public sector financial reporting **are manifold** – satisfying the information needs of a large number of financial information users, improving public sector governance and compliance, increasing the confidence in the conduct of public business, etc. Therefore, there is a need for a constant improvement of financial reporting in line with the best international practices – IPSAS and EPSAS (currently in development). The Bulgarian National Audit Office supports the Ministry of Finance's efforts in this regard, while at the same time ensuring an objective evaluation of the current state of play.

Annex No 1

List of municipalities and their relevant irregularities reported to the State Agency for Financial Inspection in line with article 57, paragraph 1 of the BNAO Act in 2025

Name of municipality	**Non-compliance with the financial indicators set out in the Public Finance Act (PFA)regarding expenditure, committed expenditure and arrears, in conjunction with the provisions of the PFA**	**Other**
Belovo	breach	
Bozhurishte		breach
Bolyarovo		breach
Burgas		breach
Velingrad	breach	breach
Dimitrovgrad		breach
Dospat	breach	
Dupnitsa		breach
Etropole		breach
Ivaylovgrad		breach
Kostenets	breach	
Kocherinovo		breach
Kresna		breach
Kardzhali		breach
Kyustendil		breach
Lesichovo	breach	breach
Letnitsa	breach	
Madan		breach
Malko Tarnovo		breach
Nedelino		breach
Nessebar		breach
Pavel banya		breach
Petrich		breach
Parvomay		breach
Rudozem	breach	
Septemvri	breach	
Sliven		breach
Smolyan		breach
Sopot		breach
Stambolovo		breach
Stara Zagora		breach

Sofia municipality		breach
Strumyani	breach	
Sungurlare		breach
Tran	breach	
Haskovo		breach
Chelopech		breach
Yakoruda		breach

Annex No 2

List of the municipalities whose infringements were reported in 2025 to the relevant authorities based on article 49, paragraph 3 and article 54, paragraph 16 of the BNAO Act for information or for taking action

Name of municipality	Authority receiving the audit report			
	Ministry of Finance	Prosecutor’s Office of the Republic of Bulgaria	National Revenue Agency	National Association of Municipalities in Bulgaria
Aytos	reported			
Antonovo				reported
Ardino	reported			reported
Assenovgrad			reported	
Banite	reported			
Bansko	reported			
Batak	reported			reported
Belitsa	reported			
Belovo	reported			reported
Bobovdol	reported			
Bojurushte	reported			reported
Bolyarovo	reported			reported
Borino				reported
Borovan				reported
Botevgrad				reported
Bratsigovo	reported			reported
Bregovo	reported			reported
Breznik	reported			
Brezovo	reported			reported
Brussartsi				reported
Veliki Preslav	reported			
Velingrad				reported
Vetrino	reported			
General Toshevo	reported			
Glavinitsa	reported			
Godech				reported
Gorna Malina	reported			
Gotse Delchev	reported			
Galabovo	reported			
Garmen	reported			reported

Devin	reported			
Dzhebel	reported			
Dimitrovgrad	reported		reported	
Dimovo	reported			
Dobrichka	reported			
Dolna banya	reported			
Dospat	reported			
Dragoman	reported			reported
Dryanovo	reported			reported
Dupnitsa	reported			reported
Elin Pelin	reported			reported
Elhovo	reported			
Etropole	reported			
Zavet	reported			
Zlataritsa				reported
Zlatitsa	reported			reported
Zlatograd	reported			
Ivaylovgrad	reported			reported
Ihtiman	reported			reported
Kaloyanovo	reported			
Kameno	reported			
Kirkovo	reported			
Kostenets	reported			reported
Kostinbrod	reported			
Kotel	reported			
Kocherinovo	reported			reported
Kresna	reported			reported
Krivodol	reported			
Krumovgrad	reported			
Krushari	reported			reported
Kuklen	reported			
Kardzhali	reported			
Lesichovo	reported			reported
Letnitsa				reported
Lukovit	reported			
Lyubimets	reported			reported
Madan	reported			
Maritsa	reported			
Mineralni bani	reported			
Momchilgrad	reported			
Maglizh	reported			reported
Nedelino	reported			reported

Nessebar				reported
Nikolaevo	reported			
Omurtag				reported
Pavel banya	reported			
Pazardzik	reported			reported
Panagyurishte	reported			
Pernik	reported			
Petrich	reported			reported
Pirdop	reported			reported
Plovdiv	reported			
Perushtitsa			reported	
Pravets	reported			
Primorsko	reported			
Provadia	reported			
Radnevo	reported		reported	
Radomir	reported			reported
Razlog	reported			reported
Rakitovo	reported			
Rakovski	reported			
Rodopi	reported			
Rudozem	reported			
Ruen	reported			
Ruzhintsi	reported			reported
Sadovo	reported			
Sandanski	reported			
Sapareva banya	reported			reported
Satovcha	reported			
Svilengrad	reported			
Svoge	reported			
Septemvri	reported			reported
Simeonovgrad	reported			
Simitli	reported			
Sitovo	reported			
Slivnitsa	reported			reported
Smolyan	reported			
Sozopol	reported			
Sopot	reported		reported	reported
Sredets	reported			
Stamboliyski	reported			
Stambolovo	reported			reported
Stara Zagora	reported		reported	
Sofia municipality	reported			

Straldzha	reported			
Strelcha	reported			
Strumyani	reported	reported		
Sungurlare	reported			reported
Saedinenie	reported			
Sarnitsa	reported			
Tvarditsa	reported			
Teteven	reported			
Topolovgrad	reported			reported
Tran	reported			
Tundzha	reported			
Ugarchin	reported			
Hadzhidimovo	reported			
Harmanli	reported			
Tsar Kaloyan	reported			
Tsarevo	reported			
Tsenovo	reported			reported
Chelopech	reported			reported
Chepelare	reported			
Chernoochene	reported			
Chirpan	reported			
Shabla	reported			
Yakoruda	reported			reported
Yambol	reported			

[1] A pervasive effect on the financial statements is the effect that in the auditor's consideration:
- is not restricted to specific elements, accounts or positions in the financial statements;
- if restricted, it affects or could affect a significant part of the financial statements; or
- with respect to the disclosures is fundamental for the users' understanding of the financial statements.

[2] Example: when the audited entity's management refuses to provide or (for reasons outside of its influence) is unable to provide specific information to the auditors.

[3] Public Finance Act, article 164

[4] Council of Ministers Decree No 65 from 1998, SG issue 36 from 31 March 1998 effective as of 01 January 1998; amended SG 51 from 1999; edited SG 54 from 1999; amended SG 82 from 1999, SG 3 from 2000, SG 8 and 12from 2001, SG 22 and 97 from 2002, repealed with Council of Ministers Decree No 46 from 21 March 2005 effective as of 01 January 2005.

[5] Here are some examples of instructions introducing amendments to the financial reporting framework:
- Public Sector Chart of Accounts from 01 January 2015.
- Guidelines on the reporting of economic transactions contained in letter 14 dated 30 December 2013 of the Treasury Directorate in relation to the application of the Public Sector Chart of Accounts.
- Additional Guidance on the reporting of specific operations, assets and liabilities in applying the Public Sector Chart of Accounts published in letter No 08 from 16 September 2014 by the Treasury Directorate,MF.
- Guidance on the accounting of EU funds by the central government and municipalities contained in Guidance No 06 and No 07 from 04 April 2008 by the Treasury Directorate, MF; letter No 2 from 27 January2015 of the *Municipal Finances* Directorate and No 01 from 26 January 2015 by the *Treasury* Directorate, as well as letter No 03 from 31 March 2016 of the *Treasury* Directorate, MF.
- Guidance on Depreciation of long term non-financial assets in Public Sector Entities contained in letter No 05 from 30 September 2016 of the Treasury Directorate, MF.
- Guidance on the deadlines for stock-taking in public sector entities contained in letter No 10 from 28 December 2017.

[6] Guidance No 08 of the Treasury Directorate, MF dated 28 June 2005, item 30

[7] Council of Ministers Decree No 46 from 21 March 2005 (SG issue 30 from 2005), Final provisions, § 1

[8] Repealed, SG issue 95 from 8 December 2015.

[9] International Public Sector Accounting Standards, Conceptual framework for General Purpose Financial Reporting by Public Sector Entities, item 2

[10] Article 23, paragraph 4 of the Accountancy Act (repealed) in effect from 01 January 2002 through 31 December 2004; article 5a, paragraph 3 of the Accountancy Act (repealed) effective from 01 January 2005 through 31 December 2013.

[11] Amended - SG issue 15 from 15 February 2013; repealing and introducing a new one – SG 95 from 8 December 2015.

[12] Treasury Guidance No 20 from 2004, item 16.23.

[13]SG issue 86 from 2007 in effect as of 01 January 2008.

[14] Article 26, paragraph 1 of the Accountancy Act effective as of 01 January 2016.

[15] Article 26, paragraph 1, item 4 of the Accountancy Act effective as of 01 January, 2016.

[16] EUROSTAT, Ernst & Yong, Position paper on accounting treatment of the EC WG on EPSAS, 30 June 2016;and EUROSTAT, Ernst and Young – Overview and comparative analysis of the public sector accounting and audit practices in the 27 MS, 19.12.2012

[17] This requirement is set out in paragraph 26 of **IPSAS 21** *Impairment of non-cash generating assets* and *paragraph* 22 of **IPSAS 26** *Impairment of Cash-Generating Assets.*

[18] Article 26, paragraph 1, item 3 of the Accountancy Act effective as of 01 January 2016.

[19] BNAO informed the Minister of Finance of the identified weaknesses in the regulation of depreciation in a letter No 04-50-01 dated 24 August 2018.

[20] Contract between the Ministry of Finance and Information Services JSC – Sofia dated 30.09.2020.

[21]Commission Report to the Council and the European Parliament on the application of harmonized public sector accounting standards in the MS, COM (2013) 114, page 3

[22] Since 2013, the IPSAS have developed significantly in the area of good governance, and in their conceptual and technical aspects. A new governance structure was introduced, incl. strengthened independent control. A public interest committee was established in 2015, while in 2016 a Consultative Body was set up to support the official coordination process within the IPSAS Board.

[23] International Public Sector Accounting Standards, Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities; Chapter 3. Qualitative Characteristics.

[24] Report by the European Commission on the progress in relation to the European Public Sector Accounting Standards (EPSAS, SWD (2024) 97; page 4

[25] Article 16a.1(a) of Directive 2011/85/EU

[26] With regards to public sector governance within the Union taking into consideration the progress following the 2013

assessment of the applicability of IPSAS in the member states
[27] EU Services (EUROSTAT)
[28] This is a MS forum providing advice and expert opinion in relation to the drafting of the European Standards
[29] EPSAS Conceptual Framework (revised); February 2024.
[30] In specific cases, the alternative options provided in the EPSAS may be narrowed down to achieve the EU goals and to offer concrete guidance on specific topics.
[31] As part of its technical assistance, EUROSTAT supports the sharing of best practices and initiates discussions regarding innovative approaches to public sector financial reporting.
[32] Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee on Enhancing the European Administrative Space (ComPAct), COM(2023 667)
[33] Six member states maintain primarily cash-based accounting, while the other 11 states apply mixed practices (cash-based and accrual principle).
[34] Greece, Italy and Portugal.
[35] Greece, Italy, Ireland, Luxembourg, Malta, Poland and Portugal
[36] At present, Germany and the Netherlands do not plan a transition to accrual basis accounting in their public sectors. There is no universal national commitment in Germany for such reforms, however improvements in the accounting systems at federal level have been introduced – digitalization of the accounting processes and maintaining asset registers. In the Netherlands, the introduction of the accrual basis principle is not consistent either; the majority of the central government bodies still apply the cash-base accounting, while the social security funds and the majority of the local government bodies apply the accrual basis principle.
[37] Decision of the BNAO Board No 166 dated 15.06.2017.
[38] Compared to other EU SAIs the relative share of unmodified opinions issued by BNAO is high. According to a study conducted by the SAI of the Czech Republic regarding the audit opinions on the 2016 financial statements of the central government bodies by type of modification, the share of unmodified opinions in some countries is as follows: Croatia – 25 %, Finland – 61 %, Lithuania – 64 %, France – 77 %, Cyprus – 80 %, Latvia – 85 %, Portugal – 93 %, Sweden – 94 %.
[39] Report on the outcomes of BNAO's financial audits conducted in 2024; page 12, Fig. 1.
[40] The number of modified opinions before the introduction of corrections is calculated based on the assumption that the only factor determining the type of modification of the audit opinion is the value of the identified misstatements relative to the materiality level set for the financial statements. There are several important restrictions to this approach: first, it does not provide for the possibility of having different materiality levels for different classes of transactions; second, it does not take into consideration misstatements that are material by nature; and third, it precludes the possibility to calculate the potential number of disclaimers of opinion. Each of these factors provides additional grounds for modification of the audit opinion. Therefore, if their impact is taken into consideration, this would result in increasing the number of audit opinion modifications. This is why when analysing the impact of corrections, it should be kept in mind that the scenario presented here is the most favourable one.
[41] The reservation and relocation of funds (including the opening of term deposits, purchase of foreign currency, etc.) from accounts subject to zeroing into accounts ending with a balance is not be permitted, unless otherwise specified by a letter from the Ministry of Finance. Ministries and agencies should avoid signing contracts providing for advance payment, which is not in line with prudent practices and whose implementation would not be completed within the current budget year.
[42] Ministry of Regional Development and Public Works (MRDPW), Ministry of Transport and Communications (MTC), Ministry of Health (MoH) and Ministry of Interior (MoI)
[43] Ministry of Regional Development and Public Works, Ministry of Transport and Communications and Ministry of Health
[44] National Social Security Institute (NSSI)
[45] Ministry of Regional Development and Public Works, Ministry of Health and Ministry of Youth and Sports
[46] Technical University of Varna, the Varna University of Economy and the Transport University *Todor Kableshkov*, Sofia
[47] Ministry of Culture
[48] Enterprises managing the environmental protection activities (EMEPA), State Agency State Reserve and Wartime Stocks (SA SRWS) and State Enterprise Research and Production Centre (SE RPC)
[49] Ministry of Culture
[50] Academy for Agriculture
[51] The applied approach for valuation of long-term tangible assets following their initial recognition; acquisitions and write-offs during the period; the increase and decrease of the book value of assets that have already been acquired; the sum total of commitments for acquisition of long-term tangible assets, incl. the value of advance payments; the value of long-term tangible assets used in operations that are owned by third parties; the book value of long-term tangible assets that are temporarily decommissioned; book value of fully depreciated long-term tangible assets – by groups of assets.

[52] The protocols of the reviews state that the Committee did not identify any permanent changes and permanent decline of prices, and hence did not find it necessary to perform revaluation of the assets. The protocols do not contain information enabling the auditor to ascertain that during the depreciation review of all assets their current recoverable value was calculated in line with the requirements of the Standard.
[53] In essence, from an economic perspective, the provision of the right to manage, maintain, and operate water supply and sewage infrastructure for consideration (including in exchange for a non-monetary counter-performance) constitutes a form of concession of these assets, and the requirements for recognizing concession revenue using the linear method should be applied in line with items 17.6 and 17.7 of MF -Treasury Directorate Guidance No 20 from 2004.
[54] Item 124 of the Guidance on the application of Public Entities’ Chart of Accounts.
[55] Art. 147 of the Law on Public Finances prohibits the use of Third-Party Funds accounts to perform or report any activities other than the administration of third-party funds and enforcement or asset recovery actions taken by the respective government authorities and the subsequent asset management and allocation in line with the applicable legislation.
[56] Annex 1
[57] Stara Zagora, Assenovgrad, Radnevo, Dimtrovgrad, Sopot and Perushtitsa
[58] Stara Zagora and Nikolaevo
[59] At least two internal auditors, incl. the head of the Internal audit unit are required.
[60] Annex 2
[61] Annex 2
[62] Yakoruda
[63] Annex 2
[64] Burgas, Stara Zagora, Assenovgrad, Knezha, Elhovo, Velingrad and Sofia municipality
[65] Smolyan, Razgrad, Assenovgrad, Karlovo, Chirpan, Devnya, Brino and Apriltsi
[66] Rousse, Dobrich, Nessebar and Banite
[67] Burgas, Smolyan, Assenovgrad, Knezha, Velingrad and Sofia municipality

We watch over citizens’ money

Bulgarian National Audit Office
Sofia 1000
37, Ekzarh Yosif Street

NotebookLM was used for some of the graphs


31518
10329
84

www.bulnao.government.bg