REPORT

on the Outcomes of the Financial Audit Engagements Conducted by the Bulgarian National Audit Office in 2022

BULGARIAN NATIONAL AUDIT OFFICE

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CONTENT

1. Goals of Financial Auditing

In 2022, the Bulgarian National Audit Office (BNAO) audited the 2021 annual financial statements of public sector entities. Financial auditing is an **expression of an independent audit opinion with a reasonable degree of assurance** on whether the annual financial statements of a public sector entity are prepared, in all material aspects, in accordance with the applicable financial reporting framework. Therefore, the audit opinion does not provide assurance neither on the future viability of an organization, nor on the effectiveness or efficiency of its management. It aims at increasing the users' **confidence in the information** disclosed in the financial statements. The internationally accepted auditing standards require from an auditor to express opinion only when they have obtained **reasonable assurance** whether the financial statements as a whole are free from material misstatements due to fraud or error. An audit opinion may be unmodified, qualified or adverse. **The unmodified audit opinion** indicates that **the audited financial statements are free from material misstatements** and that the notes to them do not contain any omissions of non-financial information that is of relevance to the users. The financial statements on which BNAO has expressed an unmodified opinion **present a true and fair picture** of the financial position, financial performance and cash flows of the respective public sector entity.

A qualified opinion is issued when the **audited financial statements contain material misstatements** or omissions of important non-financial information **whose effect is confined**. Financial statements on which the BNAO has expressed a qualified opinion **provide a true and fair representation** of the financial position, financial performance and cash flows of the public sector entity, **except for the effect of the misstatements or omissions**. **An adverse opinion** is issued when **the audited financial statements contain material misstatements** or omissions of important non-financial information **whose effect is pervasive**. Financial statements on which BNAO has issued an adverse opinion **do not provide a true and fair representation** of the financial position, financial performance and cash flows of the public sector entity. In exceptional cases, when the **circumstances[1] prevent the auditors from performing the necessary audit procedures,** BNAO issues **a disclaimer of opinion**. **It is impossible to conclude** whether the financial statements on which the BNAO has issued a disclaimer of opinion provide a true and fair view of the financial position, financial performance and cash flows of the respective public sector entity

This brief outline of the essential characteristics of financial auditing points to the fact that the **benefits of this audit** are predicated upon two factors. Firstly, whether the audit is conducted in line with the internationally accepted auditing standards and secondly, whether the applied public sector financial reporting framework contributes to improving the quality and transparency of financial reporting that informs the management's decision-making process.

2. Applying the internationally accepted standards on auditing

BNAO adheres to the principles and procedures set out in International Standards on Auditing (ISA) and the International Standards of Supreme Audit Institutions (ISSAI). BNAO's auditing methodology is outlined in the *Manual on Implementing the Internationally Accepted Auditing Standards and on the Audit Activity of the Bulgarian National Audit Office.* This Manual is updated regularly, based on an analysis of its practical implementation and in line with the development of the auditing standards. The specialized Audit Activity Development Directorate supports the auditing directorates in implementing the internationally accepted standards on auditing. A significant portion of the requirements in the auditing standards (included also in the Manual) relate to quality control through monitoring the implementationof the ISSAIs based on policies and procedures.

3. The 2021 Financial Reporting Framework

The financial reporting in the Bulgarian public sector is regulated mainly through the following:

- Law on the Public Finances
- Accountancy Act
- National Accounting Standards (repealed, but still in effect for the public sector entities)
- Guidance No 20/2004 (issued by the Ministry of Finance, Treasury Directorate) on the adaptation of the National Accounting Standards
- Guidance No 14/2013 (issued by the Ministry of Finance, TreasuryDirectorate) on the application of the Public Sector Chart of Accounts and additional GuidanceNo 08/2014 regarding the reporting of specific operations, assets and liabilities when applyingthe Public Sector Chart of Accounts
- Guidance by the Ministry of Finance No 05 from 2016 (issued by the Treasury Directorate) regarding depreciation of noncurrent non-financial assets of public sector entities;
- Guidance by the Ministry of Finance No 07 from 31 December 2021 (issued by the Treasury Directorate) regarding the year-end closing of accounts and presenting the

annual cash-flow and turnover statements and other 2021 financial reporting information, and the publication of the 2021 annual financial statements of public entities

- 2021 Uniform Classifier of budget entities for the purpose of cash-basis accounting of operations, as approved by the Minister of Finance
- Other guidance by the Minister of Finance issued in line with article 133, paragraph 5, article 167 and article 170 of the Law on Public Finances.

The public sector financial reporting framework in Bulgaria is regulated mainly by Chapter Fifteen - "*Budget Guidelines*" of the Law on Public Finances. The Minister of Finance **adopts accounting standards and a chart of accounts** and issues guidance for the public sector entities in line with:

- The requirements in effect in the European Union regarding public sector accounting, statistics and budgeting;
- The accounting framework, principles and concepts contained in the *Government Financial Statistics Manual* of the International Monetary Fund;
- International Public Sector Accounting Standards of the International Federation of Accountants;
- The requirements contained in the Bulgarian legislation regarding budgeting, reporting, budget execution and control of the funds and expenditure of public sector entities[2].

In 2021, Guidance No 20/14.12.2004 of the Minister of Finance regarding the application of **the National Accounting Standards (NAS)** by public sector entities stayed in effect[3]**.** Between 2004 and 2022, the Treasury Directorate and the Municipal Finances Directorate of the Ministry of Finance issued a significant number of additional directions to supplement this fundamental guidance document for public sector financial reporting. The additional directions regulate various financial reporting issues, 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, revenues and expenses[4].

In 2005, **the Minister of Finance ordered**[5] **the continuation of the effect of Treasury Guidance No 20/2004 for public sector entities, *regardless of the repeal* of the National Accounting Standards**[6]**.** NAS ceased to apply only for non-public sector entities. However, § 41, paragraph 3 of the 2005 Law on the Government Budget of theRepublic of Bulgaria and article 5a, paragraph 3 of the Accountancy Act [7] 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, accounting should be based on the concept of maintenance of financial capital. **This is in contradiction to the wide-spread understanding**[8] **that the main purpose of most public sector entities is rendering of public services rather than generating profit and return for the sake of shareholders.** 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 2001 Accountancy Act[9] laid down the requirement that public sector entities should draft and provide their annual financial statements based on public sector accounting standards developed in accordance with the International Public Sector Accounting Standards. Following the 2013 amendments to the Accountancy Act[10], the same requirement was introduced also through article 164 of the Law on Public Finances that entered into effect on 01 January 2014. **Nevertheless, to this point in time, no public sector accounting Standards have been adopted officially in Bulgaria.**

The above-mentioned circumstances pose a number of challenges for the officials responsible for preparing the financial statements of public sector entities, as well as for financial auditors. **The guidance by the Minister of Finance introduces requirements related to specific provisions and concepts in the former NAS that were repealed or amended in subsequent versions of the NAS**. An example is the measurement at and after recognition of assets. According to the MF guidance [11], the measurement of noncurrent tangible assets after 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[12], however, MF has not issued methodological guidance regarding the accountancy practices of public sector entities in such cases. There are other similar examples of insufficient guidance by the Minister of Finance, such as classification of assets in the entries of the Public Sector Chart of Accounts; the application of cash basis of accounting for economic events, incl. capital expenditure; 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 perfectly in line with the principles set out in the Accountancy Act[13]. Examples are item 18.1 of Guidance No 20/2004 and item 21 of Guidance No 10/2009 requiring that **the revenue from taxes, customs duties and other taxation proceeds be reported 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 have been paid in.** This is contradictory to **the accrual basis principle[14] 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.[15]**

Another example is the requirement set out in item 86 of 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 depreciation reviews, i.e. to assess through the end of each reporting period [16] whether there are indications that the value of a specific asset has diminished and, if so, to calculate the asset's recoverable amount. This is a prerequisite for non-compliance with the prudence principle[17] 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.

As of 01 January 2017, there has been a new element in the public sector accounting, namely a requirement for **depreciation of noncurrent non-financial assets** regulated by Guidance No 05/2016. In the process of auditing the 2017 annual financial statements, the BNAO identified[18] various **diverse practices of interpretation and application of these rules when the individual depreciation plan of an asset needs to be amended. Therefore, BNAO puts forward the following recommendations to the Ministry of Finance:**

- Clarify the definition of "depreciable amount" set out 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 amount should be calculated as the difference between theasset's cost, its residual value and the accumulated depreciation."* or *„In case of changes to the depreciation schedule, the depreciable amount should be calculated as the difference between the asset's carrying amount and its residual value".* **The current definition of "*depreciable amount*" is not sufficiently clear, because it fails to take into consideration the depreciation accumulated up to the moment when the asset's depreciation schedule was changed, which creates preconditions for error.** BNAO is of the opinion that the clarification of "depreciable amount" provided in the MF's *Comments on methodological issues* published at the end of 2019 simply restates the current definition and will not contribute to a better understanding.
- Laying down a clear requirement that in case of changes in the parameters of the depreciation schedule, the depreciation rate should be recalculated so as 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 an initial depreciation, but a continuation of a process of depreciation that has started previously;
- Specifying the approach to be followed in case of changes in the depreciation schedule resulting from revaluations and impairment, applying a new depreciation method, new expiry date or new residual value, capitalization of subsequent costs and other events, including specifying the moment in time when the depreciation schedule should be changed (e.g. month following the month of change; quarter; following reporting period).

Regardless of the fact that the going concern principle was part of the scope of the financial audits conducted prior to 2021, it gained greater importance following the introduction of the state of emergency on 13 March 2020. Definition of the going concern principle is provided in article 26, paragraph 1 of the Accountancy Act, however the relevant provisions of NAS 1 are not applicable for public sector entities in line with item 7 of Guidance No 20 from 2004. Meanwhile, ISSAI 1570 sets out concrete responsibilities of the BNAO regardless of whether the financial reporting framework contains specific requirements or simply introduces the going concern principle. This is why, the BNAO informed the Ministry of Finance and the audited entities of its responsibilities for auditing the going concern principle. The effect of the COVID -19 pandemic is therefore expected to be disclosed in the 2021Annual Financial Statements.

The Ministry of Finance is the contracting authority[19] for a project related to the development of an Integrated Financial Information System for the municipalities and an integrated financial information system for the other budgetary organizations - primary budget managers. In connection with Art. 93 of the Law on the State Budget of the Republic of Bulgaria for 2022, in order to unify the accounting processes in all budget organizations, their heads must introduce an Integrated Financial Information System for municipalities and a unified integrated financial information system for other budget organizations (budget authorisers by delegation). Due to the lack of official information provided by the Ministry of Finance about the project, the BNAO requested information about the entire project from all budgetary organizations - to establish the status, the progress made and any difficulties they encounter in the implementation of the programme product. The obtained results will be subject to extensive and in-depth analyses.

4. Acceptable public sector financial reporting framework

International Standard of Supreme Audit Institutions (ISSAI) 1210 - *Agreeing the Terms of Audit Engagements* outlines the requirements and guidance relating to the auditor's judgment on **the acceptability of the financial reporting framework**. For the purpose of this 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 based on the **only set of internationally recognized accounting standards[20] - the International Public Sector Accounting Standards** of the International Federation of Accountants. The characteristic features that contribute to the usefulness of information and ensure the attainment of financial reporting goals are as follows[21]:

- **Relevance** – information should help corroborate or reject former or current expectations of users and, to a certain extent, offer an estimate of the entity's capability to continue rendering public services, attaining its goals, and ensuring access to the necessary resources.
- **Faithful representation –** it is attained through 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 needs and takes into consideration the users' 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 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 stress that comparability is not a characteristic feature of separate information units, but rather refers to the correlation between these information units. 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 the requirement of enabling independent observers with different 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 strict requirements of the internationally recognizedfinancial reporting framework is at risk in Bulgaria due to all the aspects presented above:

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

5. Future development of the public sector reporting framework

Bulgaria should take into consideration 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)[22]. The European Court of Auditors monitors this initiative of the European Commission (supported strongly by EUROSTAT) and 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.

Hypothetically, **BNAO may start applying the criteria laid down in the International Public Sector Accounting Standards in issuing its audit opinions.** This will ensure compliance with the International Standards on Auditing[23] in cases of discrepancies between the financial reporting framework and the sources of guidance for its implementation or conflicting positions in the sources concerning the financial reporting framework, by **giving priority to the most authoritative source.**

We recommend that the **financial reporting framework in Bulgaria be reviewed,** paving the way for the preparation for quick introduction of the **International Public Sector Accounting Standards** (in line with the Law on Public Finances) or of the **European Public Sector Accounting Standards.**

Having regard to the development of the EPSAS project and its potential positive impact over the public sector financial reporting in Bulgaria, BNAO adopted[24] a principle position regarding these standards that consists of several key elements**:**

1. BNAO supports **the full adoption of accrual basis accounting in the public sector.** This will ensure a foundation for adequate performance measurement and planning of public sector operations.
2. 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.
3. 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.
4. 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.
5. 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.
6. BNAO **will continue to participate actively in forums and events** on the topic of public sector financial reporting.

6. Audits of the 2021 Annual Financial Statements. Outcomes

In 2022, the BNAO continued to efficiently perform its audit functions in light of the Covid-19 pandemic. The increased use of electronic communication technologies, including for obtaining audit evidence, continued. Until the cancellation of the emergency epidemic situation, a hybrid form of work was used, but from the month of April, the institution switched to the regular, on the spot form of work. All planned financial audits were completed successfully. The BNAO's Board endorsed a total of 288 reports on the audits of the 2021 annual financial statements of public sector entities. The majority of issued audit opinions were unmodified, accounting for 76% of all audit opinions on the financial statements[25] *(see Figure 1).* This was mainly due to the fact that **audited entities were**

offered the possibility to revise the misstatements identified by the auditors in the course of the financial audits. Such adjustments were introduced to make sure that the financial statements **give a true and fair view of the financial position, financial performance and cash flows** of the public sector entities and that they **serve as a reliable basis for decision-making at institutional, regional and national level.** The number of unmodified opinions is an indication of the **level of compliance** with the applicable financial reporting framework, but not of the **quality of public sector accounting; the latter being preconditioned on the nature of the financial reporting framework.**

In the past three years, there has been an increase in the number of modified audit opinions concerning municipalities (from 13 % in 2019 to 18 % in 2020, to 30% in 2021), which accounts for the growing overall percentage of modified opinions. Key reasons for this trend are:

- The financial statements of municipalities under Art. 54 para. 2 of the BNAO Act where the probability for misstatements is higher due to the fact that they are not being carried out annually, but at a certain frequency and/or on the basis of a risk assessment.

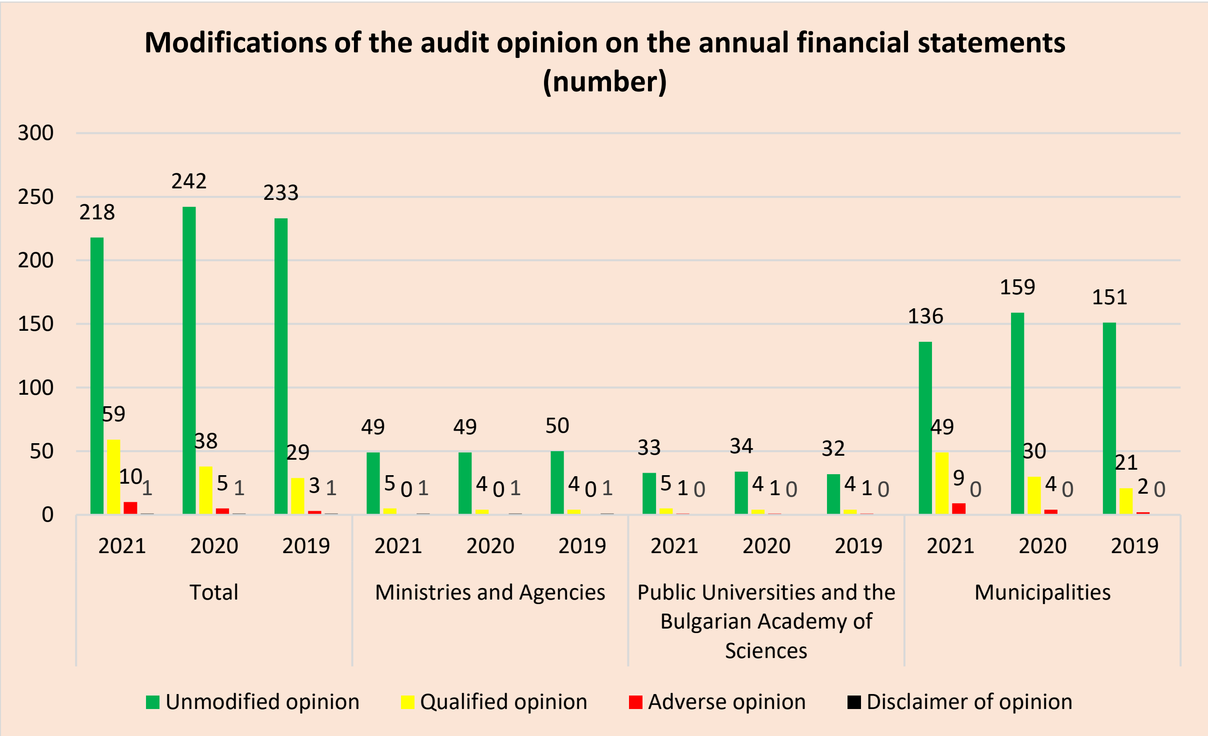


Figure 1

Figure 2

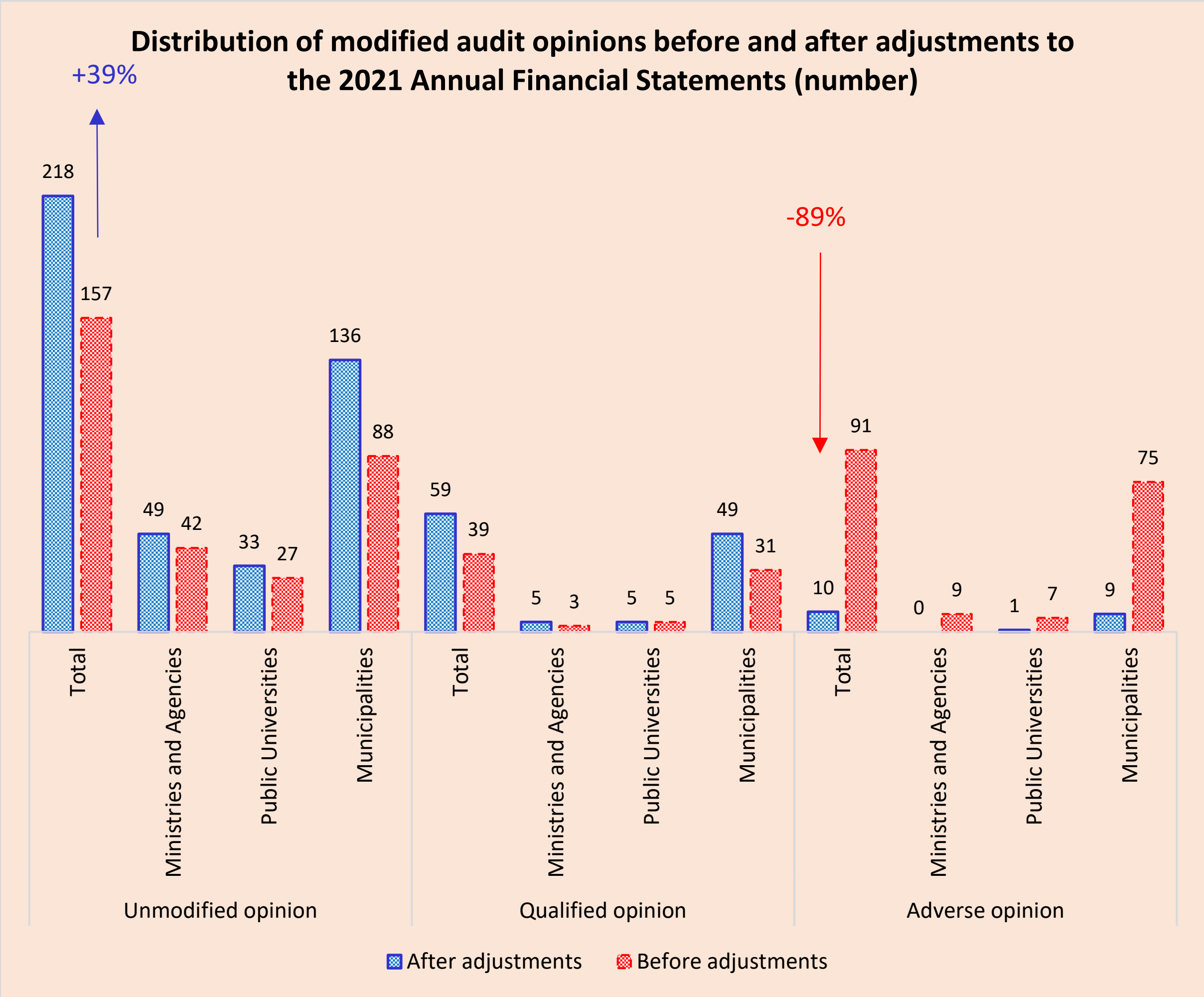


Fig. 2 demonstrates the **positive impact of the adjustments** [26] over the reliability of information presented in the annual financial statements. This is illustrated through the number of modificationsof the audit opinion in 2021. Had adjustments not been made, BNAO would have issued an **adverse opinion** on the financial statements of 91 public sector entities and a **qualified opinion** on the financial statements of 39 entities. **As a result of the adjustments in the course of the audits, the adverse opinions were reduced by 89 %, whereas the rate of unmodified opinions grew by 39%.** In other words, **the adjustments of misstatements identified by BNAO resulted in increasing significantly the number of financial statements giving a true and fair view of the financial position, financial performance and cash flows of the public sector entities.** The most significant impact was observed in the case of municipalities where additional 48 unmodified opinions were issued (an increase by 55 %).

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 number of the error is not a determinant factor in itself. Certain errors do not affect the financial statements. They have a zero impact and are therefore not taken into consideration in formulating the audit opinion. Other errors have an impact on the amounts recognized in the financial statements and result in misstatements. One error may 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:

- An entry recognized in the wrong group – misstatement in one of the two reporting groups;
- 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 Statement and Balance Sheet Statement – 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 and remained **unadjusted**:

- ***Basic accounting principles, including the accrual basis, are not applied***. For example, the late accrual of interest due on receivables and payables results in the recognition of the relevant income or expense at the time of payment, rather than at the time of their occurrence.
- ***Miscalculation of depreciation costs*** following events that should lead to revision of the depreciation schedule (overhaul, devaluation, etc.). This affects both the depreciation costs and the balance sheet value of noncurrent non-financial assets (also identified in the audits of the 2020, 2019, 2018 and 2017 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 2020, 2019, 2018, 2017 and 2016 financial statements audits) resulting in misstatements in the balance sheet, income statement and budget execution statement.
- ***Incorrect reporting of bank guarantees and commitments*** (also identified in the course of the audits of 2002, 2019, 2018, 2017 and 2016 financial statements), resulting in under- or overstatement of off-balance sheet assets and liabilities.
- ***Misrepresentation of the changes in the shareholdings of public sector entities*** (also identified during the audits of the 2020, 2019, 2018, 2017 and 2016 financial statements). This results in misstatements in the annual financial statements of equity

and related revenues.

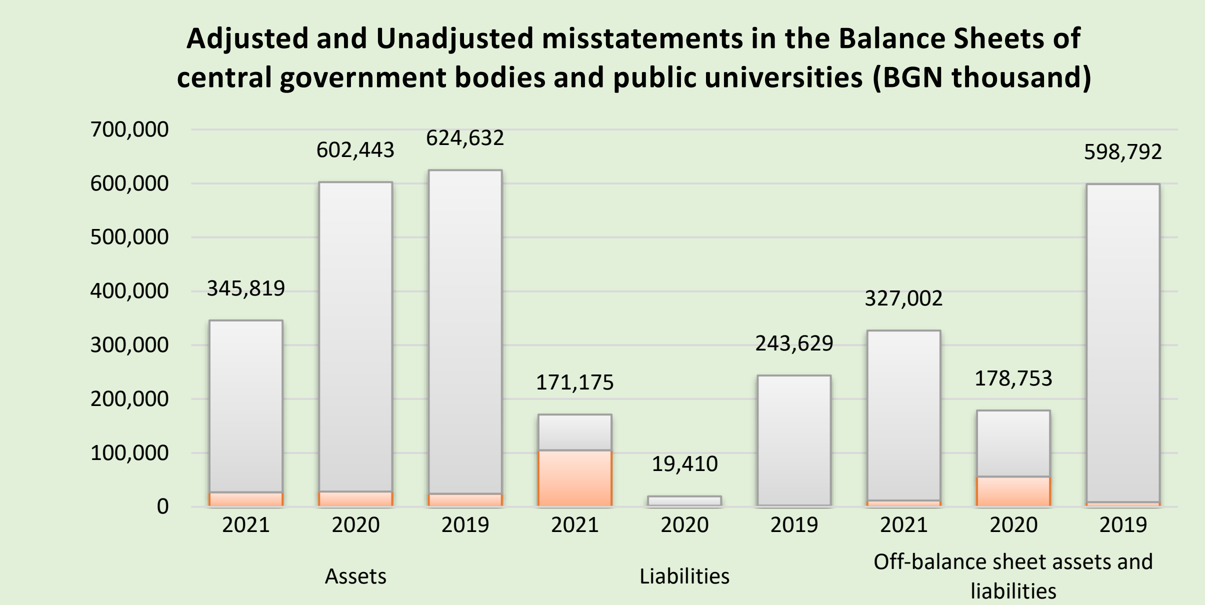
- ***Incorrect recognition of advance payments*** as current-period expenditure (also identified during the audits of the 2020 and 2018 financial statements), which results in understating of the public entity receivables for the respective period and overstating its expenditure.
- **Major repair costs are not capitalized or being introduced in the asset value in a timely manner**, which leads to non-compliance with the requirements for starting the accrual of depreciation costs.
- **Receivables** from loans, advances, sales and other accounts provided by budget organizations **are not provisioned**, which are subject to provisioning for uncollectability, as a result of which provisioning costs are underestimated.

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

- ✓ Adjustment of depreciation expense to ensure fair representation of the carrying amount of depreciable assets (also adjusted in the course of the audits of 2020, 2019 and 2018 financial statements.
- ✓ Recognition of undisclosed assets, liabilities, revenues and expense (also adjusted in the course of the audits of 2020, 2019, 2018, 2017 and 2016 financial statements). These adjustments ensured fair representation andfull disclosure in the financial statements.
- ✓ Correction of errors (mainly technical) in the Budget Execution Statement to ensure fair representation of the budget cash execution, the EU funds and third-party funds (also adjusted in the course of the audits of 2020, 2019, 2018 and 2017 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 2020, 2019, 2018, 2017 and 2016 financial statements), thus ensuring adequate disclosures in the Balance Sheet, Income and Budget Execution Statements. In 2021, about 91% (BGN 294,975 thousand) of the reported revaluations and other events in the Balance sheet (Figure 4) are due to incorrect reporting, established in five central authorities and one Public University[27].

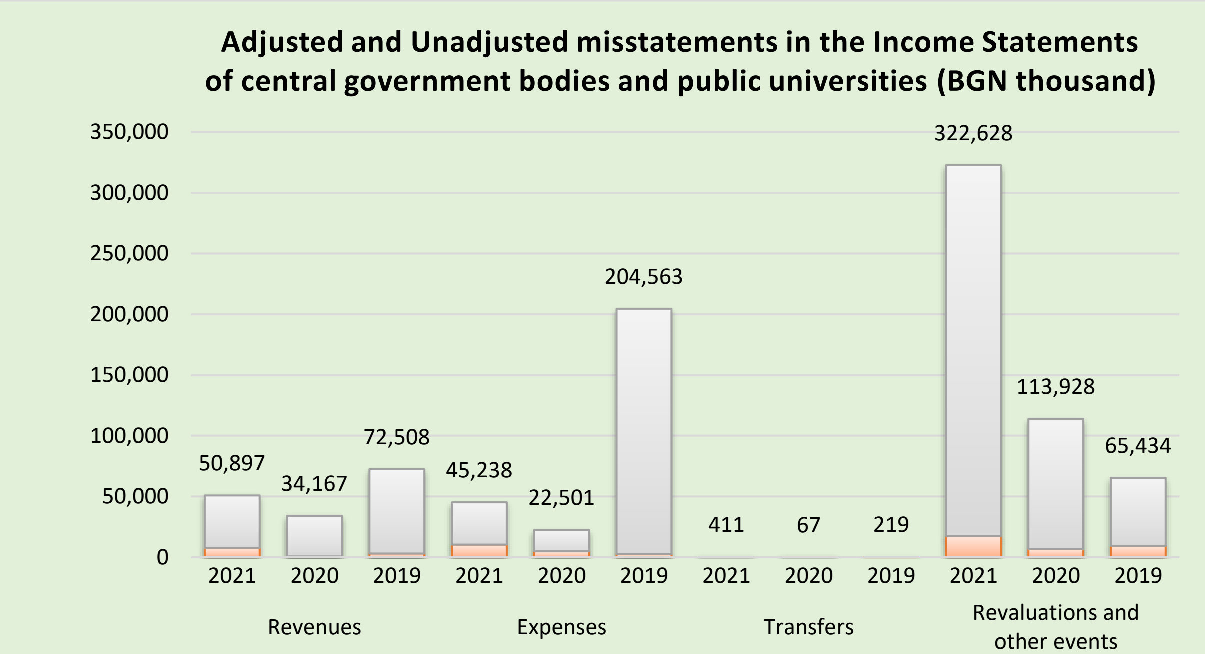
Cases of non-compliance with the laws and other normative provisions were found, the provision of Art. 57, para. 1 of the BNAO Act was applied, and the relevant competent authorities have been notified (Public Financial Inspection Agency - for six ministries and authorities[28] and one state university[29], and the Prosecutor's Office of the Republic of Bulgaria - for one central authority[30]) in order to take measures.

The provision of Art. 49, para. 3 of the BNAO Act was applied, and in 2022 audit reports were also sent to other authorities for information or to take relevant actions (Ministry of Finance - for two central authorities[31] and the National Revenue Agency - for one central authority[32]).



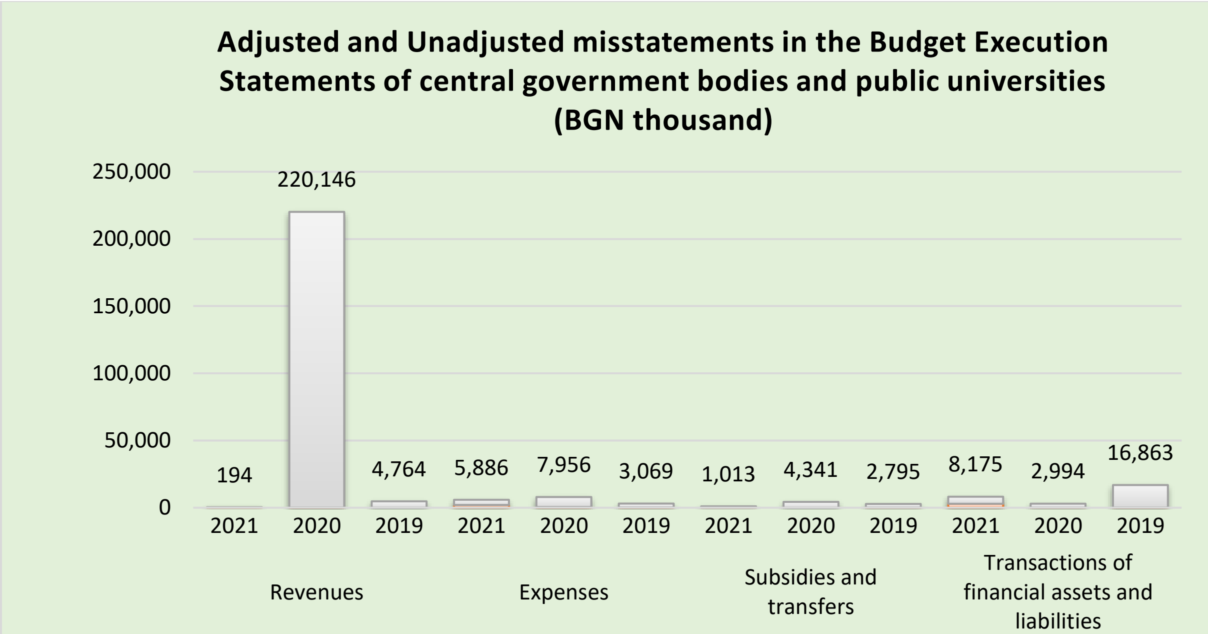
	Assets 2021	Assets 2020	Assets 2019	Liabilities 2021	Liabilities 2020	Liabilities 2019	Off-balance sheet assets and liabilities 2021	Off-balance sheet assets and liabilities 2020	Off-balance sheet assets and liabilities 2019
Adjusted	318,791	574,105	600,374	66,159	17,456	241,379	315,302	122,713	590,046
Unadjusted	27,029	28,338	24,258	105,016	1,954	2,249	11,701	56,040	8,746
Total	345,819	602,443	624,632	171,175	19,410	243,629	327,002	178,753	598,792

Figure 3



	Revenues 2021	Revenues 2020	Revenues 2019	Expenses 2021	Expenses 2020	Expenses 2019	Transfers 2021	Transfers 2020	Transfers 2019	Revaluations and other events 2021	Revaluations and other events 2020	Revaluations and other events 2019
Adjusted	43,268	33,442	69,395	34,782	17,581	201,944	365	20	0	305,255	107,174	56,099
Unadjusted	7,629	725	3,113	10,456	4,920	2,618	47	47	219	17,373	6,754	9,335
Total	50,897	34,167	72,508	45,238	22,501	204,563	411	67	219	322,628	113,928	65,434

Figure 4



	Revenues			Expenses			Subsidies and transfers			Transactions of financial assets and liabilities		
	2021	2020	2019	2021	2020	2019	2021	2020	2019	2021	2020	2019
Adjusted	60	220,020	4,764	3,863	7,462	2,879	966	4,341	2,702	5,256	2,907	16,752
Unadjusted	134	126	0	2,023	495	190	47	0	93	2,919	87	111
Total	194	220,146	4,764	5,886	7,956	3,069	1,013	4,341	2,795	8,175	2,994	16,863

Figure 5

6.2. Systemic weaknesses identified during the financial audits of municipalities

The following **recurring** groups of errors and irregularities were identified in the financial statements of municipalities:

- Miscalculation of depreciation costs following some events resulting in the amortization plan (overhaul, devaluation, etc.). Failure to perform depreciation of depreciable noncurrent non-financial assets and also 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 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. Failure to lay down the correct parameters of the amortization plan and/or unapproved approaches for choosing values for the parameters determined in the approved amortization policy. This affects both the depreciation expenses and carrying values of noncurrent non-financial assets (also identified during the audits of the 2020, 2019, 2018 and 2017 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 audits of the 2020, 2019, 2018, 2017 and 2016 financial statements), which results in misstatements in the balance sheet, income statement and budget execution statement.
- Misstatements of municipal shareholdings in commercial companies and failure to disclose the changes in them (also identified during the audits of the 2020, 2019, 2018, 2017

and 2016 financial statements) resulting in unfair representationof such investments and the related revenue.

- Absence of stocktaking of assets and liabilities, incl. costs for assets whose process of acquisition was pending during previous reporting periods (also identified during the audits of the 2020 and 2019 financial statements), indicating the incapability of internal controls to verify the information contained in the financial statements.
- Non-disclosed or misstated commitments (undertaken or implemented) and new liabilities, which usually results in understating of expenditure and balance-sheet and off-balance sheet liabilities (also identified during the audits of the 2020 and 2019 financial statements).
- Incomplete disclosure of the current positions and changes regarding the assets, liabilities, revenues and expenditure thus precluding the financial statement users from making informed decisions (also identified during the audits of the 2020 and 2019 financial statements).
- Incorrect reporting of changes to property deeds of municipal-owned estate recognized during earlier reporting periods. Failure to include all properties and assets in the accounting records and the balance sheet. Recognizing municipal-owned estate at tax value rather than at fair value, oftentimes disclosing significantly lowered values, and thus understating of the assets ((also identified during the audits of the 2020 financial statements).
- Misrepresentation of funds received and spent under EU-funded programmes – transfers, advance payments and off-balance sheet statistical reporting at the expense of the beneficiaries, the EU and other donor organizations. Untimely transfer of the acquired assets from the EU funds reporting group in reporting group "Budget" and/or “Other accounts and activities”. This results in misstatements in the Balance Sheet, Income and Budget Execution Statements.
- Capital expenditure for construction works and overhauls of long-term tangible assets have not been recognized in the relevant accounts in accordance with the degree of completion of the works, respectively as assets and/ or construction in progress, production and overhaul. Moreover, it has been admitted, those capital expenditures to be written off without any reason and documentary justification (lacking an analysis and a management decision). Positions for fixed assets in the process of acquisition were permitted, though they lack reliable data to be included in the balance sheet. Incorrectly accounted costs on accrual and cash basis for current and major repairs of fixed assets. As a result of this incorrect reporting, the assets in the balance sheet, the depreciation expenses (identified also in the audits of the annual financial statements for 2020 and 2019) were underestimated or overestimated.
- Incomplete or superficial reviews for impairment or revaluation of long-term assets. Inadequate approaches applied to the impairment reviews using the carrying value of the long-term assets for comparison purposes rather than their book value. Lack of approach for follow – up assessments of the long –term assets in implementing the accounting policies.
- Failure to apply the straight - line method when recognizing revenues from the right to use the provided assets under the contracts with the water supply and sewage system operators under Art. 198p, para. 1 of the Water Act, which resulted in misstatements in the Balance Sheet and Income Statements.
- Lack of analysis of the provided advance payments to counterparties to determine an approximate estimate of the costs of acquisition of sites, as it was not carried out an

accounting estimates of construction in progress, which usually results in understating the assets and overstating receivables.

- Expired bank guarantees that have not been written off.
- Unclassified loans and debts by residual maturity - short-term, long-term and current share of long-term loans
- Absence of underlying documents for economic operations precluding the reliable corroboration of the values disclosed in the annual financial statements (also identified during the audits of the 2020, 2019 and 2018 financial statements.).
- Deviations from the requirements of the approved and applied policies on provisioning for receivables from loans, advances, sales and other accounts directly provided by budget organizations, that are subject to provisioning for uncollectability.
- Errors in the consolidation of the annual financial statements in the system of the budget authorisers by delegation and in transferring the data from the accounting base to the models of the Ministry of Finance.

Without prejudice to the audit opinion, the reports on the annual financial statement audits of some municipalities contain emphasis of matter regarding the use short-term interest-free loans out of third-party accounts contrary to the legal provisions[33].

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 Law on the National Audit Office *(Figure 6)* and referred the cases to the relevant competent authorities (Public Financial Inspection Agency – regarding 53 municipalities[34] for taking actions (also identified during the 2020 and 2019 audits of annual financial statements). Some examples are:

- Non-compliance with the financial indicators set out in the Law on Public Finances – regarding expenses, commitments for expenses and arrears under the Law on Public Finances, which is considered breach of the financial discipline in line with § 2 of the Supplementary Provisions of the Law on Public Finance.

- Absence of internal audit unit in line with article 12, paragraph. 2, item 3 of the Law on Public Sector Internal Auditing.

- Absence of audit committee in line with article 18, paragraph 1 of the Law on Public Sector Internal Auditing.

- Failure to ensure timely update of the Risk Management Strategy endorsed by the municipal mayor, which constitutes a breach of Article 12 of the Law on the Public Sector Financial Management and Control. Failure to apply timely controls of the risk register in order to identify risks of potential events and circumstances that could have a negative impact on the attainment of the municipal goals.

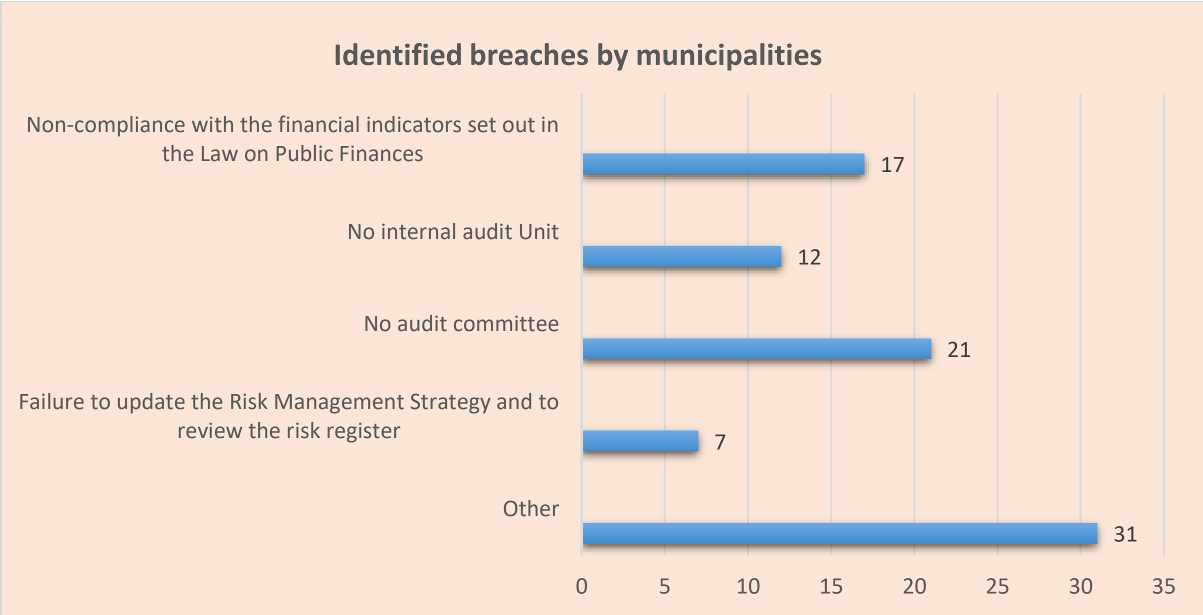


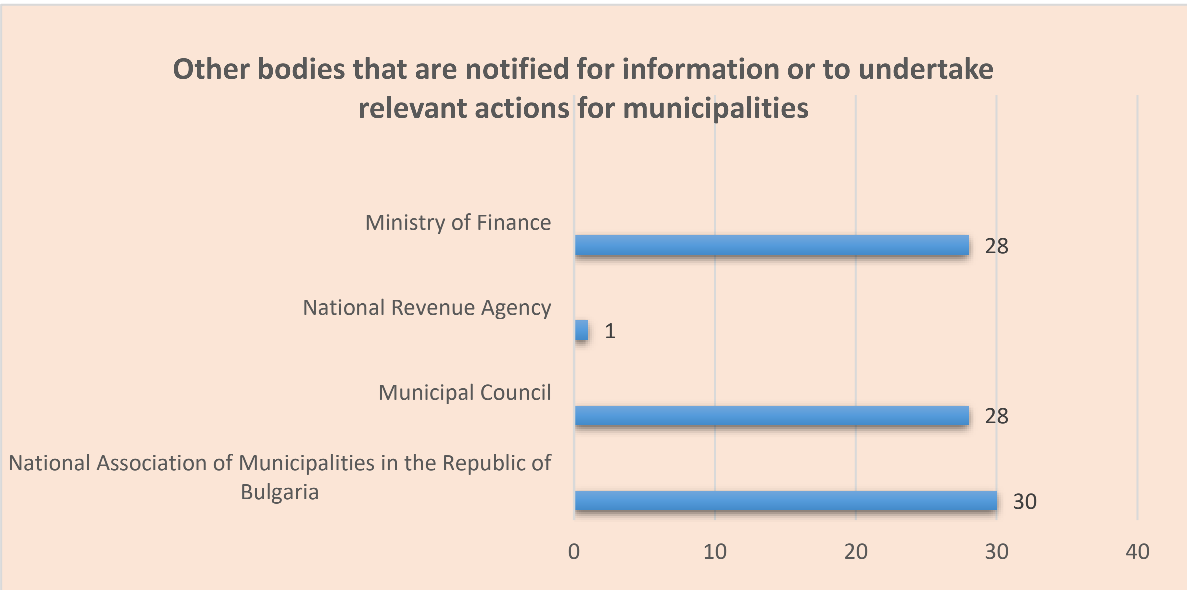
Figure 6

In compliance with Article 57, paragraph 1 of the National Audit Office Act, the Public Financial Inspection Agency keeps BNAO regularly informed of its ongoing financial inspections and their outcome.

On the basis of the provision of Art. 49, paragraph. 3 of the National Audit Office Act in 2022, audit reports were also sent to other authorities (Figure 7) for information or to undertake the relevant actions (the Ministry of Finance - for 28 municipalities[35], the National Revenue Agency for one municipality[36], municipal councils – for 28 municipalities[37], National Association of Municipalities in the Republic of Bulgaria - for 30 municipalities[38]).

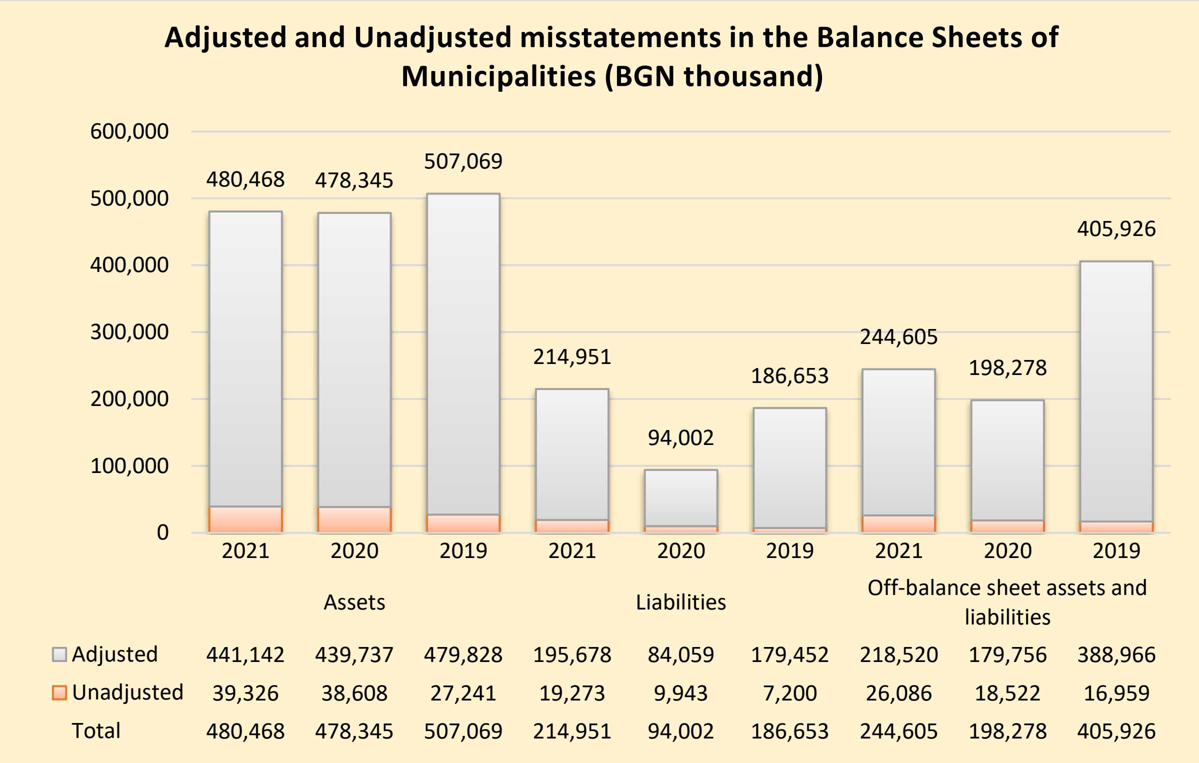
In cases where data pointing to a crime were identified, the Prosecutor's Office of the Republic of Bulgaria was informed, according to the provisions of Article 58, paragraph 1 of the National Audit Office Act (for five municipalities[39]).

Figure 7



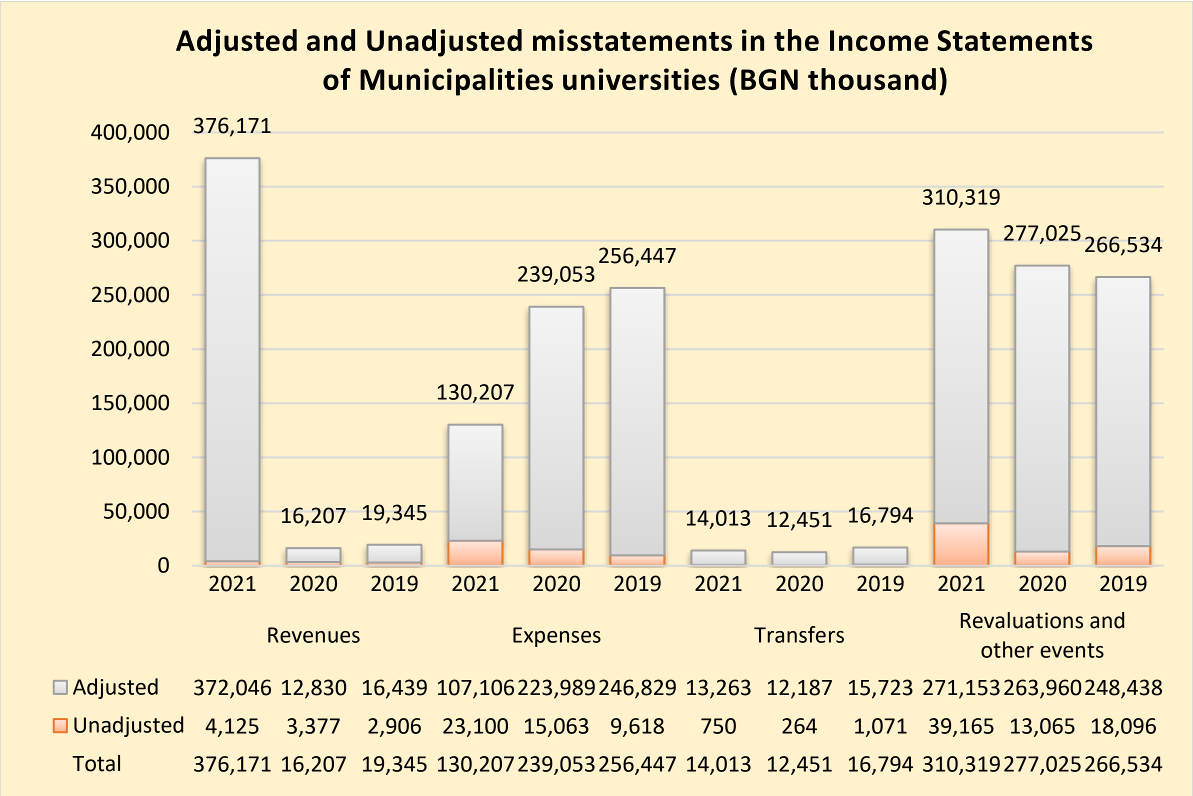
Some of the errors and irregularities in the municipal financial statements **were adjusted** in the course of financial auditing:

- ✓ Adjustments of depreciation costs to achieve fair representation of the carrying value of depreciable assets (such adjustments were also introduced in the course of the audits of 2020, 2019 and 2018 financial statements).
- ✓ Adequate disclosure of the changes in the municipal shareholdings in commercial companies (also adjusted in the course of audits of the 2020, 2019, 2018, 2017 and 2016 financial statements) to achieve fair representation of the investments and the related revenue.
- ✓ Disclosure of commitments (taken and implemented) under contracts, bank guarantees, (also adjusted in the course of audits of the 2020, 2019, 2018, 2017 and 2016 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 2020, 2019, 2018, 2017 and 2016 financial statements). These adjustments ensure fair representation and complete disclosure in the financial statements.
- ✓ Correction of errors, mainly technical, that occurred during the consolidation of the financial statements in the system of budget authorisers by delegation, the aim being to ensure fair representation (also adjusted in the course of the audits of 2020, 2019 and 2018 financial statements). In 2021, some 83% (accounting for 21,276 thousand BGN) of the misstatements of financial assets and liabilities transactions (see Fig. 9) were due to technical errors made by three municipalities[40] in preparing their Budget Execution Statements.
- ✓ Adjusting 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 audits of the 2020, 2019, 2018, 2017 and 2016 financial statements) resulting in correct representation in the balance sheet, income statement and the budget execution statement. About 89% (accounting for 333,194 thousand BGN) of the incorrectly presented revenues in 2021 in the Balance Sheet and Income Statement (Figure 8) is due to incorrectly reported revenues in one municipality[41].



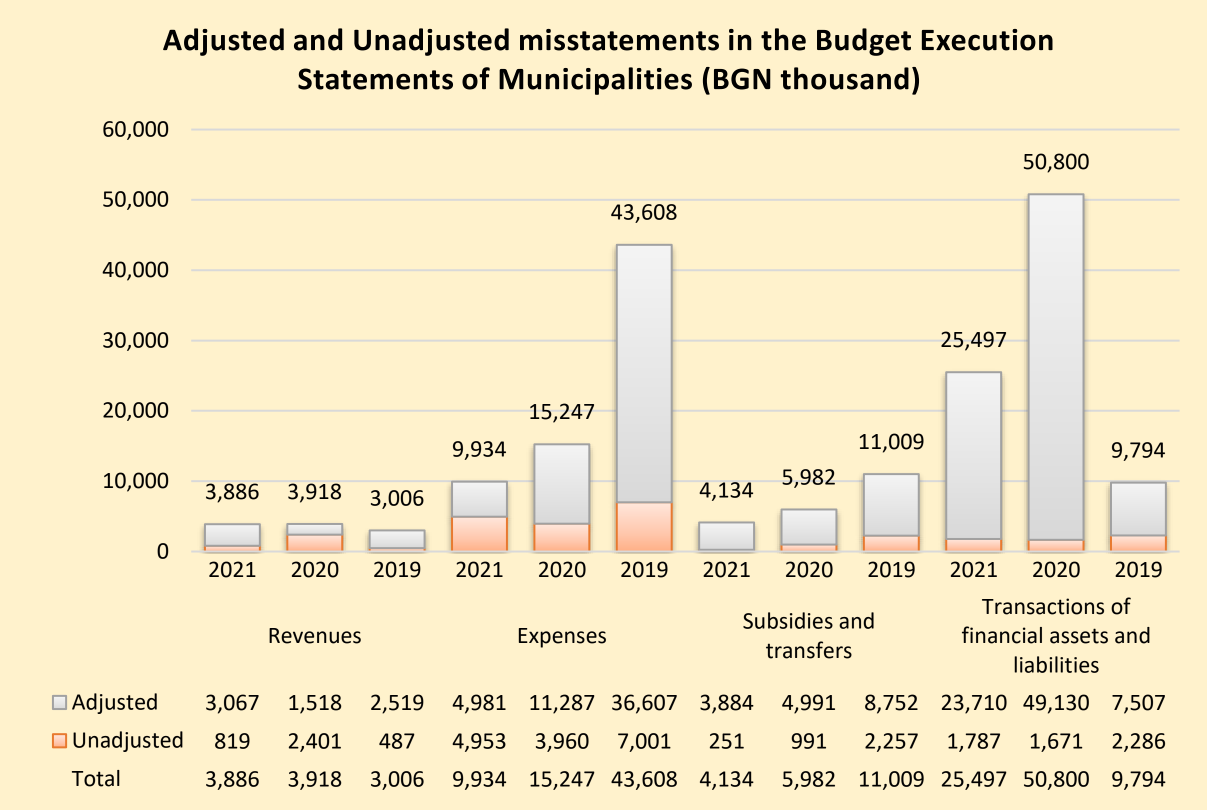
	Assets 2021	Assets 2020	Assets 2019	Liabilities 2021	Liabilities 2020	Liabilities 2019	Off-balance sheet assets and liabilities 2021	Off-balance sheet assets and liabilities 2020	Off-balance sheet assets and liabilities 2019
Adjusted	441,142	439,737	479,828	195,678	84,059	179,452	218,520	179,756	388,966
Unadjusted	39,326	38,608	27,241	19,273	9,943	7,200	26,086	18,522	16,959
Total	480,468	478,345	507,069	214,951	94,002	186,653	244,605	198,278	405,926

Figure 8



	Revenues 2021	Revenues 2020	Revenues 2019	Expenses 2021	Expenses 2020	Expenses 2019	Transfers 2021	Transfers 2020	Transfers 2019	Revaluations and other events 2021	Revaluations and other events 2020	Revaluations and other events 2019
Adjusted	372,046	12,830	16,439	107,106	223,989	246,829	13,263	12,187	15,723	271,153	263,960	248,438
Unadjusted	4,125	3,377	2,906	23,100	15,063	9,618	750	264	1,071	39,165	13,065	18,096
Total	376,171	16,207	19,345	130,207	239,053	256,447	14,013	12,451	16,794	310,319	277,025	266,534

Figure 9



	Revenues 2021	Revenues 2020	Revenues 2019	Expenses 2021	Expenses 2020	Expenses 2019	Subsidies and transfers 2021	Subsidies and transfers 2020	Subsidies and transfers 2019	Transactions of financial assets and liabilities 2021	Transactions of financial assets and liabilities 2020	Transactions of financial assets and liabilities 2019
Adjusted	3,067	1,518	2,519	4,981	11,287	36,607	3,884	4,991	8,752	23,710	49,130	7,507
Unadjusted	819	2,401	487	4,953	3,960	7,001	251	991	2,257	1,787	1,671	2,286
Total	3,886	3,918	3,006	9,934	15,247	43,608	4,134	5,982	11,009	25,497	50,800	9,794

Figure 10

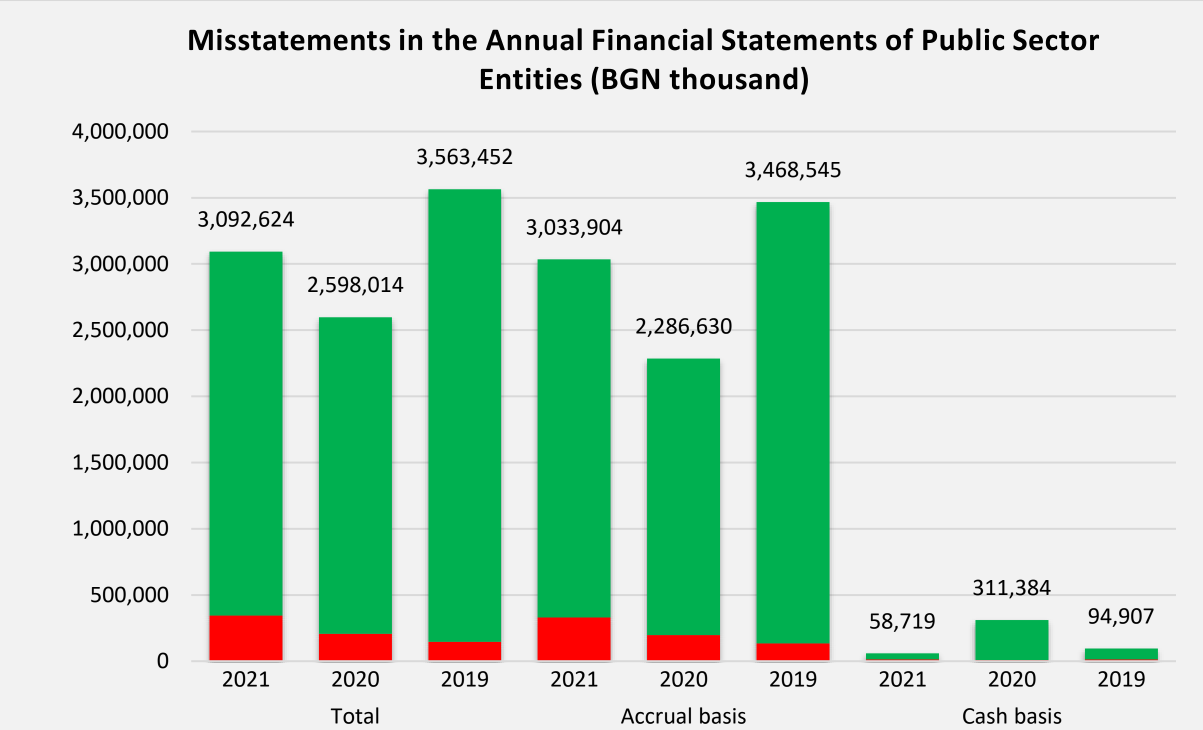
7. Main conclusions from the audits of the 2021 Financial Statements

The corrections of errors in the financial statements of the public sector entities introduced as a result of the audits of the 2021 financial statements account for 2,75 billion BGN. (during the audits of the 2020 financial statements the corrections of errors amounted to 2,39 billion BGN).

Some of the reasons for misstatements that remained unadjusted were:

- Differences of opinion between the auditors and the management of public sector entities regarding the accounting treatment and reporting of specific events, transactions and operations.
- Inability to introduce corrections of errors for previous periods that continue to impact the financial statements of the current reporting period.
- The accumulated sum of the misstatements is not significant and will not influence the audit opinion.

Figure 11



	Total			Accrual basis			Cash basis		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
Adjusted	2,748,616	2,390,665	3,417,395	2,702,830	2,089,010	3,334,913	45,787	301,655	82,482
Unadjusted	344,008	207,350	146,057	331,075	197,620	133,632	12,933	9,729	12,425
Total	3,092,624	2,598,014	3,563,452	3,033,904	2,286,630	3,468,545	58,719	311,384	94,907

7.1. Weaknesses in the preparation of financial statements

- All three groups of audited public sector entities (central government bodies, public universities and municipalities) sometimes fail to **classify properly revenues and expenses, assets and liabilities in the relevant paragraphs and sub- paragraphs of the Uniform Budget Classification and in the accounts of the Public Sector Chart of Accounts.** In our opinion, the above misstatements are mainly due to the frequent amendments to the financial reporting framework, incl. insufficient and incomplete guidance on its implementation issued by the Ministry ofFinance (e.g. on recognizing adjacent land 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 obligation to **perform reviews for impairment of noncurrent assets.**
- Failure to follow the MF guidance regarding **off-balance sheet disclosure** of the undertaken or implemented commitments and/ or new commitments for expenses, contingent claims and liabilities.
- Difficulties in identifying and applying the relevant principles in the Accountancy Act.

The above weaknesses in the financial reporting were also identified in auditing the 2020, 2019, 2018 and 2017 financial statements.

7.2. Weaknesses regarding the organization of the accounting process

- The highest relative share of modified opinions (qualified and adverse) is contained in the audit reports on the municipal annual financial statements. This is an indication of **insufficient administrative capacity**.
- There is no requirement to set up **an adequate uniform electronic database** of all accounting records (both accrual and cash basis) in the system of **budget authorisers by delegation.** The introduction of the Integrated Financial - Information System for the municipalities and the Single Integrated Financial - Information System for the ministries and other budget spenders will be a long-term process. The use of a uniform database, when compiling the financial statements, will reduce the risk of technical error in preparing and summarizing information; it will provide an **audit trail,** and **does not limit the scope of the audit when specialised auditing software products are used.**
- **Inefficient internal controls** of the budget authorisers by delegation concerning the accounting and budget discipline of their subordinate entities.
- Regarding the responsibility of the budget authorisers by delegation for the preparation and reliable presentation of the information in the consolidated financial statements, the managers of the budgetary organizations **do not exercise effective control** over the completeness and reliability of the information contained in the reports of their subordinate entities. The option internal audit units to perform audit engagements is not used regarding the compliance with applicable general framework, even in the cases of expressed modified opinions, and it is entirely relying on the financial audits carried out by the Bulgarian National Audit Office.

All weaknesses in the organization of the accounting process, listed above, were also identified in auditing the 2020, 2019 and 2018 financial statements, while the first two of them were also identified in the 2017, 2016 and 2015 financial statements.

7. Conclusion

The benefits of good public sector financial reporting are manifold – satisfying the needs of a large number of financial information users, improving public sector governance, 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 providing an objective assessment of the current state of play.

ANNEXES

List of Municipalities and their relevant breaches reported to the Public Financial Inspection Agency in line with Article 57, paragraph 1 of the National Audit Office (NAO) Act in 2022

List of municipalities reported to the relevant authorities on the basis of Article 49, para. 3 of the NAO Act in 2022, for information or for taking the relevant actions

Annex 1

List of Municipalities and their relevant breaches reported to the Public Financial Inspection Agency in line with Article 57, paragraph 1 of the National Audit Office (NAO) Act in 2022

Municipality (name)	Non-compliance with the financial indicators regulated in the Law on Public Finances– expenditure, committed expenditure and arrears under the same Law in line with § 2 of its Supplementary Provisions	Absence of an internal control unit under article 12, paragraph 2, item 3 of the Law on Public Sector Internal Auditing	Absence of an Audit Committee under article 18, paragraph 1 of the Law on Public Sector Internal Auditing	Failure to ensure timely update of the Risk Management Strategy in violation of art. 12 of the Law on the Public Sector Financial Management and Control. No timely review of the risk register.	Miscellaneous
Aytos			non-compliance		
Bansko	non-compliance				
Belovo	non-compliance	non-compliance			non-compliance
Burgas			non-compliance		
Velingrad	non-compliance				non-compliance
Valchi dol			non-compliance		non-compliance
Dimitrovgrad					non-compliance
Dospat	non-compliance				
Dalgopol					non-compliance
Elin Pelin					non-compliance
Elhovo		non-compliance	non-compliance		
Zlatitsa					non-compliance
Kaloyanovo			non-compliance	non-compliance	
Kameno		non-compliance	non-compliance		
Karlovo	non-compliance				
Karnobat			non-compliance		
Knezha					non-compliance
Kostenets		non-compliance			non-compliance
Kostinbrod		non-compliance			
Kardzhali	non-compliance				non-compliance
Lyubimets					non-compliance
Maritsa	non-compliance		non-compliance		non-compliance
Maglizh	non-compliance	non-compliance		non-compliance	
Nedelino					non-compliance
Nessebar	non-compliance		non-compliance		non-compliance
Nova Zagora			non-compliance	non-compliance	
Pazardzhik	non-compliance				non-compliance

Pernik					non-compliance
Plovdiv			non-compliance		
Pomorie			non-compliance		
Primorsko			non-compliance		
Radomir					non-compliance
Rakovski			non-compliance		
Rodopi			non-compliance		non-compliance
Ruen		non-compliance	non-compliance	non-compliance	
Samokov					non-compliance
Septemvri	non-compliance		non-compliance	non-compliance	non-compliance
Simitli	non-compliance				non-compliance
Sliven					non-compliance
Slivnitsa		non-compliance			non-compliance
Smolyan	non-compliance				non-compliance
Sredets		non-compliance	non-compliance	non-compliance	non-compliance
Stambolovo					non-compliance
Stara Zagora			non-compliance		
Straldzha	non-compliance	non-compliance			
Sungurlare	non-compliance	non-compliance			non-compliance
Tvarditsa					non-compliance
Tundzha	non-compliance		non-compliance		
Hadjidimovo					non-compliance
Haskovo					non-compliance
Tsarevo	non-compliance	non-compliance			
Chirpan					non-compliance
Yambol			non-compliance	non-compliance	

Annex 2

List of municipalities reported to the relevant authorities on the basis of Article 49, para. 3 of the NAO Act in 2022, for information or for taking the relevant actions

Name of the municipality	Authority to which the audit report was sent			
	Ministry of Finance	National Revenue Agency	Municipal Council	National Association of the Municipalities in the Republic of Bulgaria
Aytos				reported
Ardino	reported		reported	reported
Belovo	reported		reported	
Borino			reported	
Borovan			reported	reported
Velingrad				reported
Valchi drum	reported		reported	
Valchi dol	reported		reported	
Galabovo	reported			
Dzhebel			reported	reported
Dobrichka	reported		reported	
Dolna Mitropolia	reported			
Dolni chiflik	reported		reported	
Dryanovo	reported		reported	
Dalgopol			reported	
Elena			reported	
Elin Pelin	reported		reported	reported
Kameno				reported
Karlovo		reported		
Knezha	reported		reported	
Kostenets				reported
Kotel	reported		reported	reported
Krushari				reported
Lesichovo			reported	reported
Lyubimets	reported		reported	reported
Madan			reported	
Madzharovo				reported
Nedelino				reported
Nessebar				reported
Oryahovo	reported			
Pavel banya	reported			

Pazardzhik				reported
Panagyurishte	reported			
Pravets			reported	reported
Provadia	reported			
Radomir	reported		reported	reported
Razlog	reported		reported	
Rakitovo	reported		reported	
Rudozem				reported
Ruen				reported
Sadovo	reported		reported	reported
Samokov				reported
Septemvri	reported		reported	reported
Sliven			reported	
Slivnitsa				reported
Sredets				reported
Stambolovo			reported	reported
Sungurlare				reported
Tvarditsa	reported		reported	reported
Tervel	reported			
Topolovgrad	reported		reported	reported
Ugarchin	reported			
Haskovo				reported
Hisarya	reported			
Chepelare	reported			

[1] For example, when the audited entity's management refuses or is unable (due to reasons outside of its control) to provide the auditors with specific information.

[2] Law on Public Finances, article164

[3] 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.

[4] 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 operations contained in letter 14 dated 30 December 2013 of theTreasury 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 06 and 07 from 04 April 2008 by the Treasury Directorate, MF; letter No 2 from 27 January 2015 by 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.

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

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

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

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

[9] 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.

[10] Amended - SG issue 15 from 15 February 2013.

[11] Treasury Guidance No 20 from 2004, item 16.23

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

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

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

[15] 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.

[16] 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.*

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

[18] 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.

[19] Contract signed between the Ministry of Finance and "Information Service" Ltd, Sofia, dated 30.09.2020.

[20]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

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

[22] Report by the European Commission to the Council and the Parliament on the introduction of harmonized public sector accounting standards in the member states, COM (2013) 114, page 3

[23] ISA 200 - Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing, paragraph A5

[24] BNAO Decision No 166 from 15 June 2017

[25] Compared to other Supreme Audit Institutions in the EU, BNAO has issued a relatively high number of unmodified audit opinions. According to a study conducted by the SAI of the Czech Republic by type of modification, the relative share of unmodified audit opinions on the 2016 financial statements of the central

government entities is as follows: Croatia – 25 %, Finland – 61 %, Lithuania – 64 %, France – 77 %, Cyprus – 80 %, Latvia –85 %, Portugal – 93 %, Sweden – 94 %.

[26] The number of modified opinions before adjustments is calculated based on the assumption that modifications are only conditioned on the scale of identified misstatements relevant to the level of materiality set for the financial statements. This approach has several important limitations: first, it does not take into consideration the possible different materiality levels for classes of transactions; second, it fails to account for misstatements material by nature; and third, it precludes taking into consideration the potential number of disclaimers of opinion. Each of these factors alone provides additional grounds for opinion modification. Therefore, if the above effects are taken into consideration, the number of modifications would grow. Consequently, in analysing the effect of adjustments, one should take into consideration the fact that the above situation describes the best-case scenario.

[27] The National Assembly, the Council of Ministers, the Ministry of Health, the Ministry of Transport and Communications, the Ministry of Youth and Sports and Technical University - Varna

[28] Bulgarian National Radio, State Commission for Information Security, State Enterprise "Science and Production Center", Commission for Protection from Discrimination and Ministry of Culture

[29] Agricultural Academy and Technical University - Varna

[30] Commission for Protection from Discrimination

[31] Ministry of Health and State Enterprise "Science and Production Center"

[32] State Enterprise "Science and Production Center"

[33] 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.

[34] Annex 1

[35] Annex № 2

[36] Annex № 2

[37] Annex № 2

[38] Annex № 2

[39] Zlatograd, Mineralni Bani, Radomir - for the financial audit of the annual financial statements for 2021; Balchik and Kozloduy - for financial audit of the interim report for 2022.

[40] Sevlievo, Zlatitza and Sozopol

[41] Sofia municipality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