

Financial Statements in the Public Sector of the Republic of Bulgaria under the conditions of European Integration

Daniela FESCHIYAN¹, Radka ANDASAROVA²

1 University of National and World Economy, Bulgaria

d.feschiyan@gmail.com

2 University of National and World Economy, Bulgaria

r.a-georgiva@unwe.bg

Abstract. The aim of this study is to analyse financial statements in the public sector of the Republic of Bulgaria within the context of European integration focusing on the International Public Sector Accounting Standards (IPSAS) and the European System of Accounts (ESA 2010). The interrelation between the frameworks of financial and statistical reporting is examined on theoretical grounds. The study explores the main uses of financial information: on the one hand – for facilitating the processes of financially justified decision-making and assuming management accountability to the interest parties, and on the other hand – for the purposes of macroeconomic analysis and presentation of key macroeconomic indicators. The detailed review on the applicability of the specified reporting frameworks highlights various challenges that should be considered when defining measures on improvement of the regulatory framework in the field of the public sector financial reporting in Bulgaria, in favour of, and for the best interests of the users of general-purpose financial statements.

Key words: General Purpose Financial Statements, Budgetary Framework, Public Sector, IPSAS, ESA 2010.

Received: 01.06.2025

Revised: 25.06.2025

Accepted: 25.06.2025

Published: 30.06.2025

1. Introduction

Prioritization of accrual-based financial reporting in the public sector provides more opportunities on a global scale for improvement of quality and comparability of financial information for the purposes of financial reporting and fiscal analysis. “The aspirations to ensure fiscal discipline stem from its central role in the preservation of the economic and monetary union and the trust between the member states. One of the instruments to build such trust and to guarantee the high-quality measurement and forecasting of the fiscal situation is the harmonized standards for financial reporting that fully apply the principle of accrual-based accounting in the public sector” (Feschiyan, 2018).

On an international scale, there has been an intensified research interest to the analysis of the impact of the International Public Sector Accounting Standards (IPSAS) and the results of such studies highlight a number of advantages of their adoption in different countries. The experience gained by the countries pioneering in the implementation of IPSAS is a valuable source of information for the remaining countries committed to the modernization processes in public sector accounting systems, including within the context of the European Union (Brusca, I., & Martínez, J. C., 2015). The International Federation of Accountants (IFAC) has received significant support for the development and adoption of the International Public Sector Accounting Standards (IPSAS), which are based on accrual accounting. One standard, however, follows the cash principle. The use of cash basis accounting is linked to a lack of comprehensive and accurate accounting information regarding assets, liabilities, income and expenditure, particularly with regard to future commitments that will result in cash outflows. According to the IFAC (2020), only two EU member states — Lithuania and Portugal — apply modified IPSAS in their local contexts. Most countries (16) use a rule-based accounting framework in the public sector, while eight countries use national accounting standards that reference IPSAS while maintaining traditional cash-based and modified accrual-based budgeting systems. Only Cyprus applies IPSAS on a cash basis. The diversity of data on the degree of readiness of EU member states to implement IPSAS is due to a number of *factors at institutional*,

organisational and individual levels. The main challenges include the risks associated with the possible reporting of excessive deficits, a lack of expertise in public administration, the need for significant IT system modernisation, and associated public expenditure as a percentage of GDP.

On the other hand, the International Monetary Fund (IMF) plays a key role in the development of a unified global strategy on consolidating fiscal operations data, a framework which connects national economies into a unified global economic system. In order to implement the integration of economies in the world, suitable instruments are needed. IMF has been developing and implementing an international framework for statistical reporting and presentation of public sector fiscal data. The principal objective of governance is to present an exhaustive conceptual and accounting framework for analysis and assessment of financial policies of the countries, including those concerning General Government sector. The Manual is aimed for harmonization of Government Finance Statistics with the System of National Accounts adopted by the United Nations Statistical Commission in February 1993 and updated in 2009 (SNA 2008), with the European System of Accounts – ESA 2010 (European System of Accounts 2010), respectively.

Both applicable international frameworks – for financial reporting in the public sector and for statistical reporting of fiscal data – should be regarded as interrelated structural elements within the framework of a unified global economic system. In one of her studies, Daniela Feschiyan (2023) substantiated the need of adopting standardized financial statements based on the International Public Sector Accounting Standards (IPSAS). This transition will create conditions for the overall enhancement of transparency and accountability in the public sector and at the same time comparability between financial and fiscal data will be achieved. Accrual-based public sector financial statements (according to IPSAS) provide reliable information about the assets, liabilities, net assets and revenues and expenses of public sector entities. The projections for broader applicability of IPSAS on a global scale are of particular significance since they aim at further harmonization of public sector financial reporting with the international frameworks for statistical reporting and fiscal data presentation (European System of Accounts – ESA 2010 and the System of National Accounts – SNA 2008). The integration of financial and fiscal data is expected to enable the comparability between separate jurisdictions, enhance financial statements transparency, and increase the trust of the society in public resources management. In support of what has been set out are all the efforts of the European Union on harmonization of IPSAS and ESA 2010 through development of European Public Sector Accounting Standards (EPSAS) the purpose of which is the integration of good practices from both of the international reporting frameworks. „The EU initiative can be considered as an opportunity for collaboration and knowledge sharing on how to increase transparency of public sector accounting, indicating that EU actions do not need to be limited to the initiatives currently driven by Eurostat“ (Helldorff, K., & Christiaens, J., 2021).

2. Research Methodology

The research approach used in this scholarly article is the theoretical review of the international and national legislation in the field of public sector financial reporting. The methods of generalization and analysis have been applied when exploring the European public sector accounting framework, the outcomes of the reforms conducted in this sector, and their reflection on the harmonization of public sector financial reporting.

The governmental policies conducted in the area of public sector financial reporting in the Republic of Bulgaria have been analysed by using the methods of observation and comparison and by taking the influence of the institutional environment at the macroeconomic level into account.

The following have been used as primary sources of information: official documents of the European Union, publications of the International Public Sector Accounting Standards Board (IPSASB), documents of the Ministry of Finance of the Republic of Bulgaria, as well as scholarly research papers of the academic community published in world-renowned research databases.

3. Theoretical framework of the interrelation between financial and statistical reporting

The concept of the interrelation between the frameworks of financial and statistical reporting is strongly covered in the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Andasarova, 2024). The primary aim of public sector financial reporting is the presentation of information which is valuable for the users of general-purpose financial statements (GPFS) when making decisions and for the purposes of accountability (IPSASB, 2025). The increasing significance of the quality of accounting information for making economically justified and helpful decisions is emphasized in the standpoints laid out by the International Accounting Standards Board (IASB). In addition to the above, the International Public Sector Accounting Standards Board has also identified the dominating role of public sector financial reporting for assuming management responsibility to the interest parties. Public sector entities are accountable to the providers of public resources as to how they manage and utilize the resources in the process of providing their services, in

observance of the effective legislation. The main components of financial reporting are general purpose financial statements which establish the general requirements on presenting and summarizing financial information, as set out in IPSAS.

The European System of National Accounts (ESA 2010) constitute an international accounting reporting framework within EU which defines the methodology for compiling national accounts and economic statistics. It supports the monitoring of fiscal and economic policies, serves as a basis for calculating the GDP and the relevant indicators at a national and European levels which is economic information used by EU institutions for statistical analysis, monitoring, and control.

Despite the differences in the objectives and approaches between the two reporting frameworks – International Public Sector Accounting Standards (IPSAS) and the European System of Accounts (ESA 2010), general purpose financial statements serve as a fundamental source of data when compiling public sector statistics. Two main lines are identified with regard to the use of accounting information – on the one part for the purposes of macroeconomic analysis and more specifically for the presentation of macroeconomic indicators of individual countries – deficit, debt, GDP, etc., and on the other part – for the purposes of making economically justified decisions and assumption of management responsibility to interest parties (IPSASB, 2025).

The following more significant aspects stand out among the general characteristics of the two reporting frameworks:

➤ **Application of the principle of accrual accounting**

Up to now, 46 IPSAS based on the principle of accrual accounting have been adopted and approved, as well as one standard which has not been assigned a number and which applies the cash-based accounting (Feschiyan, 2023). In one of his speeches, the Chairman of the International Public Sector Accounting Standards Board (IPSASB), Ian Carruthers, pointed out that the application of financial reporting based on the principle of accrual accounting is fundamental for the purposes financial accountability and transparency in the public sector, within the context of providing useful information for making sound decisions and assuming management responsibility (Andasarova, 2024). The accrual principle is also applicable for the purposes of statistical reporting. Thus, for example, tax revenues are reported on the accrual basis i.e. at the time of occurrence of the tax liability, regardless of its monetary expression. The statistical reporting framework ESA 2010 allows the application of an alternative approach under certain conditions which regulates the reporting on modified accrual basis (time-adjusted cash) when there is lack of sufficient reliable data for recognition on accrual basis (for example, data about the amount of payable taxes prior to their monetary expression). Under this method, the originally provided available data is adjusted over time in order to be recognized in the period when the respective economic event occurred generating a tax liability (Regulation (EU) No. 549/2013, paragraph 20.174.).

➤ **Reporting of assets, liabilities, revenues and expenses according to IPSAS and ESA 2010**

The Conceptual framework to IPSAS defines the main elements in the financial statements of public sector entities. These elements include assets, liabilities, revenues, expenses, contributions by owners and distributions to owners. The specific objective of the general-purpose financial statements, according to IPSAS, is to provide faithful and accurate representation of both property and financial position of each specific entity, and also of any changes that might have occurred in it and the results of its operation.

Within the context of the European System of National Accounts (ESA 2010), the accounting for public sector assets, liabilities, revenues and expenses is performed at the level of institutional sectors through aggregate balance sheets providing a macroeconomic analysis of the economic position.

Compared to ESA 2010, IPSAS require financial reporting characterised by higher level of detail oriented towards a specific entity, thereby providing comprehensive and particularised information about the separate elements of general-purpose financial statements.

➤ **Comprehensiveness of information on cash flows**

The common between the two reporting frameworks, IPSAS and ESA 2010, is the fact that they provide information related to the movement of cash and cash equivalents despite each of them having a different focus. While IPSAS are applied at a level of a specific public sector entity, ESA 2010 targets institutional sectors and the economy as a whole.

According to the requirements of IPSAS, cash flow statement is an obligatory component of the annual general-purpose financial statements (IPSAS 2 Cash Flow Statements) which presents cash flows classified by main activities – operating, investing and financing (IPSASB, 2025). ESA 2010, for its part, does not provide presentation of a separate cash flow statement and the information about the movement of financial resources is integrated within other accounts and is used for calculating macroeconomic indicators.

➤ **Recognition of and control over assets according to IPSAS and ESA 2010**

The Conceptual framework to IPSAS defines an asset as a resource presently controlled by the entity as a result of past events. An essential characteristic for recognition of an asset is the presence of control over it, which

involves the ability of the enterprise to manage the beneficial usage of the resource for the purpose of providing public services or to gain economic benefits derived from the resource (IPSASB, 2025). Both in ESA 2010 and IPSAS Conceptual Framework, there is a differentiation between "legal" and "economic" ownership from the perspective of control over an asset. Both reporting frameworks adopt the approach based on the economic substance of business operations, and not on their legal form, when recognizing and reporting assets. According to ESA 2010, the existence of control over an asset is not only determined by the possibility to use the benefits associated with the use of an assets when providing public services but also by accepting the economic risks associated with the asset (paragraph 7.17).

Notwithstanding the presence of common characteristics between the two reporting frameworks, they substantially differ in several key aspects including:

- **With regard to the objectives of the reporting frameworks in the process of generating financial information**

General purpose financial reporting has the objective of providing pertinent and reliable information about entity's activities which is intended to support its users when making economically substantiated decisions, as well as for the purposes of financial accountability relating to the responsibility assumed by management. An approach aimed for to the users of financial and non-financial information, focused on interest parties' needs of information, has been adopted when identifying the financial reporting objectives.

The data generated through the government finance statistics is used to analyse the effects of the fiscal policy conducted, to assess its impact on the economy, as well as to ensure comparability of fiscal results at both national and international levels. The application of a standardized approach for consolidation of institutional units by the separate sectors of economy is a reference point in the applicable budgetary framework for statistical reporting of fiscal data (ESA 2010). This institutional approach allows for a comprehensive and consistent classification of the sectors ensuring comparability and reliability of macroeconomic data. Regardless of its advantages within the macroeconomic context, the institutional approach (the focus on sectors) has a limited practical application with regard to general purpose financial reporting in public sector entities. While statistical reporting framework aims at creating aggregate macroeconomic indicators for economic analysis and fiscal monitoring, financial reporting is focused on generating full, neutral, timely and comparable accounting information required for making financially substantiated decisions, as well as for the purposes of financial accountability relating to the management responsibility assumed towards the interest parties. This difference emphasized the necessity of coordination between the two systems – financial and statistical – in view of achieving greater effectiveness, transparency and accountability in public resources governance.

- **Users of financial information of the financial and statistical statements**

The main users of the financial information contained in general purpose financial statements are the recipients of public services, the providers of public resources, and their representatives – legislative bodies and members of the Parliament. These users are not in a position to demand preparation of statements tailored to their specific information needs. On the other hand, the organizations that are entitled to require specific financial reports for the purposes of satisfying their own specialized needs are not considered to be main users of financial information of the financial statements. Such organizations involve regulatory and supervisory bodies, management of enterprises, audit institutions, rating agencies and others, although they also use the information from the financial statements for their own purposes.

The users of statistical reporting according to ESA 2010 are the EU institutions (Eurostat, the European Commission, ECB), national governments and international organizations (IMF, the World Bank, OECD, UN). They use the financial information for economic analyses, monitoring, budgeting and formulation of policies.

4. Applicability of IPSAS and ESA 2010 in the financial reporting of public sector entities in Bulgaria

This analysis is focused on the financial reporting in the public sector of the Republic of Bulgaria regarded from the perspective of the international reporting standards – IPSAS and ESA 2010. The detailed review of the applicability of these reporting frameworks reveals a number of challenges which need to be taken into consideration when formulating measures for improvement of the regulation in the field of public sector financial reporting to the best interest of the users of general-purpose financial statements. The analysis is based on the scientific research performed by Daniela Feschiyan in 2023 dedicated to the need of implementing the standardised model of public sector financial reporting in compliance with IPSAS 1 Presentation of Financial Statements. The research aimed to initiate a public debate with regard to the need of performing in-depth assessment of the degree of correspondence between the effective regulatory framework and the applicable IPSAS with a focus on: IPSAS 1 Presentation of Financial Statements, IPSAS 2 Cash Flow Statements, IPSAS 17 Property, Plant and Equipment, IPSAS 32 Service Concession Arrangements: Grantor and IPSAS 21 Impairment of Non-Cash-Generating Assets.

The results of the study demonstrate that financial reporting in the public sector of Bulgaria is performed on partial accrual basis of accounting – an intermediate approach between cash-based accounting and the full application of the principle of accrual accounting. As a result of the research, it was established that there is limited compliance with the requirements of IPSAS, which are standards regulating the full implementation of the principle of accrual-based accounting, in view of providing faithful and relevant information about the financial position and the performance of public sector entities. The accounting practices on the application of modified accrual basis in this sector are strongly aligned with the requirements of the European System of Accounts (ESA 2010), which is a reporting framework focused on the objectives of the macroeconomic analysis without ensuring a sufficient degree of transparency and accountability at an organizational level (entity level). The full application of the accrual accounting for the purposes of European public sector accounting harmonization is likely to remain a minor instrument within the framework of EU fiscal governance and more specifically with regard to the Excessive Deficit Procedure (Oulasvirta, L. O., & Bailey, S. J., 2016).

The contents of financial statements do not include key components such as the cash flow statements and the statement of changes in net assets compared to the requirements of IPSAS. Moreover, budgetary information is not presented in the general-purpose financial statements despite the provisions of IPSAS 24 Presentation of Budget Information in Financial Statements. According to this standard, an approved budget has to be made publicly available as part of the financial statements, within the context of the management responsibility assumed for ensuring transparency and accountability of public finance.

Disclosures in the financial statements are limited, which is troublesome for external users of accounting information when making an objective assessment of the financial position, financial performance, and the changes in cash flows of these entities. This is in contradiction with the principal provisions of IPSAS which put emphasis on the comprehensiveness of accounting information.

Infrastructure assets, as a specific category of fixed assets which have significant relevance to the activities of public sector entities, are recognized according to the methodological approaches of accounting within the context of the European System of National and Regional Accounts (ESA 2010), in the absence of compliance with IPSAS 32 Service Concession Arrangements: Grantor, which is a standard containing detailed requirements on the recognition, measurement, and disclosure of similar types of assets. Minimum enhancement of the accounting model is observed compared to the approach applied prior to 2013 - through inclusion of infrastructure assets in the balance sheet. Nevertheless, the issue of proper capitalization of such assets, especially when recorded under "Other Accounts and Activities", is still lacking clarity.

Conceptual discrepancies have been established between the provisions of IPSAS and the effective accounting legislation in the country as to the recognition of the impairment of non-current assets, where the lack of an applicable approach for the accounting treatment of the impairment of non-cash-generating assets stands out as a major issue. „Some preconditions occur to cause deviation from the precautionary principle, and neutrality of information is called into question within the context of its faithful representation in the accounting statements.“ (Andasarova, 2024).

5. Conclusion

The lack of effective application of IPSAS in Bulgaria, considering the existing rather formal application, in view of gaining legitimacy in the institutional environment, creates significant limitations to public sector financial reporting, specifically with regard to:

- Presentation of non-financial assets;
- Reporting of impairment;
- Recognition and reporting of infrastructure assets under concession agreements;
- Preparation of the cash flow statements (IPSAS 2);
- Presentation of consolidated financial statements.

The European System of National and Regional Accounts (ESA 2010) is an international accounting framework in the EU, which determines the methodology for compiling national accounts and economic statistics. It is not designed to function as an equivalent to general purpose financial reporting but to represent a supplementary analytical framework aiming to support fiscal monitoring, macroeconomic analysis and achievement of high degree of comparability of the reporting indicators across European Union member states. In other words, general purpose financial statements constitute a fundamental source of information in the preparation of the budgetary frameworks of EU states. The applicable international frameworks - for financial reporting in the public sector and for statistical reporting of fiscal data should be regarded as interrelated structural elements within the framework of a unified global economic system. This is of significant importance for ensuring the consistency of information about the activities of public sector entities, as well as for enhancing the effectiveness and transparency in the governance of public resources.

Literature

- Andasarova, R., 2024. Financial Reporting in the Public Sector in the Context of Transition to European Accounting Harmonisation. Sofia: UNWE Academic Publishing House (in Bulgarian).
- Brusca, I., & Martínez, J. C., 2015. Adopting International Public Sector Accounting Standards: a challenge for modernizing and harmonizing public sector accounting. *International Review of Administrative Sciences*, 82(4), 724-744. <https://doi.org/10.1177/0020852315600232>
- European Union (EU). Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union Text with EEA relevance.
- Feschiyan, D., 2023. On the need for standardized financial statements in the public sector. Sofia: IDES Magazine, 2023, issue 2, pp. 1-25 (in Bulgarian). <https://www.ides.bg/e-journal/2023/issue-2/02-2023-daniela-feschiyan>.
- Feschiyan, D., 2018. Accounting Standardisation and Models for Reporting Fixed Tangible Assets in the Public Sector, Third Amended Edition. Sofia: UNWE Publishing Complex (in Bulgarian).
- International Federation of Accountants (IFAC), 2020. International Public Sector Financial Accountability Index. <https://www.ifac.org/knowledge-gateway/supporting-international-standards/discussion/international-public-sector-financial-accountability-index-2020>
- International Public Sector Accounting Standards Board (IPSASB), 2025. Handbook of International Public Sector Accounting Pronouncements. <https://www.ipsasb.org/publications/2025-handbook-international-public-sector-accounting-pronouncements>.
- Helldorff, K., & Christiaens, J., 2021. Harmonising public sector accounting laws and regulations of the European Union member states: powers and competences. *International Review of Administrative Sciences*, 89(3), 741-756. <https://doi.org/10.1177/00208523211060007>
- Ministry of Finance of the Republic of Bulgaria (MF). Treasury Directorate Instruction 20/14 December 2004 on the Application of National Accounting Standards by Budgetary Enterprises.
- Oulasvirta, L. O., & Bailey, S. J., 2016. Evolution of EU public sector financial accounting standardisation: critical events that opened the window for attempted policy change. *Journal of European Integration*, 38(6), 653–669. <https://doi.org/10.1080/07036337.2016.1177043>