

GLOBAL TRENDS IPSAS IMPLEMENTATION AND PROSPECTS FOR UKRAINE

Shtuler Irina¹
Makarovykh Victoria²,

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Abstract

The article describes problems and limitations of the Ukrainian system of accounting in the public sector.

Market conditions require the use of new management principles, forms and methods of management in the public sector, which in turn increases the requirements for objective economic information, which is the main source of accounting.

The main problem of accounting reform in budget institutions is the lack of common approaches to developing effective mechanisms to improve the accounting system to meet the requirements of international standards, lack of elaboration of the transition to uniform methodological principles and the creation of a unified organizational and information management accounting.

Determined main factors of evolution, which dictate the need for modernization of accounting system in the public sector in Ukraine and studied international experience implementing international accounting standards in the public sector.

International practice starts from the principle that policies and accounting standards inherent in the public sector, must be extended to all public sector entities other than Government financial and nonfinancial companies (which are subject to the accounting standards used in the private sector).

In most developed countries are developed and financial reporting standards for the public sector are determined not so much rules as accounting and budgeting principles of reporting.

The results of the analysis concludes on the feasibility of reform. Improving accounting strengthen of its supervisory capacity over economic and financial activities of the institution - the main way to improve adherence to fiscal discipline. High quality accounting information sets the effective implementation of any and all management functions.

Keywords: *international standards, financial reporting, accounting, public sector.*

¹ Universities "National Academy of Management" (Kyiv), E-mail: shkirka2002@ukr.net

² Zhytomyr State Technological University

1. STATEMENT OF THE PROBLEM

In the background of the global financial crisis it became evident that high-quality accounting standards requires not only private but also public sector. Worldwide there are a number of methods of accounting in public sector, with serious efforts to develop standards that are comparable in terms of accountability and transparency.

Market conditions require the use of new management principles, forms and methods of management in the public sector, which in turn increases the requirements for objective economic information, which is the main source of accounting.

The main problem of accounting reform in budget institutions is the lack of common approaches to developing effective mechanisms to improve the accounting system to meet the requirements of international standards, lack of elaboration of the transition to uniform methodological principles and the creation of a unified organizational and information management accounting.

Improving accounting strengthen of its supervisory capacity over economic and financial activities of the institution - the main way to improve adherence to fiscal discipline. High quality accounting information sets the effective implementation of any and all management functions.

Analysis of recent research and publications. Problems of accounting in budgetary institutions examined in the works of well-known domestic and foreign economists NV Borisov [1] VM Gavryliuk [2] SF Head [3], S. Levytska [5] A. Nikulin [7] S. Svirko [8] I. Tokarev [11] and others.

In most studies the budgetary accounting is displayed as a tool providing centralized management of such institutions. However, the question of harmonization of accounting in the public sector in the implementation of international accounting standards have not found adequately reflected in the scientific literature. The current accounting system does not fully meet modern business practices. Management system in market conditions, the formation of which takes place in Ukraine, provides an objective necessity of finding and shaping options accounting in budgetary institutions which meet the new socio-economic relations and the process of accounting reform.

The purpose of the article. Justification of theoretical nature of public institutions in determination of the budget entity as the subject of a special legal status and address the complex of issues related to the introduction of international accounting standards for the public sector in Ukraine.

Statement of main results. One of the main reasons for the reform of accounting in the public sector is the need for some standardized reporting forms that could be universally understood by the general public. In this context it is of general purpose, ie the public. It is necessary first of all external users who are unable to view a specially prepared data. For users of general purpose financial statements include taxpayers, members of the legislature, creditors, suppliers, the me-

dia and employee's. The need of public exposure to wide range of users is explained primarily due to the public nature of public revenue and expenditures.

Preparation of budget reporting to International Financial Reporting Standards in the government sector is a strategic issue. Statements prepared in accordance with international standards allows to match the economic development of different countries and identify the most promising for economic investment. International portfolio and (to a lesser extent) strategic investors make decisions based on international rankings, which are based on macroeconomic states. The basis for the calculation of these indicators and budgetary reporting is prepared in accordance with international standards.

The development of international standards of financial accounting and reporting in the public sector (IPSAS) carries the Committee on the Public Sector (CPS) [6]. The Committee is developing a significant part of the international standards of financial accounting and reporting in the public sector. To date, CPS has published 20 of IPSAS on accrual basis of accounting. IPSASs represent international best practice in the financial statements of public sector entities. In many jurisdictions application of IPSAS requirements will improve the accountability and transparency of financial statements prepared by the government and their agencies.

International standards of financial accounting and reporting in the public sector presumes the use of principles of formation exact and objective information about the financial situation, financial performance and cash flows for the various national and international organizations. This will ensure the sourcing of standardized and comparable information on the activities of all organizations in public sector. As a result, complete information will be available to public not only about the financial implications of political decisions made, but also about the financial state of the country.

To briefly describe the problems and shortcomings of Ukrainian accounting system in the public sector, the following was noted:

- lack of centralized methodology in legislature for the accounting operations of public sector entities, which does not allow to receive full, accurate, transparent and comparable information on the financial status of the state;
- budget execution reporting is consolidated by vertical in Treasury and spending units in parallel. This results in some information flows duplicates, which leads to raise of expenditures for information processing;
- lack of operational regulation of accounting organization services in budget institutions and for accountants. Organization of Accounting of financial funds managers requires improvement and harmonization, since there are differences in the organizational structure and procedures of accounting services workflow automation of accounting transactions (using different software in different organizations or sometimes not available at all). All of these factors make not only a consolidated reporting, but communication between parts in the budget process hard.

In Ukraine the direction of accounting reform in the public sector defined by the Cabinet of Ministers of Ukraine of 16 January 2007 № 34 On Approval Strategy modernization of the accounting system in the public sector in 2007 - 2015. [9] The main purpose of this strategy is to strengthen accounting in the public sector to meet the requirements of international standards. The strategy includes:

Improving the accounting system:

- the division between business accounting responsibilities for accounting of assets, liabilities, income and expenses;
- development and implementation of national regulations (standards) of accounting and chart of accounts in the public sector, harmonized with the budget classification;

Improving financial reporting and reporting on budget execution by:

- improvement of methodology in factoring of reporting forms;
- development and introduction of new forms of financial statements and reports on budget execution;
- improvement of methods of compilation and consolidation of financial statements and reports on budget execution using modern information technologies;

Creation of a unified organizational and accounting information systems include:

- modernization of financial and accounting services;
- providing treasury services to all entities of the public sector;
- adaptation of the budget system, created on the program budgeting basis, new methodological principles of accounting;
- strengthening the control on the part of the Treasury compliance with the rules of accounting and compilation reports;
- improving training and retraining financial and accounting services;
- unification of software that uses public sector entities in order to ensure communication between the Ministry of Finance of the Treasury and public sector entities using databases and information systems [9].

Table 1 shows the main factors that determine the need for modernization of the accounting system in the public sector.

Table 1. The main factors of evolution, which determine the need for modernization of the accounting system in the public sector

| | |
|-----------------------------|--|
| <i>Effective management</i> | Every country is trying to limit government spending and debt. Budget program are approved for this, main funds managers report on the implementation of these programs, and budget accounting takes into account the results of the cost analysis conducted using data property records. For this purpose we should understand budget accounting as accounting performance of state and local |
|-----------------------------|--|

| | |
|--|---|
| | budgets, which are organs of the State Treasury, and understand property accounting as accounting performance estimates of budgetary institutions who are spending money. |
| <i>Transparent Management</i> | Increase of control over public finances enables the state to meet the need for information from financial operators (rating agencies, banks) and international partners (WTO, EU). |
| <i>The emergence of new information technologies</i> | Modern technologies such as enterprise resource planning ERPS (Enterprise Resource Planning System) can provide information on all aspects (budget, financial. Managerial) and allow the monitoring of operations and audit. |
| <i>Distribution of international standards</i> | Budget is not subject to international standards, while property records gradually transferred to international accounting standards for the public sector (IPSAS) IPSAS (International Public Sector Accounting Standards), which are used in many countries. The IPSAS rules defined presentation of the budget outcome and the transition from the budget of the financial results |

From bibliographic sources we have discovered an international experience and perspectives of budget accounting in foreign countries and Ukraine [1-11]. The results make it possible to assert that the public institutions of the state and municipal public institutions related to the public sector in all countries. However, in some countries the definition of the public sector does not include terms such as local authorities, bodies responsible for the implementation of extrabudgetary funds, agencies that are independent, public financial and nonfinancial companies.

International practice starts from the principle that policies and accounting standards inherent in the public sector, must be extended to all public sector entities other than Government financial and nonfinancial companies (which are subject to the accounting standards used in the private sector).

In most developed countries are developed and financial reporting standards for the public sector are determined not so much rules as accounting and budgeting principles of reporting. In international practice, the financial statements of public sector are public. It should include information about whether sufficient revenues to fund planned expenditures, information on sources of income, by type of cost analysis and data on the financial performance of the public sector. The information that is displayed in the financial statements addresses the following requirements: must be able to use this information to forecast financial position institutions. As with any financial reporting, financial reporting in these countries includes cost both financial and non-financial assets.

International practice in regulations of budget accounting derives from the fact that one of the main consumers of financial information is the same government. Wider circle of informational indexes is needed for this group of users. Information needs to be more precise, analytical accounting - deeper.

The system of accounting among others usually includes:

- The law on reforming of budget accounting, which is the basis for reform;
- Budget accounting standards;
- Instructions for accounting.

Budget accounting system often considers the requirements of International Financial Reporting Standards. Standards include budgetary accounting concept of public accounting. The Concept reveals the need for standards, the main approaches to the management accounting provides a glossary of key terms used in the standard. Accounting wherever possible, based on the accounting rules adopted for commercial organizations, budget accounting rules differ from the rules of accounting in commercial organizations only because of the nature of the state. In international practice, records of income and expenditure are held on both accrual and cash basis, and in some cases - on mixed method. In applying the method of calculating the tax revenues are recorded at the time of accrual of taxes, but with the proviso that they can be reliably calculated. Methods of accounting in the public sector systematized in Table. 2.

Table 2. Methods of accounting in the public sector

| <i>State Institution \ Country</i> | <i>Treasury in the performance of the state budget</i> | <i>Institutions responsible for the implementation of local budgets</i> | <i>Budgetary institutions in the performance of their budgets</i> | <i>institutions responsible for the implementation of social insurance budget</i> | <i>institutions responsible for the implementation of the budgets of health insurance</i> | <i>Other accounting entities</i> |
|------------------------------------|--|---|---|---|---|----------------------------------|
| Albania | M | M | M | H | H | H |
| Azerbaijan | M | H | H | H | H | H |
| Belarus | K | K | M | - | - | - |
| Bosnia and Herzegovina | M | M | M | M | M | M |
| Bulgaria | M | M | M | M | M | - |
| Croatia | K | M | M | M | M | M |
| Georgia | K | K | H | K | | H |
| Kazakhstan | K | K | K | H | H | H |
| Kyrgyzstan | K | K | M | M | M | M |
| Macedonia | K | K | K | K | K | - |
| Moldova | K | M | M | H | H | - |
| Montenegro | M | K | M | K | H | M |
| Russia | K | K | H | K | K | - |
| Serbia | K | K | K | K | K | H |
| Tajikistan | K | K | M | K | | |
| Turkey | M | M | M | | | |
| Ukraine | M | M | M | M | - | - |
| Uzbekistan | K | K | M | - | - | K |

Where, K - cash method of accounting for income and expenses
 H - records of income and expenditure on an accrual basis
 M - mixed method.

Revenue is generally accounted for by the cash method. Bulgaria - the only country that keeps track of income on accrual. In cases where using a modified cash basis or modified accrual basis of accounting, information that is often considered, except for cash flow, assets and liabilities include. In Georgia, Kazakhstan and Ukraine in the public sector reforms introduced by the transition to accrual accounting for, and in Albania, there is a clear timetable deployment of such reforms. In 9 countries, and reforms are planned, but Comprehensive plans for their implementation has not yet been developed. Displays information about the budgetary implications are given in Table 3.

Table 3. Methods of accounting in the public sector: Displays information about the budgetary implications of

| <i>Object of expenditure/ Country</i> | <i>In the event of liability</i> | <i>Upon receipt of the goods and services at the billing</i> | <i>When calculating the payment</i> | <i>Upon payment (check or bank transfer)</i> |
|---|----------------------------------|--|-------------------------------------|--|
| Albania | | | + | |
| Azerbaijan | + | + | + | + |
| Belarus | | | | + |
| Bosnia and Herzegovina | | | + | |
| Bulgaria | + | + | + | + |
| Croatia | | + | + | |
| Georgia | | | | + |
| Kazakhstan | | | | + |
| Kyrgyzstan | | | | + |
| Macedonia | | | | + |
| Moldova | | | | + |
| Montenegro | | | | + |
| Russia | | | | + |
| Serbia | | | | + |
| Tajikistan | | | | + |
| Turkey | | | | + |
| Ukraine | | | | + |
| Uzbekistan | + | | + | + |

Progress discovered in all countries in ensuring the coordination of accounts with the economic segment of the budget classification. Thus, Albania, Bosnia and

Herzegovina, Croatia, Kyrgyzstan, Macedonia, Montenegro, Russia, Serbia, Tajikistan, Turkey should direct linking of accounts with the economic segment of the budget classification. Azerbaijan, Bulgaria, Georgia, Moldova, apply transition table, and in Belarus, Ukraine and Uzbekistan no *vzayemozvyazok* of accounts with the economic segment of the budget classification.

The governments of 53 countries have passed or are in the process of transition to international accounting standards for the public sector (IPSAS). In Azerbaijan developed and approved 24 national accounting standards for budget organizations in accordance with international accounting standards for the public sector (IPSAS). France currently developed and introduced 15 standards that reflect the principles of accounting and reporting in the public sector. Thus in France were saved all the basic principles of IPSAS, but in these principles were amended in the part in which the activities of state bodies is specific in nature and different from the private sector. These principles are contained in constitutional law.

Russian Federation currently implemented reform in the public sector. One of the directions of the reform is to develop national standards for accounting and reporting in the sector of public administration based on International Financial Reporting Standards for the Public Sector (IPSAS). All 26 will develop national standards for accounting and reporting in the public sector given the chart of accounts and the best of its application.

The accounting system of Estonia from 2003 entirely based on International Financial Reporting Standards (IFRS) and accounting (IAS). On 01.01.2012 there were 17 Guidance Services Accounting Act and accounting. Switzerland, in 2004 decided to implement the full set of standards IPSAS, which is reflected in the Federal Law on Financial Management in 2005. Decree on the implementation of the provisions of the Finance Department, IPSAS standards are adopted at the federal level in Switzerland as a common and fundamental in terms of accounting and of reporting. Georgia in 2006 developed six stages reform plan to achieve full compliance with IPSAS in 2020, leading to the publication and uniform application of IPSAS compliant financial statements for the central and sub-national levels of government throughout Georgia. Accepted standards include 1.6, 9, 12, 17, 19, 24, 28-30 IPSAS.

Kazakhstan began to reform the public sector accounting in 2009 on the basis of extensive experience in the reform of the private sector, which began in 2004. The first step, in 2010 the city included the development of the legal framework for accounting and financial reporting in government organizations harmonized with IPSAS. The main stages of the reform of the accounting system of public institutions is the creation of a new regulatory framework in the accounting system of public institutions, developed in accordance with IPSAS: accounting policies, the default chart of accounts, rules of accounting, financial reporting forms. In the implementation of reforms in Kazakhstan, developed five major documents that have joined the requirements of the standard 31 IPSAS.

Latvia has an accrual basis, but never declared any reforms. The changes were caused by the expected benefits of EU membership and the annual reporting requirement of compatibility with ESA 95. At present, the preparation of national standards consistent with IPSAS. In Albania accounting reform began in 2009 as part of the reform of public internal financial control. It included two phases of length one year and five years respectively. The first phase was to identify all controlled entities (budget and off-budget). The aim of the second phase was the introduction of the cash method under IPSAS. In the majority of countries in a particular format is a single consolidated financial statements in the public sector (except Georgia, Kazakhstan, Kyrgyz Republic and Ukraine).

The consolidated financial statements are audited by the Audit highest in all countries that such statements are, with the exception of Belarus and Tajikistan, and they are published in all countries (mainly the Internet). In most countries, the consolidated financial statements are prepared on a modified cash basis or modified accrual or purely cash basis. Russia - the only country where this purpose using the method of calculation. Meaningful consolidated financial statements are presented in Table 4.

Table 4. Meaningful consolidated financial statements

| <i>Country</i> | <i>Consolidated financial statements/</i> | <i>Report of income and spending</i> | <i>Comparison of Expenditure with the Budget</i> | <i>Balance sheet</i> | <i>Statement of Cash Flows</i> |
|------------------------|---|--------------------------------------|--|----------------------|--------------------------------|
| Albania | | + | | + | + |
| Azerbaijan | | + | + | | |
| Belarus | | + | + | | |
| Bosnia and Herzegovina | | + | + | | + |
| Bulgaria | | | | + | + |
| Croatia | | + | + | + | + |
| Georgia | | + | + | + | + |
| Macedonia | | + | + | | + |
| Moldova | | + | + | + | + |
| Montenegro | | + | + | | + |
| Russia | | + | + | + | + |
| Serbia | | + | + | | + |
| Tajikistan | | + | + | + | + |
| Turkey | | + | | + | |
| Ukraine | | + | + | + | + |
| Uzbekistan | | + | + | + | + |

Ministry of Finance serves as the parent organization that factors accounting policies and financial reporting in the public sector. Thus, current rules of budgetary accounting and reporting in Ukraine are in line with the development budget accounting on an international level. Moreover, a focus on the method of calculation of income and expenses (complete switch to this method of accounting in the budget plans in the near future) says Ukraine decisive action to reform the budget accounting compared to many developed countries. At the same time, the Ukrainian budget accounting rules consistent with international standards and fully meet the challenge of government.

Conclusions and recommendations for further research. The analysis of international experience in reforming the budget accounting, the following conclusions were made. Changes in the budget process and the challenges of public administration require the development and adoption of new rules of budgetary accounting. An important characteristic of the new rules should be matching them in all essential points with the international standards. Without reform of budget accounting is not possible to achieve efficiency of budget spending, opening fully Ukraine's economy to foreign investment, establishing a constructive dialogue regarding issues between local government authorities and the public.

Promising research directions are introducing international standards of accounting and reporting practices of the public sector in Ukraine.

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