

Smart Interactive Talk

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**UKRAINE**

***FIRST TIME IPSAS ADOPTION:  
LESSONS LEARNED  
(UKRAINE EXPERIENCE)***



*Liudmyla HAPONENKO  
Head of the Accounting Methodology Department  
and Regulatory Support of Auditing,  
Ministry of Finance, Ukraine*

# *KEY FACTORS AND RESOURCES THAT CONTRIBUTE TO THE IMPLEMENTATION OF THE PUBLIC SECTOR ACCOUNTING (PSA) REFORM IN UKRAINE*



Political support

Integration between major PFM systems

Definition of the strategy for the PSA reform and the activities plan

Definition of tasks and indicators of their implementation

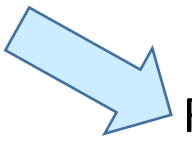
Definition of financial, human, technical resources

Cooperation between key stakeholders

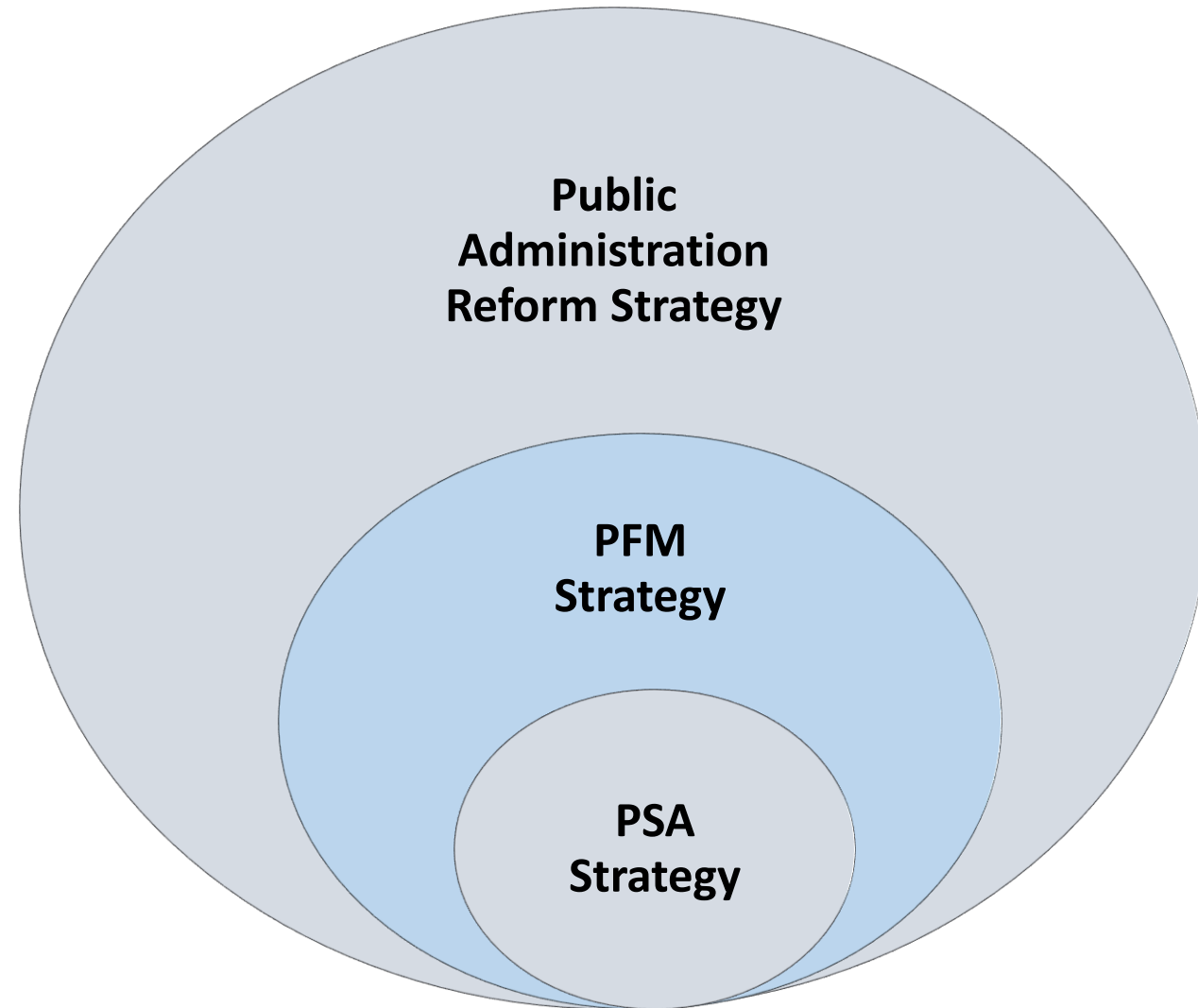
# Political support for the reform and modernization of accounting in Ukraine



Reform of public financial management (PFM) in Ukraine is carried out within the framework of the Public Administration Reform Strategy



Reforming and modernizing accounting system in Ukraine is declared by the decisions of the Government on reforming public sector accounting, in particular by the adoption in 2007 of the Strategy for modernizing public sector accounting for 2007-2015, and the Strategy for modernizing accounting and financial reporting in the public sector for the period until 2025, approved in 2018



# THE PURPOSE OF THE IMPLEMENTATION OF THE PSA REFORM AND ACCRUAL METHOD IN UKRAINE

**The main goal of the public sector accounting reform is to achieve transparency and reliability of financial reporting on the activities of public sector entities, as well as the effective management of the financial resources of the state**

## **OBJECTIVES:**

- generation of accounting information for continued reform and development of financial management mechanisms at the government and local levels for the purposes of cooperation of Ukraine with international organizations, financial institutions, activities in the currency stock and investment markets;
- ensuring openness and transparency of information about the economic position of accounting entities in the budgetary sphere;
- timeliness and accuracy of obtaining the financial information indicators for making prompt and effective decisions in the field of financial management of government and local authorities;
- building of the accounting system for budget execution, which takes into account the needs of financial management at the government and local levels to ensure the effectiveness of budget expenditures;
- provision of consolidated timely information to ensure medium- and long-term budget planning, effective control over the targeted use of budgetary funds.

## **Ways to achieve:**

Development of a unified accounting and reporting methodology for budget execution and accounting in budgetary institutions, adapted to the provisions of the International Public Sector Accounting Standards (IPSAS), and implementation of a unified integrated primary accounting system.

# The legislative framework for the application of National Regulations (standards) of PSA in Ukraine

The Law of Ukraine "On Accounting and Financial Reporting in Ukraine" stipulates:

- the decision to apply in Ukraine the National Regulations (standards) of public sector accounting developed based on the International Public Sector Accounting Standards (IPSAS);
- regulation of methodology issues for accounting and financial reporting is carried out by the central executive body, which ensures the development and implementation of the state policy in the field of accounting (Ministry of Finance);
- consolidation of financial reporting on the overall property status and performance of public sector entities and budgets is carried out by the Treasury;
- statistical, tax and other types of reporting, which use a monetary measure, are based on accounting data.

Budgetary processes are regulated by the Budget Code of Ukraine.

# National Regulations (standards) for public sector accounting

- The accounting reform in the public sector of Ukraine is based on the indirect adoption of the IPSAS system.
- Established by the budget legislation, National standards based on IPSAS take into account national accounting practices in the public sector and the limitations of financial activities of budgetary institutions of Ukraine.

## **The degree of compliance of National Regulations (standards) for PSA and IPSAS**

- The degree of compliance of National Regulations (standards) for PSA and IPSAS is quite high. According to the assessment of international experts conducted as part of the World Bank project in 2018, 80% of international standards are fully or partially applied and included in the regulatory framework of Ukraine.

# ANALYSIS OF IPSAS COMPLIANCE IN UKRAINE: COMPLIANT AREAS

- ✓ Recognition of assets in accounting
- ✓ Classification of assets by analytical groups
- ✓ Determination of the primary cost
- ✓ Methods of depreciation accrual
- ✓ Methods of measurement of inventory derecognition and measurement at the end of the reporting period
- ✓ Approaches to usefulness reduction review
- ✓ Composition of financial statements
- ✓ Determination and development of accounting policy
- ✓ Reflecting the effects of exchange rate fluctuations in accounting
- ✓ Recognition of income and expenses
- ✓ Consolidation of statements

# RESULTS ACHIEVED IN THE REFORM OF PSA

20 National Regulations (standards) of public sector accounting developed on the basis of International Public Sector Accounting Standards (IPSAS) and separate methodological recommendations to them were introduced

A single Chart of Accounts for accounting in the public sector, developed in view of budget classification, containing sub-accounts for reflection in accounting the information on execution of budgets, budget funds managers and funds of compulsory state social and pension insurance, and the procedure for its application were introduced

The transition of managers of budgetary funds and funds of obligatory state social and pension insurance before the adoption of financial reporting with the full package of National provisions (standards) of public sector accounting and new forms of financial reporting was provided

An automated system of electronic reporting by clients of the Treasury AS "E-Reporting" was implemented

Consolidated financial reporting on the overall property status and performance of public sector entities and budgets was ensured



# Application of accounting methods in the public sector

Government and  
local budgets

Central  
government bodies

Social Security  
Funds

Local government  
bodies

**Financial reporting –  
CASH BASIS**  
using the accrual method of  
accounting for certain transactions  
(accounting for the public debt,  
liabilities of budgetary managers)

**Budget reporting –  
CASH BASIS**

**Financial Reports –  
ACCRUAL BASIS**

**Budget reporting –  
CASH BASIS with elements of  
accrual basis**

**Financial Reports –  
ACCRUAL BASIS**

**Funds reporting –  
CASH BASIS with elements of  
accrual basis**

**Financial Reports –  
ACCRUAL BASIS**

**Budget reporting –  
CASH BASIS with elements of  
accrual basis**

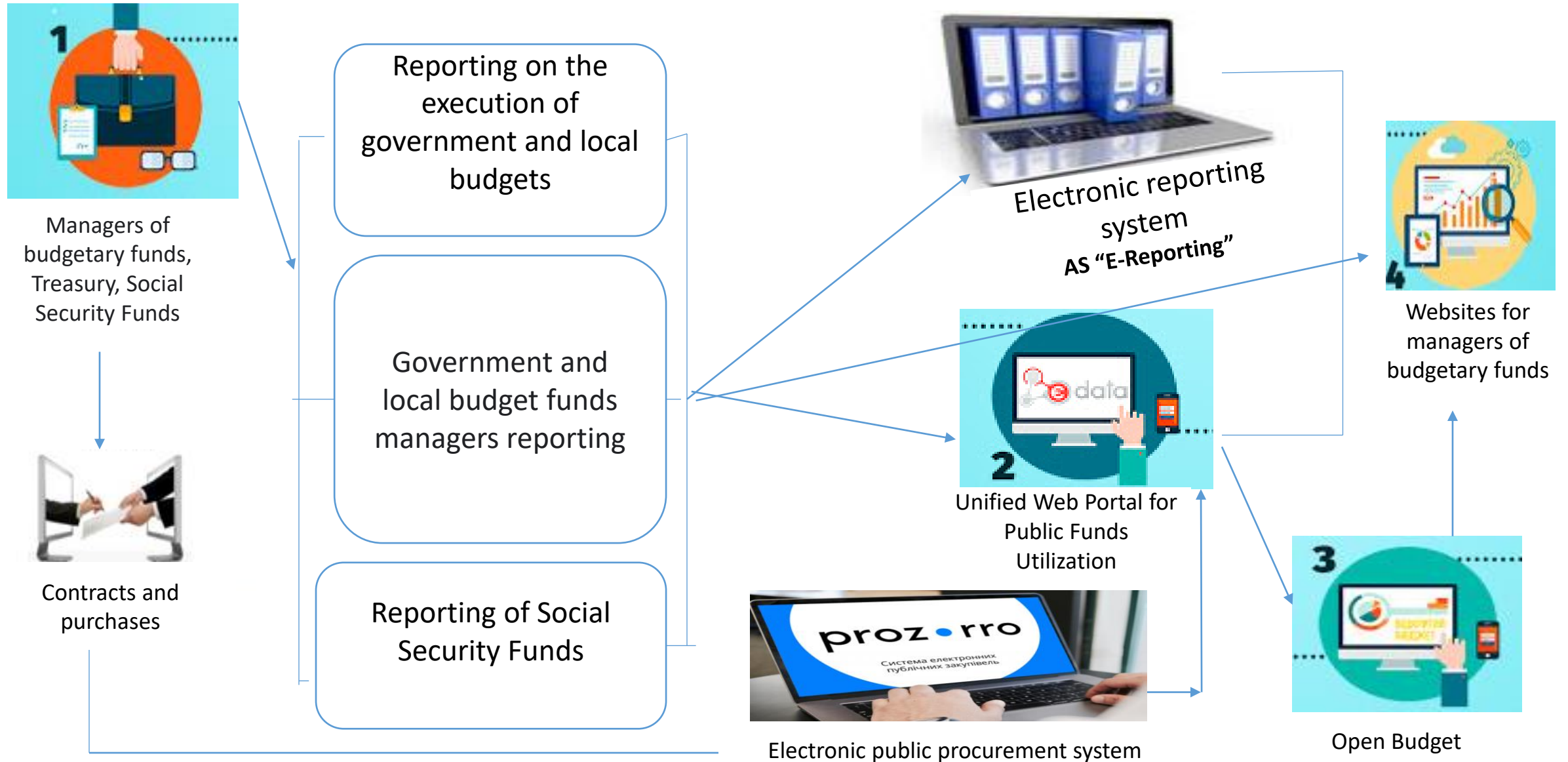
# Connection between the reform of the PSA and the financial management system

## Chart of Accounts for Public Sector Accounting

is used by public sector entities, in particular managers of budget funds (in Ukraine there are 11073 managers of state budget funds and 38540 managers of local budgets), the State Treasury and social security funds

- The Chart of accounts for public sector accounting is elaborated taking into account the budget classification of income and expenses with specification of information on financial assets and liabilities
- Methodological recommendations for comparing ledgers and budget classification codes have been developed
- Statistical research data generation programs are integrated with financial reporting programs
- The treasury payment system is integrated with the electronic system of public procurement (Prozorro)
- Disclosure of financial transactions on the Treasury single account is carried out in real time through a unified web portal for the public funds utilization (E-data)
- In 2021 the government adopted the first Budgetary Declaration for 2022-2024, which is the basis for medium-term budget planning

# Integration between different PFM functions and systems



Improving the regulatory base of accounting, which is to continue to modernize the regulatory accounting system in accordance with the IPSAS in order to ensure the reliability and improve the comparability of financial statements

Improving the accounting system, which provides for the formation of a unified methodological framework for the functioning of the accounting system of budgetary organizations and the execution of budgets at different levels

Modernization of information systems, providing for the formation of a single information space for the integration of accounting data of the public sector of Ukraine

### **Next Steps in the Implementation of the PSA Reform**

Increasing the transparency and quality of financial reporting, providing access to high-quality financial reporting for all

Upgrading the qualifications of accountants and auditors in the public sector (a system of measures to develop a mechanism to systematically meet the needs of public sector entities in highly qualified specialists in accounting with the skills to apply the conceptual framework of NR(S)PSA and ensure an optimal balance between the powers of accountants and their responsibilities)

Ensuring disclosure of key differences between national and international accounting standards in the public sector to improve the score "PI-29 Annual Financial Reporting" of PEFA Assessment



# The main directions of professional development of accounting personnel in Ukraine for the successful implementation of the PSA reform

- ✓ Training of executives of public sector entities in the **basic provisions of the new conceptual framework of accounting** in the public sector
- ✓ **Improving the skills** of specialists of accounting services of public sector entities
- ✓ Development of **managerial decision-making skills** in the presence of alternative accounting methods
- ✓ Development of skills in **preparing and presenting accounting statements** of public sector entities, taking into account the provisions of the new conceptual framework
- ✓ Conducting training to **develop skills for the information compilation** to ensure effective management decision-making

# RISKS of non-scheduled implementation of the CONCEPTUAL FRAMEWORK ON THE ACCRUAL BASIS

- Lack of correlation of accounting data, medium- and long-term budget planning and statistical reporting
- Lack of justification for the urge to quickly and comprehensively implement standards, which is due to the specificity of the country
- Lack of a clear understanding by stakeholders of the positive effect of this method and a transparent picture of the measures necessary for implementation



- Weak communication between the key agencies in charge of financial, budgetary and tax policies
- Lack of adequate qualifications of accounting staff to implement the accrual method
- Implementation of the new system directly into practice without piloting, which leads to its rejection by the functioning entities



**Thank you for your attention!**

Links:

[https://zakon.rada.gov.ua/laws/show/254%D0%BA/96-%D0%B2%D1%80#Text;](https://zakon.rada.gov.ua/laws/show/254%D0%BA/96-%D0%B2%D1%80#Text)

[https://zakon.rada.gov.ua/laws/show/2456-17#Text;](https://zakon.rada.gov.ua/laws/show/2456-17#Text)

[https://zakon.rada.gov.ua/laws/show/2939-12#Text;](https://zakon.rada.gov.ua/laws/show/2939-12#Text)

[https://zakon.rada.gov.ua/laws/show/280/97-%D0%B2%D1%80#Text;](https://zakon.rada.gov.ua/laws/show/280/97-%D0%B2%D1%80#Text)

[https://www.mof.gov.ua/uk/accounting;](https://www.mof.gov.ua/uk/accounting)

[https://www.mof.gov.ua/uk/buhgalterskij-oblik-v-derzhavnij-sferi;](https://www.mof.gov.ua/uk/buhgalterskij-oblik-v-derzhavnij-sferi)

<https://www.mof.gov.ua/uk/nacionalni-polozhennja>