PULSAR

Ministry of **Finance** of Ukraine

Public Sector Accounting Assessment

PULSE

REPORT UKRAINE

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ACRONYMS AND ABBREVIATIONS

CoA PSA	Chart of Accounts for Public Sector Accounting
EPSAS	European Public Sector Accounting Standards
GDP	Gross Domestic Product
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
MoF	Ministry of Finance of Ukraine
NA	Not Applicable
NPSAS	National Accounting Regulations (Standards) for the Public Sector of Ukraine
PFM	Public Financial Management
PI	Performance Indicator
PSA	Public Sector Accounting
PULSAR	Public Sector Accounting and Reporting Program
PULSE	Public Sector Accounting Assessment
STSU	State Treasury Service of Ukraine

ACKNOWLEDGEMENTS

This report was prepared by the Assessment Group of the Ministry of Finance (MoF) of Ukraine, headed by Svitlana Tokareva (Head of the Department of Accounting Methodology in the Public Sector of the Department of Accounting Methodology and Legal Support of Auditing of the MoF of Ukraine, Head of the Assessment Group) together with Iryna Cheveliuk (Chief Specialist of the Methodology Department of Accounting in the Public Sector of the Department of Accounting Methodology and Regulatory Support of Audit Activities of the MoF, Team Member), Liudmyla Kliuchnyk and Natalia Ostapiuk (Consultants) under the leadership of the PULSAR team: Dmitri Gourfinkel (Senior Financial Management Specialist, World Bank), Jose Simon Rezk (Senior Financial Management Specialist, World Bank), Natalia Konovalenko (Financial Management Consultant, Center for Financial Reporting Reform, World Bank). The quality assurance review of this report was performed by Levan Sabauri (Professor of the Accounting, Analysis and Auditing Department of Ivane Javakhishvili Tbilisi State University), Oleg Kantsurov (Executive Director of the Audit Public Oversight Body of Ukraine), and Julian Laski, World Bank Consultant.

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ABOUT PULSAR

The Public Sector Accounting and Reporting (PULSAR) Program, launched in 2017, is a regional and country level program in 12 beneficiary countries of Europe and Central Asia.[1] Its objective is to support the enhancement of public sector accounting and financial reporting frameworks in line with international standards and good practices to improve government accountability, transparency, and performance.

The objectives and scope of the PULSAR Program are jointly determined by the PULSAR Partners - Austria, Switzerland, and the World Bank – who also provide institutional support for its implementation and mobilize the resources needed for its activities. Beneficiary countries help shape the program through regional cooperation platforms and input to two Communities of Practice: Financial Reporting Frameworks (FinCoP) and Education (EduCoP).

More information about the PULSAR program and its publications is available online at

www.pulsarprogram.org

1 Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Croatia, Georgia, Kosovo, Moldova, Montenegro, North Macedonia, Serbia, and Ukraine.

EXECUTIVE SUMMARY

RATIONALE, PURPOSE, SCOPE, COVERAGE, AND METHOD OF EVALUATION

1. The Public Sector Accounting Assessment (PULSE) aims to support the Government of Ukraine to develop an effective and efficient accounting system. The PULSE considers the quality of the public sector accounting (PSA) system and assesses progress towards implementation of accrual accounting standards for the public sector. It also assesses compliance of PSA standards with International Public Sector Accounting Standards (IPSAS) achieved as a result of reforms introduced by the Government of Ukraine in the field of public finance management (PFM).

2. The PULSE in Ukraine is the first full assessment using this new methodology developed by the World Bank and also served as a pilot to confirm the completeness and effectiveness of the PULSE tool. The assessment covers the national Government of Ukraine.

3. The assessment follows the PULSE 2021 Framework methodology. The basis of the PULSE process is assessment of 29 performance indicators, which in turn consist of 102 dimensions. The scoring methodology includes a four-point scale with a range of scores between A and D for each dimension.

4. The PULSE assessment covers six pillars of organizational and accounting performance that ensure transparency and reliability of financial reporting data in the public sector. Areas analyzed include the scope of legislative regulation of PSA; accounting and reporting of financial and non-financial assets and liabilities; accounting and reporting of expenses and income; financial reporting systems; and PSA reforming dynamics, and the factors affecting it.

5. The data collection process involved reviewing and analyzing relevant legal and regulatory provisions as well as samples of financial reports containing information needed to assess the level of implementation of dimensions/indicators. Data included relevant legislation, public reports, analytical data, and other documents related to the indicator.

OVERVIEW OF THE MAIN RESULTS OF THE PULSE ASSESSMENT

6. The PULSE assessment considered the conceptual, methodological, organizational, and methodical levels of conducting PSA. The results show that Ukraine has established a modern and effective conceptual framework for PSA with strong political support. Some areas for further strengthening were identified.

7. PSA reform aims to improve the accounting of budget execution and increase the transparency of financial reporting in the public sector. Ukraine's reform strategy has

been clearly set out in a number of guiding documents. In particular:

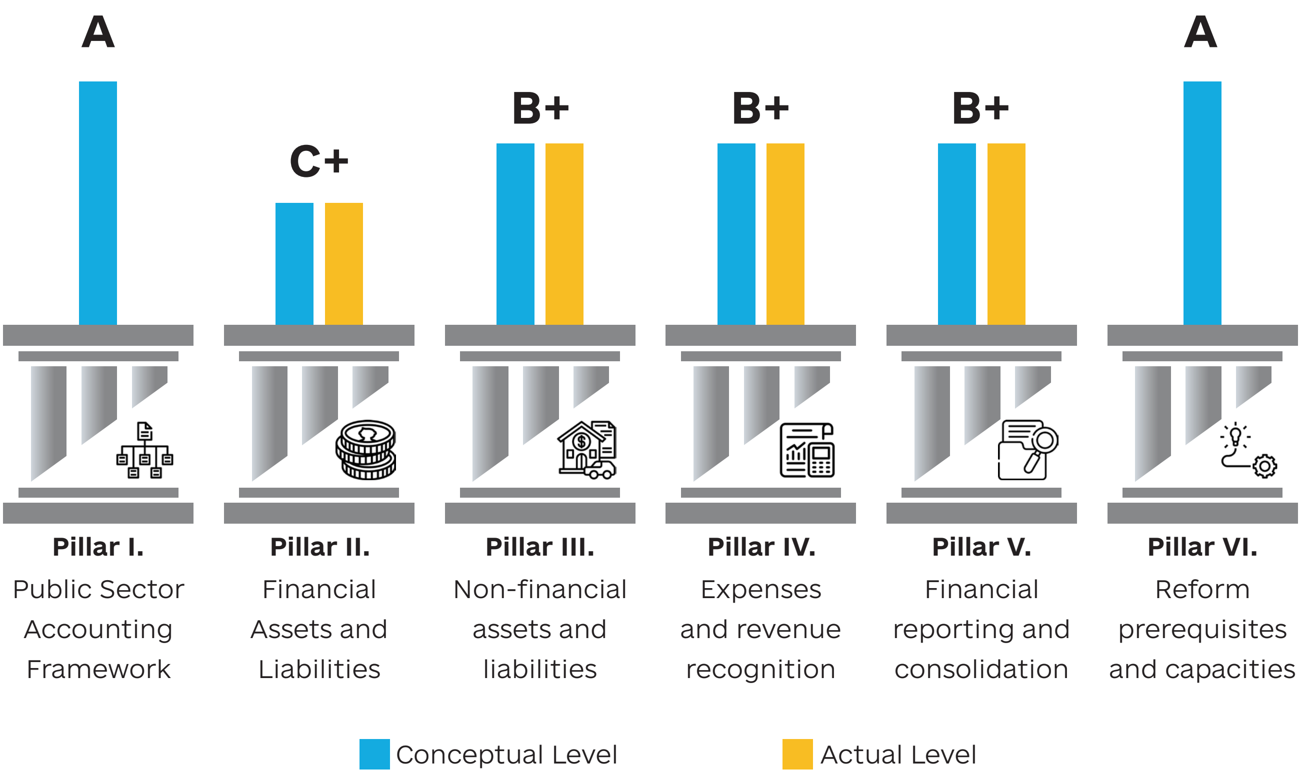
- Strategy for the Modernization of the Accounting System in the Public Sector for 2007–2015, approved by Resolution of the Cabinet of Ministers No. 34 of January 16, 2007.
- Strategy for the Modernization of the Accounting and Financial Reporting System in the Public Sector for the period up to 2025, approved by Order of the Cabinet of Ministers No. 437-r of June 20, 2018 (hereafter PSA Strategy to 2025)
- Strategy for Reforming the State Finance Management System for 2022-2025 and the Action Plan for its implementation, approved by Decree of the Cabinet of Ministers No. 1805-r of December 29, 2021 (hereafter PFM Strategy to 2025).

8. The Action Plan of the PSA Strategy to 2025 guides the implementation of reform. Successful changes include the introduction of a unified chart of accounts in the public sector (CoA PSA) and an electronic system of financial reporting. In addition, an online training platform has been created for the skills development of public sector accounting staff.

9. A key reform has been the introduction of National Accounting Regulations (Standards) for the Public Sector of Ukraine (NPSAS). These are based on an indirect adoption of IPSAS and good global practices for conducting PSA. NPSAS are approved and implemented. A system for their continuous improvement is in place and instructions for their application are available. The introduction of NPSAS is recognized by international organizations as well-founded, as it takes into account existing limitations from the point of view of budget legislation (provisions of the Budget Code, resolutions of the Cabinet of Ministers), etc.

10. The success of the reform process is confirmed by the high PULSE scores for Pillar I: PSA Framework and Pillar VI: Reform prerequisites and capacities (“A” for both sections) (**Figure 1**).

Figure 1. Overall results of the PULSE assessment



11. Some of the key findings (**Figure 1**) of the detailed comparative analysis include:

- A high level of compliance with the principles of IPSAS and NPSAS, in particular in terms of accounting for non-financial assets and liabilities (Pillar III "B+"), income and expenses (Pillar V "B+" and financial reporting and consolidation (Pillar V "B+").
- Partial correspondence between IPSAS and NPSAS for financial instruments (Pillar II "C+"). This is due to differences in the methods of estimation of financial instruments: there is no provided revaluation of financial assets at fair value with changes in equity (PI-4.4 "D"); estimation is based on the other methods than the fair value for financial liabilities (PI-5.4 "D"); and disclosures relating to significance transactions with financial instruments (PI-7.3 "D").
- Some IPSAS are not included in the national accounting legislation, such as IPSAS 32: Service Concession Arrangements: Grantor (PI-14 "NA") and IPSAS 42: Social Benefits (PI-20 "NA"). Other IPSAS do not have a corresponding NPSAS but are included within another NPSAS or reflected in legislative and regulatory acts, such as IPSAS 33: First-time Adoption of Accrual Basis IPSAS (PI-12.1 "D"), IPSAS 40: Public Sector Combinations (PI-23.3 "C"), and IPSAS 20: Related Party Disclosures (PI-22.4 "NA").

12. The PULSE scores could be improved by clarifying the NPSAS for financial instruments in terms of recognition, initial and subsequent evaluation, disclosure of information in financial statements, taking into account budget legislation, and the development of new NPSAS for social benefits, activities of associations in the public sector.

ACTION PLAN FOR FURTHER PSA REFORM

13. The PULSE assessment aims to support further PSA reform and improvement of PFM. Reliable information about the results of budget execution is the basis for effective functioning of medium- and long-term budgeting, as well as ensuring control over the use of budget funds. The recommendations of this report are largely consistent with the Action Plan of the PSA Strategy to 2025.

14. Further reform is also relevant given Ukraine's status as a candidate for EU accession. Implementation of European legislation will include the introduction of reporting on the sustainable development of public sector entities, improvement of the format and criteria for disclosing key differences between IPSAS and NPSAS, and economic analysis of financial statements of public sector entities to ensure the development of an effective system of PSA.

15. The main recommendations drawn from the PULSE assessment can be summarized as:

- Improve aspects of the PSA regulatory framework: clarification and additions are necessary, as well as determination of the feasibility of developing NPSAS for assets and liabilities with scores "C" and below in PULSE assessment.
- Increase the transparency and quality of financial statements: it is advisable to supplement the methods of disclosure of accounting policies based on the comparison of NPSAS and IPSAS, as well as the disclosure of elements of sustainable development, a methodology for analyzing financial reporting indicators of public sector entities is needed.

- Improve the organization and performance of accounting departments in the public sector through: ensuring continuous training of public sector accountants, development of personnel reserves, and improvement of accounting departments model in public sector entities (organizational structure, qualification requirements, authority, and system remuneration of employees of accounting departments) and the procedure for chief accountants evaluation.
- Modernize PSA information systems: develop accounting software and ensure preparation of public sector financial statements can be coordinated with other PFM systems.

INTRODUCTION

16. The PULSE is designed as a user-friendly web-based self-assessment framework on key measurable aspects of the PSA system for public sector reporting entities. It aims to provide information useful for decision making and future reform priorities. The process has four phases: planning, conducting the assessment, reporting, and PSA reform action.

17. The PULSE assesses six pillars of performance: PSA framework; financial assets and liabilities; non-financial assets and liabilities; expenses and revenue recognition; financial reporting and consolidation; and reform prerequisites and capacities. It uses 29 indicators and 102 dimensions of a transparent, efficient, and effective PSA system. The scoring of the indicators is based on available evidence. For each indicator, the score considers between two and four dimensions, which are averaged to obtain an overall score for the indicator. In order to assess both the existing PSA legal and regulatory framework and the actual implementation of those rules and standards, the assessment process includes both the conceptual and actual compliance with the IPSAS framework (except for the conceptual framework indicator).

18. The Ukraine PULSE assessment was performed using a blended approach. A national evaluation team, consisting of experts and specialists from the key budget entities and a state social security fund (listed in **Table 1**), were supported by external consultants who performed the verification process.

19. The entities were selected based on the level of complexity of their organizational structure and the range of activities performed. The state social security fund - the Pension Fund of Ukraine - was included due to the specific needs of the accounting assessment of individual operations, for example, the recognition and disclosure of pension provisions and contingent liabilities.

Table 1. Main budget entities of central government covered by the PULSE assessment

Central Government Budget Entities Assessed	State Social Security Fund
Ministry of Justice of Ukraine	Pension Fund of Ukraine
Ministry of Development of Communities, Territories, and Infrastructure of Ukraine	
State Treasury Service of Ukraine (STSU)	
State Audit Service of Ukraine	

ASSESSMENT MANAGEMENT

20. The PULSE assessment was led by the MoF, which assumed full responsibility and management of the evaluation process. This included data collection, scoring, quality assurance, preparation, and dissemination of the final PULSE report.

21. The process was led by the assessment team leader - an official representative of the MoF. The assessment team leader was the operational manager of the PULSE assessment and the main responsible person for the quality of the assessment and managed the organization and delivery of workshops and events for the preparation and dissemination of PULSE. The team included local experts to support the assessment process.

22. Oversight was provided by the Deputy Minister of Finance, who was responsible for monitoring progress, addressing any policy or communication issues, facilitation of access to data, information, or institutions that emerged during the evaluation process, review and approval of the Conceptual Framework and the final PULSE report. It is expected that the PSA reform dialogue process, planning, and implementation after the assessment process is complete will be managed by the same Deputy Minister.

23. The external validation team consisted of two PFM/PSA experts (international and national). The external validation team played a key role throughout the evaluation process and was involved in most of the quality assurance phases.

24. The PULSAR team consisted of World Bank staff and consultants involved in the implementation of the PULSAR program.

25. The list of interested parties is presented in **Table 2**.

Table 2. PULSE assessment stakeholders

Team Member	Team Member Information
Oversight team	
Svitlana Vorobei, Oversight Team Leader	Deputy Minister of the MoF
Assessment Team	
Svitlana Tokareva, Assessment Team Leader	Head of Public Sector Accounting Methodology Division of Accounting Methodology and Audit Activities Regulatory Support Department of MoF
Iryna Cheveliuk, Team Member	Senior expert of Public Sector Accounting Methodology Division of Accounting Methodology and Audit Activities Regulatory Support Department of MoF
Liudmyla Kliuchnyk, Local Expert 1	Accounting consultant in the public sector
Natalia Ostapiuk, Local Expert 2	Doctor of Economic Sciences, Professor, Professor of the Department of Accounting and Consulting at Vadym Hetman Kyiv National University of Economics, CertIPSAS, DipIFR(ru) ACCA

Team Member	Team Member Information
The external validation team	
Oleg Kantsurov, Expert 1	Executive Director of the Audit Public Oversight Body of Ukraine
Levan Sabauri, Expert 2	Professor of the Accounting, Analysis, and Auditing Department of Ivane Javakhishvili Tbilisi State University
The PULSAR team	
Dmitri Gourfinkel	Senior Financial Management Specialist, The World Bank
Jose Simon Rezk	Senior Financial Management Specialist, The World Bank
Julian Laski	Financial Management Consultant
Natalia Konovalenko	Financial Management Consultant, Centre for Financial Reporting Reform, The World Bank

QUALITY ASSURANCE AND PULSE VERIFICATION

26. The quality of the assessment was ensured by the PULSE Check procedure, which is an additional point of interaction conducted by the PULSAR team using their global/regional experience. PULSE Check ensures that:

- the PULSE methodology has been applied correctly,
- the general assessment is certified,
- the current general status of the implementation of IPSAS and the basis of financial reporting are properly documented,
- the structure and content of the report correspond to the PULSE manual, and
- the proposed recommendations and action plan are reasonable and feasible to implement.

PULSE REPORT

27. The PULSE report has the following structure:

- **Executive summary** containing a brief overview of the rationale, purpose, scope, and evaluation method; an overview of the main results of the PSA system, the current general state of the implementation of IPSAS, and an action plan for further reforming PSA.
- **Introduction** containing information such as the rationale, purpose, scope, and methodology of the evaluation, assessment management, and quality assurance arrangements including PULSE Check requirement.
- **Background information** relevant to PULSE on the country and PSA environment. This section contains information about the structure of the public sector, PFM systems, and their connection with the PSA system, the legal and institutional mechanisms of the PSA, and characteristics of the PSA reform.

- **Results** section providing an assessment of the compliance of the key elements of the IPSAS system at the conceptual and actual level of implementation in accordance with the requirements of the PULSE methodology in terms of parameters and indicators, including documentation on the current general state of IPSAS implementation and the basis of financial reporting. The assessment contains results in six sections:
    - **Pillar I** – Results of the assessment of the conceptual framework, which includes an assessment of compliance with IPSAS.
    - **Pillar II** – Results of the accounting assessment of financial assets and liabilities: recognition procedures in accounting, assessment, and disclosure of information in reporting.
    - **Pillar III** – Results of the accounting assessment of non-financial assets and liabilities: recognition procedures in accounting, assessment, and disclosure of information in reporting of non-financial assets and non-financial liabilities.
    - **Pillar IV** - Results of the assessment of expenses and revenue accounting.
    - **Pillar V** – Results of the assessment of financial reporting and consolidation: procedures for submitting financial reporting and notes to it, accounting of non-controlled legal entities, associations of public sector entities.
    - **Pillar VI** – Results of the evaluation of the effectiveness of PSA systems and the dynamics of PSA reforms, in particular information technology systems for managing the PSA system, the availability of sufficient human resources and accounting organization capabilities, the level of integration between accounting systems and PFM, and the political capacity to carry out PSA reforms.
- **Findings and recommendations** including analysis of key findings and recommendations for further reforms and action planning (short, medium, and long term) to improve the overall effectiveness of the PSA system, reform monitoring, evaluation, and follow-up.

28. The final PULSE report will be published on the website of the MoF and the PULSAR website and will be available to the public without registration and free of charge.

COUNTRY BACKGROUND AND PSA ENVIRONMENT

COUNTRY/JURISDICTION

29. Ukraine is located in Eastern and Central Europe, in the southwestern part of the Eastern European Plain. The total area of the country is 603,550 square kilometers. The population was 41 million[2] as of February 1, 2022. The official language is Ukrainian; the official currency is the Ukrainian hryvnia.

30. Ukraine is an industrial-agrarian country dominated by the production of raw materials and an economy based on various industrial, agricultural, and service sectors. The country is one of the leading exporters of specific types of agricultural products and food products. Industries include mining (coal, oil and gas, iron, and manganese ore), some mechanical engineering, and ferrous and non-ferrous metallurgy. Ukraine is a major producer of electricity, and it also produces satellites and equipment for space exploration.

31. Although the effects of the COVID-19 pandemic were ongoing throughout 2020, 2021, and early 2022, the Government's anti-crisis and stimulus programs allowed it to function successfully under pandemic-induced quarantine restrictions and additional external factors without significant disruption of macro-stability, and with positive economic developments. As a result, Ukraine ended 2021 with a record gross domestic product (GDP) of $200 billion, $6.7 billion in direct foreign investment, and a 34.7% increase in exports of goods and services.[3] These developments made it possible to achieve a real increase of 10.5% in the average nominal salary of full-time employees.[4]

32. According to the World Bank,[5] indicators of the development of the economy of Ukraine in 2022 significantly decreased. In particular, real GDP decreased by 29.1%. The main reason was the Russian full-scale military invasion. A gradual, restrained recovery of Ukraine's economic mechanisms has already been noted through demonstration of a stable electricity supply for the needs of production and the population.

33. Russia has occupied part of Ukrainian territory. Businesses in other regions have suffered significant losses due to destruction and damage to facilities, and have faced interruptions in work and difficulties with the sale of products. Exporters lost part of their revenue due to limited sea transport in the Black Sea. Businesses focused on the domestic market suffered a drop in demand for their

2 http://db.ukrcensus.gov.ua/PXWEB2007/ukr/news/op_popul.asp
3 https://index.minfin.com.ua/ua/economy/
4 https://ukrstat.gov.ua/operativ/operativ2005/gdn/tznr/tznr_u/tznr_u_bez.htm
5 https://www.worldbank.org/en/news/press-release/2023/04/06/russian-invasion-of-ukraine-and-cost-of-living-crisis-dim-growth-prospects-in-emerging-europe-and-central-asia

products, disruptions to production processes, and disruptions to supply chains. The demand for goods and services decreased, in part due to the forced migration of millions of Ukrainians to neighboring countries.

34. Despite this, the economy of Ukraine has demonstrated high adaptability in wartime conditions. Most businesses have continued to operate, reducing volume and increasing capacity and flexibility. The agricultural and energy sectors continue to meet the demand, ensuring the efficiency of other industries. This contributes to the stable operation of the information technology (IT) sector, the trade industry, and the service sector, etc. The war is responsible for enormous damage and losses to the Ukrainian economy; however, its development continues.

35. Such results have been achieved by taking complex measures: budgetary support programs, new tax policy, fixing the hryvnia exchange rate, freezing tariffs for the population, and others. This became possible thanks to financial assistance from international partners, which in 2022 amounted to 32.7 billion dollars. The United States provided grants of 14.3 billion dollars. Enterprises of all types experienced difficult conditions but adapted and continued to operate. As a result, according to the estimates of the Ministry of Economy, the fall of the composite index of production at the end of 2022 was estimated at 37.6% (4% growth in 2021); GDP reduction estimated at 29.2%. This is the worst result since independence; however, it was possible to avoid even worse estimates by experts of a fall in GDP of 40-50% or more.[6]

36. Ukraine's efforts received the support of the international community. On June 23, 2022, the European Council adopted a decision to grant Ukraine the status of a candidate for membership of the European Union. Further preparation for will involve alignment with the EU acquis in all areas, including PSA.

THE STRUCTURE OF THE PUBLIC SECTOR

37. Ukraine is a parliamentary-presidential republic, a unitary state. According to the Constitution of Ukraine, state power consists of the legislative, executive, and judicial branches. The only body of legislative power in Ukraine is the Verkhovna Rada (Parliament). Local self-government bodies through their decisions approve the budgets of the relevant territorial administrative units and set local taxes and fees. Justice in Ukraine is administered exclusively by courts.

38. The system of central executive bodies consists of ministries and other central bodies. The highest body in the system of executive power is the Cabinet of Ministers. Ministries ensure the formation and implementation of state policy in one or more areas, other central executive bodies perform certain functions of state policy implementation.

39. The state participates in the formation of budgets of local self-government bodies and provides financial support to local self-government bodies. Executive power in regions and districts is exercised by local state administrations. United territorial communities are managed by an executive committee, which is elected every five years by the residents of the community and is accountable to them.

40. Territorial communities of villages, towns, or cities (directly or through local self-government bodies) manage property in

6 https://www.me.gov.ua/Documents/List?lang=uk-UA&id=010de307-2345-4162-b5e5-1dd8b2f81d10&tag=OgliadEkonomichnoiAktivnosti

communal ownership, approve programs of socio-economic and cultural development and exercise control over their use, approve the budgets of the relevant administrative-territorial units and monitor their implementation, and set local taxes and fees in accordance with the law.

41. According to the Budget Code, the budget system of Ukraine is a combination of the state budget and local budgets, built considering economic relations, state and administrative-territorial systems; it is regulated by legal norms.

42. All budgetary institutions are included in the Unified State Register of Enterprises and Organizations of Ukraine. Managers of budget funds are budget institutions represented by their heads, authorized to receive budget allocations, make budget commitments, and make budget expenditures. According to the scope of granted rights, managers of budget funds are divided into main managers of budget funds and managers of budget funds of a lower level.

43. Thus, there is subordination between the subjects of the public sector (the network of the spending units) in the state budget of Ukraine. A spending unit's network is the exhaustive information about budget entities grouped by the spending unit in accordance with the law, such budget entities being subordinate to and coordinated by the spending unit, as well as about budget recipients.

PSA REFORM

44. The main objective of PSA reform is to improve the quality, reliability, consistency, and interoperability of public finance information to ensure its relevance and usefulness.

45. The government declared political support for the reform and modernization of accounting in Ukraine by the Decision on the Reform of Accounting in the Public Sector. As a result of the implementation of the PSA and PFM strategies, several measures have been taken to improve the accounting system in the public sector, for example:

- 20 NPSAS (**Table 3**) have been approved, more than 80% of which correspond to IPSAS and are based on compliance with the accrual method.
- Methodological recommendations and other regulatory legal acts on accounting and financial reporting in the public sector were developed and approved. They include explanations of the specifics of the application of the provision of NPSAS, which contributes to a high level of practical adaptation of the new conceptual framework of accounting in the public sector.
- The CoA PSA was approved by Order of the MoF No. 1203 of December 31, 2013, and implemented in practice. It contains sub-accounts for displaying accounting information about budget execution, budget funds, mandatory state social and pension insurance funds, and a practical guidance for use of sub-accounts to reflect transactions with assets, capital, and liabilities of public sector entities. The transition of the Treasury to the CoA PSA made it possible to automatically summarize information on the implementation of budgets.
- An e-reporting system was implemented for submission of the financial statements to the STSU in electronic form for optimization of the process of collection, further processing, and consolidation of the financial statements of public sector entities.
- The general consolidated financial statement in the public sector was

introduced in accordance with the requirements of NPSAS. It can provide systematic information on the general property state and results of activities of budget entities, mandatory state social and pension insurance funds, and budget execution.

46. A significant achievement, part of the Modernization Strategy, is the introduction of systematic training for public sector employees providing accounting services. A special online professional certification/training program, Accounting in Public Sector Institutions and Organizations According to National Standards, was approved by Order of the MoF No. 368 of November 9, 2022, on Approval of the Training Program. In 2023, 449 accounting services employees underwent advanced training under this program.

47. PSA reform is based on the indirect adoption of the IPSAS system and received a high evaluation by international experts. A 2019 Public Expenditures and Financial Accountability assessment scored indicators related to the accounting and reporting system in the public sector (PI-27 "Integrity of financial data", PI-29 "Annual financial reports") B+, an improved score compared to 2016.

48. The World Bank reports on two recent projects recognized effective work on improving PSA. The projects related to (i) a diagnostic of the public sector accounting system during 2017-2018 and (ii) strengthening the management of state resources including improvement of the accounting regulatory framework in accordance with international standards in 2020-2021. They identified that most IPSAS were considered during the development of NPSAS and international experts assessed that NPSAS was more than 80 percent compliant with the norms of IPSAS.

Table 3. List of adopted NPSAS based on IPSAS

National provisions (standards) of accounting in the public sector	IPSAS used in the development of national regulations (standards)
101 Presentation of Financial Statements (MoF Order No. 1541 of February 28, 2009)	▪ 1 Presentation of Financial Statements; ▪ 2 Cash Flow Statements; ▪ 14 Events after the Reporting Date; ▪ 20 Related Party Disclosures; ▪ 24 Presentation of Budget Information in Financial Statements
102 Consolidated Financial Statements (MoF Order No. 1629 of December 24, 2010)	▪ 6 Consolidated Financial Statements and Accounting for Controlled Entities ▪ 22 Disclosure of Financial Information About the General Government Sector
103 Segmented Financial Reporting (MoF Order No. 1629 of December 24, 2010)	▪ 18 Segmented Reporting
105 Financial Reporting in Hyperinflationary Economies (MoF Order No. 52 of January 25, 2012)	▪ 10 Financial Reporting in Hyperinflationary Economies

National provisions (standards) of accounting in the public sector	IPSAS used in the development of national regulations (standards)
121 Property, Plant and Equipment (MoF Order No. 1202 of October 12, 2010)	▪ 17 Property, Plant and Equipment
122 Intangible Assets (MoF Order No. 1202 of October 12, 2010)	▪ 31 Intangible assets
123 Inventories (MoF Order No. 1202 of October 12, 2010)	▪ 12 Inventories
124 Revenue (MoF Order No. 1629 of December 24, 2010)	▪ 9 Revenue from Exchange Transactions ▪ 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)
125 Changes in Accounting Estimates and Correction of Errors (MoF Order No. 1629 of December 24, 2010)	▪ 3 Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies
126 Leases (MoF Order No. 1629 of December 24, 2010)	▪ 13 Leases
127 Impairment of Assets (MoF Order No. 1629 of December 24, 2010)	▪ 21 Impairment of Non-Cash-Generating Assets ▪ 26 Impairment of Cash-Generating Assets
128 Liabilities (MoF Order No. 1629 of December 24, 2010)	▪ 19 Provisions, Contingent Liabilities and Contingent Assets
129 Investment Property (MoF Order No. 1629 of December 24, 2010)	▪ 16 Investment Property
130 The Effects of Changes in Foreign Exchange Rates (MoF Order No. 1022 of August 11, 2011)	▪ 4 The Effects of Changes in Foreign Exchange Rates
131 Construction contracts (MoF Order No. 1798 of December 29, 2011)	▪ 11 Construction contracts
132 Employee Benefits (MoF Order No. 1798 of December 29, 2011)	▪ 25 Employee Benefits
133 Financial Investments (MoF Order No. 568 of May 18, 2012)	▪ 8 Financial Reporting of Interests in Joint Ventures ▪ 7 Accounting for Investments in Associates
134 Financial instruments (MoF Order No. 568 of May 18, 2012)	▪ 15 Financial Instruments: Disclosure and Presentation
135 Expenses (MoF Order No. 568 of May 18, 2012)	▪ 5 Borrowing Costs
136 Biological assets (MoF Order No. 943 of November 15, 2017)	▪ 27 Agriculture

49. Further PSA reform is being carried out within the framework of the PSA Strategy to 2025, the tasks of which are:

- Improve the legal framework for accounting and financial reporting, for example, providing a translation into Ukrainian of IPSAS to implement their provisions in NPSAS, further develop NPSAS based on IPSAS, change the NPSAS in line with changes in IPSAS, take account of changes in national legislation, and develop methodological recommendations for NPSAS. Work to clarify the provisions of NPSAS and update them in accordance with changes in IPSAS is underway.
- Improve the accounting system, for example, ensuring the Treasury information and analytical system is adapted to apply the CoA PSA, and including a link between accrual-based accounting and budgeting.
- Increase the transparency and quality of financial reporting, for example, determining the structure of consolidation of financial reporting to optimize the costs of information processing and ensuring the improvement of the quality of financial reporting; and ensuring the implementation of internal control over accounting and financial reporting.
- Build capacity of PSA staff, for example improving the system to train and improve the skills of employees of accounting services, conducting seminars and training on accounting and financial reporting, establishing an evaluation model for the work of the chief accountant of a public sector entity, and introducing a new model of accounting services for public sector entities. Skill development activities for PSA staff is underway in budget institutions.
- Improve the availability and use of data, for example by introducing an information and analytical system for accounting and financial reporting by public sector entities.

RESULTS

50. The PULSE methodology determines compliance with international standards and good global practices of state regulation of the accounting system. It was used to assess the quality of regulatory support for PSA in Ukraine, the state of its actual implementation, and the quality of the organizational processes and reforms. The results show a high level of development of the system of accounting support for the management of the public sector.

51. For each indicator, the score considers between two and four dimensions, which are averaged to obtain an overall score for the indicator. Each dimension is scored separately on a four-point ordinal scale: A, B, C, or D, according to precise criteria established for each dimension. To justify a particular score for a dimension, every aspect specified in the scoring requirements must be fulfilled. If the requirements are only partly met or the criteria are not satisfied, a lower score is given that coincides with achievement of the requirements for the lower performance rating. High scores were obtained across all pillars of the PULSE methodology (**Table 4**). More than 80 percent of conceptual level of indicators were in the A to C range, with over 70 percent of the scores at A and B. This illustrates that the provisions of the regulatory documents governing PSA in Ukraine correspond fully or significantly to the standards of IPSAS for the majority of essential indicators.

52. Each pillar scored well in the assessment (**Table 5**), indicating the thoroughness of the approach to the development of regulation of PSA in Ukraine. Each assessment in the PULSE system is confirmed by a link to government websites where relevant legal documents are posted.

Table 4. Score distribution summary of the assessment of Ukraine's

Assessment marks	Conceptual level		Actual level	
	Number	Specific weight, %	Number	Specific weight, %
A	54	52.94	33	42.86
B	18	17.65	15	19.48
C	10	9.80	10	12.99
D	8	7.84	8	10.39
NA	12	11.76	11	14.29
Total	**102**	**100**	**77**	**100**

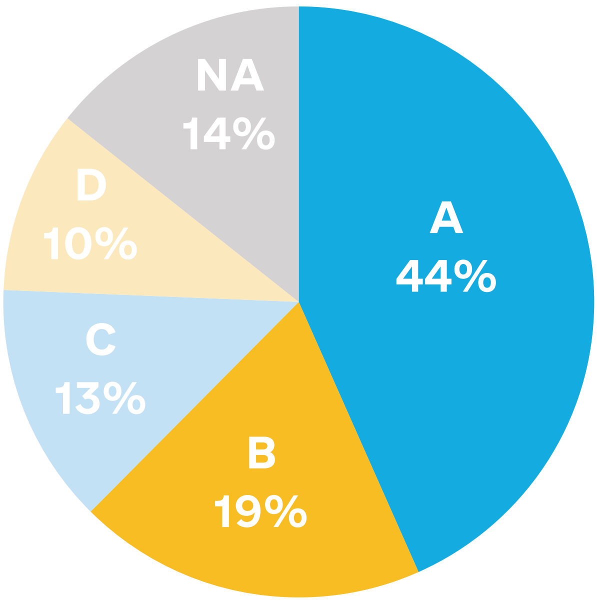
Table 5. Assessment summary by pillar

Areas evaluated	Conceptual level	Actual level
Pillar I. PSA Framework	A	-
Pillar II. Financial assets and liabilities	C+	C+
Pillar III. Non-financial assets and liabilities	B+	B+
Pillar IV. Expenses and revenue recognition	B+	B+
Pillar V. Financial reporting and consolidation	B+	B+
Pillar VI. Reform prerequisites and capacities	A	-

Note: The actual level scores were not required for Pillars I and VI.

53. In general, the scores at pillar level are quite high (**Figure 2**). This reflects that all key components of the financial and economic activity of public sector entities that were assessed have an approved methodology and method of accounting and clear explanations of how to apply NPSAS. Where indicators have scored NA, that was mainly because the requirements under IPSAS were not applicable to the activities of Ukrainian public sector entities, or their application is limited by the Budget Code regulations. Among main accounting items that received low ratings are financial instruments that are used only at the level of the central Government, payments of non-state pensions and programs, which do not exist in the public sector of Ukraine. These operations, however, are not affecting budget execution and the system of pension provision and social payments is implemented according to a clearly defined budget methodology.

Figure 2. Breakdown of PULSE assessment scores



PILLAR I. PSA FRAMEWORK

54. Pillar I assesses whether the PSA and NPSAS framework for public sector reporting entities is in accordance with the conceptual framework of IPSAS (IPSAS 3: Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, IPSAS 4: The Effects of Changes in Foreign Exchange Rates, IPSAS 10: Financial Reporting in Hyperinflationary Economies, and IPSAS 14: Events After the Reporting Date).

55. The assessment of NPSAS (NPSAS 101: Presentation of Financial Statements, NPSAS 102: Consolidated financial statements, NPSAS 125: Changes in Accounting Estimates and Correction of Errors, NPSAS 130: The Effects of Changes in Foreign Exchange Rates) compliance with the requirements of IPSAS was given a high rating (see Table 6). NPSAS approved the need to comply with all qualitative characteristics of financial reporting, elements of accounting and requirements for reflecting transactions with foreign currency in accounting, as well as requirements for the formation and compliance accounting policy, conducting assessments, and correcting errors.

56. Pillar I was assessed only at the conceptual level in accordance with the requirements of the PULSE assessment methodology.

Table 6. Results of the Assessment of the Indicators of Pillar I: PSA Framework

Indicators	Rating
	Conceptual level
Pillar I.	**A**
PI-1. Conceptual framework	**A**
Dimension 1.1 – Qualitative Characteristics	A
Dimension 1.2 – Reporting entity	A
Dimension 1.3 – Elements	A
PI-2. Accounting policies, estimates, errors, and events after the reporting date	**A**
Dimension 2.1 – Accounting policies	A
Dimension 2.2 – Estimates	B
Dimension 2.3 – Errors	A
Dimension 2.4 – Reporting of events after reporting date	A
PI-3. Foreign currency transactions and hyperinflation effects	**A**
Dimension 3.1 – Initial recognition of exchange differences resulting from foreign currency transactions	A
Dimension 3.2 – End of year reporting of foreign currencies transactions	A
Dimension 3.3 – Compliance with hyperinflation requirements	NA

57. NPSAS 105 "Financial Reporting in Hyperinflationary Economies" was approved in Ukraine but the economic environment is not currently classified as hyperinflationary, so dimension 3.3 is NA (not applicable).

PILLAR II. FINANCIAL ASSETS AND LIABILITIES

58. Pillar II assesses whether public sector reporting entities recognize, measure, present, and disclose financial assets and liabilities in accordance with IPSAS (IPSAS 5: Borrowing cost, IPSAS 28: Financial Instruments–Presentation, IPSAS 30: Financial Instruments–Disclosures, and IPSAS 41: Financial Instruments).

59. The assessment of NPSAS (NPSAS 134: Financial instruments) compliance with the requirements of IPSAS was given a C+ rating (**Table 7**).

60. It should be noted that the relatively lower scores for Pillar II (in comparison to other Pillars) are because the current budget legislation of Ukraine limits the implementation of certain operations. In particular, Art. 16 of the Budget Code forbids budget institutions from borrowing in any form (except as set out in the Budget Code) and does not allow loans from the budget to legal entities or individuals unless appropriate

Table 7. Results of the Assessment of the Indicators of Pillar II: Financial Assets and Liabilities

Indicators	Rating	
	Conceptual level	Actual level
Pillar II.	**C+**	**C+**
PI-4. Financial assets	**C**	**C**
Dimension 4.1 – Short-term receivables at cost	B	B
Dimension 4.2 – Financial assets at amortized cost	C	C
Dimension 4.3 – Financial assets at fair value through surplus and deficit	C	C
Dimension 4.4 – Financial assets at fair value through net assets/equity	D	D
PI-5. Financial liabilities	**C+**	**C+**
Dimension 5.1 – Short-term payables at cost	B	B
Dimension 5.2 – Financial liabilities at amortized cost	B	B
Dimension 5.3 – Financial liabilities at fair value through surplus and deficit	C	C
Dimension 5.4 – Financial liabilities with other bases of measurement	D	D
PI-6. Derivatives, hedge accounting, loss allowance and borrowing cost	**C+**	**C+**

Indicators	Rating	
	Conceptual level	Actual level
Dimension 6.1 – Derivative instruments	C	C
Dimension 6.2 – Hedge accounting	C	C
Dimension 6.3 – Loss allowance	NA	NA
Dimension 6.4 – Borrowing costs	A	A
PI-7. Presentation, offsetting, and disclosures	**C+**	**C+**
Dimension 7.1 – Representation	A	A
Dimension 7.2 – Offsetting	C	C
Dimension 7.3 – Disclosures relating to significance of financial instruments	D	D
Dimension 7.4 – Risk management disclosures	C	C

budget assignments for granting such loans have been established. Thus, financial obligations at the level of public sector entities are quite limited.

61. NPSAS contain provisions on the regulation of accounting for transactions with financial instruments, as well as receivables and payables, and they consider the specifics and limitations inherent in the financial activities of public sector entities.

62. NPSAS 134 defines the procedure for accounting for short-term receivables valued at cost, as well as financial assets held by a public sector entity until their maturity, accounted for at amortized cost. The requirements of this standard regarding recognition, initial and subsequent evaluation, and termination of recognition correspond to the provisions of international standards. The method of calculating the amortized cost is provided in NPSAS 133: Financial Investments and complements the provisions of NPSAS 134. However, NPSAS 134 does not provide for the creation of a reserve for doubtful debts, which is an element of further assessment. This is because the current budget legislation of Ukraine establishes strict restrictions and developed control activities to avoid untimely repayment of receivables of public sector entities.

63. In terms of accounting for financial assets accounted for at fair value with revaluation due to income and expenses, NPSAS 134 contains requirements for recognition of this type of financial assets, their initial and subsequent valuation, and termination of recognition. However, the standard does not provide for revaluation of this financial asset using fair value. In accordance with the requirements of NPSAS 134, on each balance sheet date following recognition, financial assets are shown at their cost. This standard regulates the procedure for recognizing losses from the impairment of financial assets.

64. An assessment of the requirements for accounting for financial assets that are accounted for at fair value with revaluation through net assets indicates that these assets

are recognized based on the relevant contract to which the public sector entity is a party, as well as the procedure for initial measurement. This is because the financial instruments are initially measured and recorded at their actual cost, which consists of the value of the entity's assets, liabilities or equity instruments given or received in exchange for the relevant financial instrument, and costs that are directly related to the acquisition or disposal of the financial instrument. At the same time, there is no provision for revaluation at fair value due to changes in equity. However, these provisions are the main characteristics of the accounting of financial assets according to the revaluation model due to changes in equity.

65. The requirements of NPSAS 134 for accounting for short-term payables accounted for at cost, as well as financial liabilities accounted for at amortized cost, are fully in line with the provisions of IPSAS and the PULSE assessment criteria, except for the requirements for derecognition. In NPSAS 134, there is no possibility of termination of recognition of obligations in connection with refusal to fulfill them.

66. Regarding the accounting of financial liabilities, which are accounted for at fair value with revaluation due to income and expenses, significant differences were observed in the part of the assessment of this type of liabilities. NPSAS does not provide for revaluation of such financial obligations. As for financial obligations accounted for at amortized cost, there is no possibility of the derecognition due to contractual obligation is waived.

67. NPSAS 134 does not contain provisions for creating a reserve for losses for financial obligations, nor for assessment at the original amount after deducting the cumulative amount of amortization of any income of future periods. That is why, in the presence of the procedure for recognition, initial and subsequent assessment, and conditions for termination of recognition, the assessment of the compliance of the accounting of financial obligations according to other assessment models is low. The score for dimension 5.4 is D.

68. It is important to note that NPSAS 134 contains requirements for accounting for derivatives and hedging operations (measures 6.1 and 6.2). Moreover, the level should be assessed as sufficient for the public sector of Ukraine: all basic, additional requirements for hedge accounting, and partial requirements for objects and hedging relationships are provided for in NPSAS 134. The assessment related to derivative financial instruments is fixed at level C in the absence of a requirement for:

- Revaluations at fair value.
- Derecognition of such instruments due to refusal to perform the contract.

69. NPSAS 134 does not provide for the creation of a reserve for doubtful debts. This is because the current budget legislation of Ukraine establishes strict restrictions and developed control activities to avoid untimely repayment of receivables of public sector entities. For that reason, dimension 6.3 is NA.

70. The procedure for accounting for loan expenses is approved in NPSAS 135: Expenses. All requirements of the standard comply with the provisions of IPSAS 5, as well as the provisions of the PULSE methodology assessment, which assessed dimension 6.4 as A.

71. The provisions on the content and methods of disclosure of information about financial instruments are presented in Chapter VI "Disclosure of information about financial instruments in the notes to financial statements" of NPSAS 134. The requirements for the disclosure of transactions with financial instruments fully comply with IPSAS, as well as the requirements of the PULSE methodology assessment.

72. The rules for mutual offsetting of a financial asset and financial liability are not sufficiently disclosed in NPSAS 134. There are two out of five requirements for a detailed presentation of the characteristics of offset operations (dimension 7.2 – score C). The requirements of NPSAS 134 in terms of disclosure of information on significant transactions with financial instruments are straightforward. They include: (i) a short statement of relevant accounting policies; (ii) the basis of assessment used in the preparation of financial statements; and (iii) other accounting policies that are relevant for understanding of financial statements.

73. Information on risk management activities is provided for disclosure by the provisions of NPSAS 134 but only at general level and for special disclosure requirements on information about credit risk.

PILLAR III. NON-FINANCIAL ASSETS AND LIABILITIES

74. Pillar III is concerned with accounting for nonfinancial assets and liabilities in financial statements in accordance with IPSAS (IPSAS 12: Inventories, IPSAS 13: Leases, IPSAS 16: Investment Property, IPSAS 17: Property, Plant and Equipment, IPSAS 19: Provisions, Contingent Liabilities, and Contingent Assets, IPSAS 21: Impairment of Non-Cash-Generating Assets, IPSAS 26: Impairment of Cash-Generating Assets, IPSAS 27: Agriculture, IPSAS 31: Intangible Assets, IPSAS 32: Service Concession Arrangements: Grantor, IPSAS 33: First Time Adoption of Accrual Basis IPSAS, and IPSAS 39: Employee Benefits). Those IPSAS provide overarching principles that fundamentally define what properties should be considered nonfinancial assets and under which circumstances a nonfinancial liability is present. contains an analysis of compliance with the system of accounting and reporting of non-financial assets and liabilities, including the procedures for recognition, measurement, valuation, and disclosure of information on non-financial assets and liabilities.

75. The assessment of NPSAS (NPSAS 121: Property, Plant and Equipment, NPSAS 122: Intangible Assets, NPSAS 123: Inventories, NPSAS 126: Leases, NPSAS 127: Impairment of Assets, NPSAS 128: Liabilities, NPSAS 132: Employee Benefits, and NPSAS 136: Biological assets) compliance with the requirements of IPSAS received high scores (**Table 8**). The set of national standards governing the accounting of non-financial assets is largely in accordance with IPSAS.

Table 8. Results of the Assessment of the Indicators of Pillar III: Non-Financial Assets and Liabilities

Indicators	Rating	
	Conceptual level	Actual level
Pillar III.	**B+**	**B+**
PI-8. Inventories	**A**	**A**
Dimension 8.1 – Definition and recognition	A	A
Dimension 8.2 – Measurement	A	A

Indicators	Rating	
	Conceptual level	Actual level
Dimension 8.3 – Disclosure	A	A
PI-9. Biological assets	**A**	**A**
Dimension 9.1 – Definition and recognition	A	A
Dimension 9.2 – Measurement	A	A
Dimension 9.3 – Disclosure	A	A
PI-10. Leases	**A**	**A**
Dimension 10.1 – Definition and classification	A	A
Dimension 10.2 - Recognition from the perspective of lessor and lessee	A	A
Dimension 10.3 – Measurement (Finance Lease)	A	A
Dimension 10.4 – Disclosure	B	B
PI-11. Property, plant and equipment - recognition and measurement	**A**	**A**
Dimension 11.1 – Definition and recognition	A	A
Dimension 11.2 – Initial measurement	A	A
Dimension 11.3 – Subsequent measurement: Cost model	A	A
Dimension 11.4 – Subsequent measurement: Revaluation mode	A	A
PI-12. Property, plant and equipment - First time adoption and depreciation	**B**	**B**
Dimension 12.1 – Measurement at first time adoption	D	D
Dimension 12.2 – Depreciation	A	A
Dimension 12.3 - Disclosure	B	B
PI-13. Intangible assets	**A**	**A**
Dimension 13.1 – Definition and recognition	A	A
Dimension 13.2 – Initial measurement	A	A
Dimension 13.3 – Subsequent measurement	A	A
Dimension 13.4 – Disclosure	B	B

Indicators	Rating	
	Conceptual level	Actual level
PI-14. Service concessions	**NA**	**NA**
Dimension 14.1 – Definition and recognition: control of asset by grantor	NA	NA
Dimension 14.2 – Recognition of liability	NA	NA
Dimension 14.3 – Recognition of guarantees made by a grantor	NA	NA
PI-15. Impairment	**B**	**B**
Dimension 15.1 – Identification and recognition	A	A
Dimension 15.2 – Measurement	B	B
Dimension 15.3 – Loss reversal	B	B
Dimension 15.4 – Disclosure	C	C
PI-16. Provisions, contingent liabilities, and contingent assets	**C**	**C**
Dimension 16.1 – Definition and recognition of provisions and contingent liabilities	D	D
Dimension 16.2 – Definition and disclosure of contingent assets	A	A
Dimension 16.3 – Estimation of provisions	NA	NA
Dimension 16.4 – Disclosures in respect of provisions and contingent liabilities	D	D
PI-17. Employee benefits	**B**	**B**
Dimension 17.1 – Short-term benefits	A	A
Dimension 17.2 – Defined benefit plans	NA	NA
Dimension 17.3 – Other long-term employee benefits	NA	NA
Dimension 17.4 – Termination benefits	C	C

76. The main features that should be noted on the basis of the analysis are the presence of one model for the further evaluation of investment real estate, the actual cost, as well as a more optimized list of provisions that are subject to disclosure in financial statements (score B in dimensions 10.4, 12.3).

77. It should be noted that there is no procedure in NPSAS regarding the transition to the application of IPSAS norms, since the NPSAS are applied. NPSAS 121 provides for the use of notional value in the absence of an active market, as well as in the case of using the powers of confiscation and free

transfer. This aspect reflects the possibility of evaluating fixed assets in the conditions of the transition to the application of NPSAS by entities that previously followed a different conceptual basis of accounting.

78. In the functioning of the public sector of Ukraine there are no norms regarding the conduct of concession operations. For this reason, PI-14 is NA.

79. Provisions on the accounting of impairment transactions, NPSAS 127, generally meet the requirements of IPSAS, as well as the requirements of the PULSE PI-15: Impairment assessment method. Separate depreciation procedures are provided for assets that provide cash flow and non-cash flow assets. While the information subject to disclosure in financial statements is less detailed in NPSAS, this does not affect the completeness of the disclosure of material information for users.

80. Since the budget legislation does not provide for the creation of any provisions, and the results of the budget execution are evaluated within the calendar year, there are no specific procedures in NPSAS 128 regarding the creation, recognition, assessment of reserves for liabilities, and disclosure about their condition and changes during the reporting period. These limitations were the main reasons for the relatively low scores for dimensions 16.1, 16.3, and 16.4.

81. There are significant differences in the rules governing the accounting of employee benefits. NPSAS 132 is focused on short-term payments in terms of wages. It is not possible to reflect in accounting operations the implementation of non-state pension plans of various types and severance payments, since such activities are not relevant to public sector institutions of Ukraine.

PILLAR IV. EXPENSES AND REVENUE RECOGNITION

82. Pillar IV assesses whether public sector reporting entities recognize, measure, present, and disclose expenses and revenues in accordance with IPSAS (IPSAS 9: Revenues from Exchange Transactions, IPSAS 23: Revenues from Non-Exchange Transactions (Taxes and Transfers), and IPSAS 42: Social Benefits).

83. The assessment of NPSAS (NPSAS 124: Revenues) compliance with the requirements of IPSAS has an overall score of B+ (**Table 9**).

Table 9. Results of the Assessment of the Indicators of Pillar IV: Expenses and Revenue Recognition

Indicators	Rating	
	Conceptual level	Actual level
Pillar IV.	**B+**	**B+**
PI-18. Exchange transactions	**A**	**A**
Dimension 18.1 – Rendering of services	A	A
Dimension 18.2 – Sale of goods	A	A
Dimension 818.3 - Interest, royalties, and dividends or similar distributions	B	B

Indicators	Rating	
	Conceptual level	Actual level
PI-19. Revenue from non-exchange transactions	**B**	**B**
Dimension 19.1 – Tax revenues	B	B
Dimension 19.2 – Transfer revenues	A	A
Dimension 19.3 – Revenue or liability recognition	D	D
Dimension 19.4 – Measurement of non-exchange revenue	A	A
PI-20. Social benefits	**NA**	**NA**
Dimension 20.1 – Scope	NA	NA
Dimension 20.2 – Recognition and measurement	NA	NA
Dimension 20.3 – Disclosure	NA	NA

84. Income and expenses in the activities of public sector entities are recognized based on the accrual principle. This fully complies with the requirements of IPSAS 9 and IPSAS 23. The evaluation showed that in NPSAS 124, the conditions regarding the recognition, evaluation, and accounting of income from non-exchange transactions in the part of recognition of liabilities are more precisely set forth in Dimension 19.3. There are no provisions regarding the detailed conditions for recognition of transactions as liabilities or income: acceptance of liabilities by the recipient; essence and meaning of conditions; the need to take into account not only the form, but also the content of such a transaction; and the possibility of applying the present value of the liability.

85. There are no NPSAS regarding the accounting of social benefits in Ukraine, which determined the score of NA for the measurement of PI-20.

PILLAR V. FINANCIAL REPORTING AND CONSOLIDATION

86. Pillar V assesses whether public sector reporting presents financial reports in accordance with IPSAS (IPSAS 1: Presentation of Financial Statements, IPSAS 2: Cash Flow Statements, IPSAS 18: Segment Reporting, IPSAS 20: Related Party Disclosures, IPSAS 24: Presentation of Budget Information in Financial Statements, IPSAS 35: Consolidated Financial Statements, IPSAS 36: Investments in Associates and Joint Ventures, IPSAS 37: Joint Arrangements, IPSAS 38: Disclosure of Interest in Other Entities, and IPSAS 40: Public Sector Combinations).

87. The assessment of NPSAS (NPSAS 101: Presentation of Financial Statements, NPSAS 102: Consolidated Financial Statements, NPSAS 103: Segmented Financial Reporting, NPSAS

133: Financial Investments) compliance with the requirements of IPSAS has an overall score of A (**Table 10**). NPSAS include all the minimum items defined in IPSAS, i.e., the Balance Sheet (form No. 1-ds), the Statement of Financial Results (form No. 2-ds), the Statement of Cash Flows (form No. 3-ds), the Statement of Equity (form No. 4-ds) and Notes to the Annual Financial Statements (form No. 5-ds).

88. It should be noted that the order of the MoF No. 977 of November 29, 2017, approved the standard form No. 5-ds " Notes to the Annual Financial Statements," which discloses the specific accounting policy, as well as the information required by other NPSAS. Since the Notes to the Annual Financial Statements do not disclose the conformity of IPSAS or the difference between NPSAS and IPSAS, the score for dimension 22.1 is B.

89. The analysis showed that in accordance with the requirements of NPSAS 101, financial reporting contains information on the initial and actual budget and their comparison (Chapter III of form No. 2-ds), and disclosure of principles and methodological principles of information formation. The disclosure of information about revenues, expenses, financial results, assets, and liabilities of reporting segments and their presentation

Table 10. Results of the Evaluation of the Indicators of Pillar V: Financial Reporting and Consolidation

Indicators	Rating	
	Conceptual level	Actual level
Pillar V.	**B+**	**B+**
PI-21. Presentation of financial statements	**A**	**A**
Dimension 21.1 – Degree of completeness: statement of financial position	A	A
Dimension 21.2 – Degree of completeness: statement of financial performance	B	B
Dimension 21.3 – Degree of completeness: statement of changes in net assets/equity	A	A
Dimension 21.4 – Degree of completeness: cash flow statement	A	A
PI-22. Notes	**B+**	**B+**
Dimension 22.1 - Notes	B	B
Dimension 22.2 – Degree of completeness: budget information	A	A
Dimension 22.3 – Segment reporting	B	B
Dimension 22.4 – Key management personnel	NA	NA

Indicators	Rating	
	Conceptual level	Actual level
PI-23. Accounting for non-controlled entities and public sector combinations	**B**	**B**
Dimension 23.1 – Associates and joint ventures/ Equity method	B	B
Dimension 23.2 – Joint operations	A	A
Dimension 23.3 – Public sector combinations	C	C
PI-24. Consolidated financial statements	**B+**	**B+**
Dimension 24.1 – Reporting scope and investment entities	A	A
Dimension 24.2 – Consolidation procedures	A	A
Dimension 24.3 – Transactions between related parties	B	B
Dimension 24.4 – Disclosures of interests in other entities	C	C

in financial reporting in accordance with NPSAS 103 meets the requirements defined in IPSAS, therefore, the assessments are based on dimensions 22.2 - A. The requirements for disclosure of information by segments do not require the disclosure of pricing mechanisms in transactions between segments - dimension 22.3 "Segment reporting."

90. Dimension 22.4 assesses the extent to which a reporting entity discloses key management personnel in its financial statements as required by IPSAS 20. In Ukraine, there are no requirements for a similar level of disclosure of information about related parties in financial reporting. However, the submission of declarations of persons authorized to perform the functions of the state or local self-government, in accordance with Art. 45 of the Law "On Prevention of Corruption" is provided for. Therefore dimension 22.4 is NA.

91. In terms of presentation of information about transactions between related parties (dimension 24.3), NPSAS 101 requires information on the types and volumes of transactions (amount or share in the total volume) to be provided in the notes to the financial reporting related parties and the nature of the relationship between such related parties; amounts of receivables and payables for transactions of related parties. This amount of information is evaluated according to the PULSE method and scores B.

92. In Ukraine, there is limited disclosure of transactions between related parties including controlled or significantly influencing entities or persons (for example, key management personnel), are not reflected in the accounting. NPSAS 102 defines that in the accounting and in the financial statements of the controlling entity of the public sector,

contributions to the authorized capital of enterprises of the state and communal sectors of the economy are reflected as financial investments. Considering the above, the score for dimension 24.4 is C.

93. In Ukraine, in accordance with NPSAS 133, investments in associated and joint ventures are accounted for using the equity method with compliance with the basic procedure for adjusting the book value of the investment. In addition, NPSAS 133 regulates the accounting of joint agreements that require the unanimous consent of the parties and grant rights to assets and obligations to liabilities, are accounted for the recognition and assessment of each asset, liability, income, and expenses in accordance with its shares of participation in the joint operation. According to the results of the analysis of the evaluation for dimension 23.1, the score is B.

94. There is no separate NPSAS, based on IPSAS 40, regarding accounting and reporting of merger procedures in the public sector. The score for the dimension "Association in the public sector" is therefore C. The mechanism for the implementation of activities related to the formation, reorganization, or liquidation of ministries, other central bodies of executive power and their territorial bodies is determined by the "Procedure for implementation of activities related to the formation, reorganization or liquidation of ministries, other central bodies of executive power," approved by Resolution of the Cabinet of Ministers No. 1074 of October 10, 2011. Recognition and accounting of assets and liabilities arising as a result of mergers in the public sector is carried out in accordance with the requirements of Budget Code, NPSAS, practical guidance for use of sub-accounts to reflect transactions with assets, equity and liabilities of budget entities and state social funds and other regulatory legal acts on accounting in the public sector.

95. Consolidation procedures for the preparation of financial statements in Ukraine are provided for in NPSAS 102, as well as the "Methodological recommendations for the formation of general consolidated financial statements by the State Treasury Service of Ukraine," approved by MoF Order No. 204 of May 5, 2019. All procedures for summarizing reporting indicators are presented in a clear and transparent order, including the exclusion of intra-economic transactions between public sector entities.

96. A significant achievement of the process of forming consolidated financial statements in the public sector of Ukraine is the automation of the processes of generalization of information, as well as the elimination of the influence of intra-economic transactions. This ensures prompt and reliable summarization of reporting indicators.

PILLAR VI. REFORM PREREQUISITES AND CAPACITIES

97. Pillar VI assesses the fundamental prerequisites and opportunities that must be considered for the effective and efficient functioning of PSA systems and the successful implementation of PSA reforms. Pillar VI contains an analysis of five indicators at the conceptual level. The assessment gave an overall score of A (**Table 11**).

98. Indicator PI-25 received a high score of B+. The CoA PSA, effective since January 1, 2017, contains sub-accounts for information about budget execution operations, managers of budget funds, and mandatory state social and pension insurance funds; and can provide comprehensive information necessary for accounting and financial reporting. There is

Table 11. Results of the Assessment of the Indicators of Pillar VI: Reform Prerequisites and Capacities

Indicators	Rating
	Conceptual level
Pillar VI.	**A**
PI-25. Integration with other PFM systems	**B+**
Dimension 25.1 – Multipurpose CoA	B
Dimension 25.2 – Treasury Single Account	A
PI-26. Integrated Financial Management Information Systems	**A**
Dimension 26.1 – Accrual information	A
Dimension 26.2 – Capturing of transactional information	A
Dimension 26.3 – Integration of accounting and PFM systems	B
Dimension 26.4 – Automated consolidation process	A
PI-27. Human resources and capacity	**A**
Dimension 27.1 – Accrual accounting competencies	A
Dimension 27.2 – Professionalization of the PSA function	A
Dimension 27.3 – Appropriate staffing level	A
PI-28. Accounting function	**A**
Dimension 28.1 – Accounting function	A
Dimension 28.2 – Independence of standard-setter	A
Dimension 28.3 – Independence of standard-setting process	A
PI-29. Reform ownership	**A**
Dimension 29.1 – Mandate for reform	A
Dimension 29.2 – Political commitment	A
Dimension 29.3 – Stakeholder involvement	A

a connection between accounts of the PSA and budget classification of income and expenses, although this is currently a partial connection best characterized as indirect it is nevertheless an attempt to systematize classifications in the accounting sector. There are “Recommendations for comparing sub-accounts of accounting income and expenses according to budget classification codes,” provided by letter of the MoF dated December 30, 2016, No. 31-11420-06-5/37851.

99. The score for Dimension 25.2 is A, given the advanced use of the treasury single account in Ukraine. The current control over the use of budget funds is considered effective and transparent, mainly because treasury single account transactions can be tracked and monitored in real time through the website: https://spending.gov.ua/.

100. The integration of IT systems for collecting, recording, and processing information on the method of accrual and information exchange with the auxiliary systems of the PFM (Indicator PI-26), received an A score. Currently, among the software products intended for the automation of accounting, managers of budget funds use exclusively domestic software products for various communications on the use of budget funds (**Table 12**).

101. The software products provide:

- Accounting for entities' transactions using various IT tools for processing information and summarizing it for reporting purposes.
- Calculation of wages and other payments to employees in accordance with the current legislation, etc.
- Automation of accounting for non-financial assets.
- Accounting for cost with specific detailed areas in accordance with the approved budget.
- Accounting for budget funds by the STSU, distribution of amounts, carrying out balancing, control of actual execution the budget, preparation of the budgets, and distribution of expenses.

102. A score of A in PI-27 was achieved as a result of the Standard Regulation on the Accounting Service of a Budgetary Institution (approved by Resolution of the Cabinet of Ministers No. 59 of January 26, 2011), which provides procedures for the appointment of the chief accountant or specialist of a budgetary institution who is entrusted with the tasks and functional duties of

Table 12. Software for the Use of Budget Funds

Stage of use of budget funds	Program content	
	Program	Functions
Planning and implementation of estimated expenses	JSC "E-Kazna"	Combines the following systems and subsystems: operational day; income; costs; reporting; accounting of budgetary institutions; formation and submission of tax reporting; and the processing center for processing utility and other payments
Realization of cash expenses	Software and technical complex "Bank-Bank Client / Treasury-Treasury Client" ("Treasury-Treasury Client")	Remote service of administrators (recipients) of budget funds of state and local budgets "Treasury Client - Treasury"
Submission of reports to the bodies of the STSU	AS "E-Reporting"	Represents a single format for submission of electronic reporting by Treasury clients and is an important step in the modernization of the reporting system in the public sector

the accounting service. The Resolution connects with the Handbook of Qualification Characteristics of Employees' Professions.

103. In addition, the PSA Strategy to 2025 and PFM Strategy to 2025 provide for training activities on the application of national provisions (standards) and improving the qualifications of employees of budget institutions and mandatory state social and pension insurance funds. "On Approval of the Training Program" (MoF Order No. 368 of November 9, 2022) approved the special professional training/certification program "Accounting in Public Sector Institutions and Organizations According to National Standards." This program has already been implemented and 449 people completed training in 2023.

104. The organization of public accounting, as well as the independence of the standard-setting environment in a particular jurisdiction (indicator PI-28) were scored A.

105. Regarding the issue of independence of the environment for setting standards, in accordance with the Law "On Accounting and Financial Reporting in Ukraine," NPSAS are developed on the basis of IPSAS and approved by the MoF, which ensures the formation and implementation of state policy in the field of accounting and audit.

106. NPSAS projects are considered for approval at meetings of the Accounting Methodological Council under the MoF of Ukraine, which is an advisory body on accounting methodology and reporting and improvement of organizational forms and accounting methods. The Methodological Council is formed from highly qualified scientists, specialists of ministries, and other central bodies of executive power, enterprises and institutions, representatives of professional organizations, accountants, and auditors of Ukraine. This procedure determines the consideration of the positions of interested users in the provisions of the standards. The publication of NPSAS drafts and changes to them is carried out in accordance with the Law "On Access to Public Information."

107. The degree of formalization of the Government's intentions to carry out PFM reforms (indicator PI-29) scores A. All steps to implement reforms are approved by relevant regulatory documents. The PFM Strategy to 2025 and PSA Strategy to 2025 are well defined and include implementation plans with deadlines and responsible persons. In this way, the state ensures control over each stage of the implementation of the strategy and the introduction of reforms. The PSA Strategy identifies sources of funding for the actions it defines (responsible state authorities and attracting funds from the European Union and international technical assistance from the World Bank). Its action plan states that responsible persons are determined by the bodies of the executive power of Ukraine. The estimate for the financing of their activities is approved annually with detailed calculations, which includes financing for the implementation of the strategy.

FINDINGS AND RECOMMENDATIONS

108. A key component of PFM reform in Ukraine is improving the mechanism of budget planning, accounting, and reporting, and ongoing effective control over the targeted use of budget funds. The main task of such activities is to ensure efficient management of the state's financial resources, the preservation of state property, and the transition to a resource-saving, socially inclusive economy. Undoubtedly, the development of the accounting system (at all levels) as a source of reliable and timely information is the central tool for achieving these goals.

109. The PULSE assessment of the PSA system confirms the findings of the previously conducted assessment, which was done by the World Bank using Report on the Enhancement of Public Financial Reporting (REPF) methodology: the general assessment of the PSA system of Ukraine, its legislative regulation, reform activities, and their support at the political level, as well as practical implementation of the advanced conceptual foundations of accounting scores are scored at the level B+. Under conditions of martial law, the achieved implementation of planned PSA reforms by the MoF is highly noteworthy. The high score in the PULSE assessment reflects a strong, broad performance over the past eight years.

110. The PULSE assessment found that most IPSAS are transposed into NPSAS and work continues to improve NPSAS: existing provisions are being finetuned, and new NPSAS are being developed on the basis of IPSAS adapted to the context of the public sector in Ukraine. Regulatory enhancements (methodological recommendations and the introduction of the CoA PSA and the procedure for its application) have been introduced to successfully implement the standards in the practice of accounting. An integrated approach made it possible to introduce the new conceptual basis of PSA based on the accrual method, which reflects all existing and receivable assets and repayment of liabilities, that improves the reliability of financial reporting data used to make management decisions in the field of public finances.

111. The current conceptual framework of PSA in Ukraine complies with the IPSAS framework and the best global practices of PSA. Accounting principles and quality characteristics of financial reporting and accounting policy requirements form a reliable basis for credible accounting. This is evidenced by the high (A) evaluations of the indicators of **Pillar I: PSA Framework**.

112. Despite the high level of compliance between the NPSAS and IPSAS, it is necessary to note differences in approach to the accounting of financial instruments. The score of **Pillar II: Financial assets and liabilities** is C+. In general, the methodological principles of accounting of financial instruments largely correspond to IPSAS. But the procedure for the application of fair value in transactions with financial instruments does not. Separate provisions of IPSAS for some types of transactions (accounting for the reserves for

doubtful debts, hedging, separate models of financial assets and liabilities assessment) are not reflected or only partially implemented in the NPSAS due to budget restrictions.

113. The PULSE assessment shows significant correspondence between the basic concepts and principles of accounting for non-financial assets and liabilities in IPSAS and NPSAS, in particular relating to stocks, biological assets, fixed assets, investment real estate, intangible assets, leases. **Pillar III: Non-financial assets and liabilities** is scored B+. Certain operations, such as service concessions, creation of provisions for future obligations, and pension payments within pension plans of various types, are not considered in NPSAS due to peculiarities of national legislation.

114. There is high compliance with IPSAS norms in terms of recognition, assessment, and disclosure of information on income and expenses of public sector entities, including exchange transactions and non-exchange transactions. Indicators related to the accounting of income and expenses (**Pillar IV: Expenses & revenue recognition**) scored B+. However, NPSAS contain less detailed provisions on the recognition of income from non-exchange transactions, compared to the requirements of IPSAS, and there is no national standard for accounting for social benefits, which affected the scores of this section.

115. **Pillar V: Financial reporting and consolidation** was rated B+, demonstrating a high level of compliance of the main financial reports and consolidated financial reporting with the requirements of IPSAS. There was less compliance in the disclosure of information about related parties, reporting on mergers in the public sector and shares of the state's participation in other business entities.

116. Significant progress has been achieved on fundamental prerequisites and capacity for the effective and efficient functioning of the PSA system and successful implementation of PSA reform. **Pillar VI: Reform prerequisites and capacities** was rated A. The level of technical capabilities, the availability of qualified staff for the implementation of the accrual-based PSA reform, and the significant political support for system reform and modernization were noted.

117. The PULSE assessment confirms significant achievements in the development of the new conceptual basis of PSA resulting from administrative commitment and strong support for reform. Factors that have contributed to the success of the reforms include:

- **Political support and willingness to carry out reforms,** evidenced by laws, government decisions, and orders of the MoF. Reform is enshrined in the PFM Strategy to 2025. This includes the key goal of modernization of the accounting system in the public sector, approved by the PSA Strategy to 2025. The Law "On Accounting and Financial Reporting in Ukraine" put NPSAS, developed on the basis of IPSAS, into effect. The improvement of NPSAS in accordance with IPSAS is also foreseen in the annual plan of priority actions of the government.
- **An action plan guiding implementation of the PSA strategy and road map,** which is an appendix to the Strategy for the period until 2025. Each Strategy task is targeted at a specific result, has a deadline, and is assigned to an authorized responsible executor. The MoF coordinates all actions defined by the Strategy. The reform process is supported by international partners through technical assistance and guidance.
- **Enhanced human resource capacity** enables the requirements of the modern PSA system to be fulfilled ensuring the preparation of reliable and transparent reporting. Capacity building activities were conducted at various stages of reform implementation based on the systematic

cooperation of the MoF and other public sector entities. 449 employees of accounting services of budget institutions completed the new accounting training/certification program in 2023.

- **Automated electronic reporting is being implemented to optimize the submission of financial statements.** The STSU has introduced the e-reporting system to improve processing and consolidation in accordance with NPSAS. Work is underway to develop an integrated system for automating accounting and financial reporting in the public sector, which will exchange data with all the main systems of the PFM.

118. The PULSE assessment identified several factors that reduced the performance of indicators. The following should be addressed as part of continued modernization of PSA:

- Further improve the PSA regulatory framework.
- Increase the transparency and quality of financial reporting.
- Improve organizational principles and quality of performance of accounting services in the public sector.
- Modernize PSA information systems.

119. There four recommendations below are aimed to further strengthen the systems and practices of PSA and ensure the consistency of the national accounting system with international standards. This will contribute to increasing the quality, reliability, consistency, and comparability (at the national and international levels) of information on public finances in order to ensure its relevance and usefulness.

120. **Further improve the PSA regulatory framework** in terms of the norms governing the accounting of financial instruments, guarantees, and social benefits:

- Continue the process of updating NPSAS in accordance with changes in IPSAS and public sector entity requests to clarify individual provisions based on the experience of applying standards and changes to budget legislation.
- Prepare and approve new NPSAS related to the accounting of social benefits, activities of associations in the public sector, etc.
- Revise NPSAS in terms of recognition, initial and subsequent evaluation of financial instruments, disclosure of information about them in financial statements, taking into account budget legislation. Develop instructions on these issues for accountants managing budget funds at different levels.
- Provide methodological recommendations and clarifications on the accounting of income, expenses, investment real estate, and biological assets, with detailed instructions on the actions of public sector entities when applying the relevant NPSAS.

121. **Increase the transparency and quality of financial reporting:**

- Appropriately disclose financial and non-financial indicators, revealing enough to ensure sustainable development in Ukraine while functioning under martial law. The comprehensive presentation of financial and non-financial indicators can become a tool to promote the recovery of Ukraine's economy. Strategic decisions regarding the introduction of reporting on the sustainable development of public sector entities should be developed after the adoption and approval of the relevant IPSAS.
- Improve recommendations for the preparation of notes to the annual financial statements by improving the format and criteria for disclosing key differences between NPSAS and IPSAS.
- Introduce methods for accessible and reliable informing of interested parties

about the results of public sector financial activities. This requires the development of recommendations for economic analysis of public sector financial statements to assess the financial condition and effectiveness of government decisions.

122. **Improve organizational principles and quality of performance of accounting services in the public sector:**

- Compare the structure of accounting services of EU countries, levels of professional competences of employees, and the formation of approaches to help guide the organizational structure of accounting services in Ukraine.
- Improve the methodology used to evaluate public sector chief accountants' competences and emphasize the continuous professional development of accountants.
- Provide regular training for employees of accounting services of budget institutions regarding accounting in institutions and organizations of the public sector according to NPSAS, conduct thematic trainings for professional development on the most error-sensitive topics of NPSAS.

123. **Modernize PSA information systems:**

- Assess the risks and needs for technical support of PSA processes.
- Calculate the resources necessary for continuous and protected accounting of budget execution.
- Develop a unified software product for accounting and financial reporting by public sector entities and integrate with other software products of the PFM system.

124. Successful reform relies heavily on the **availability of necessary resources**. This includes personnel capacity and appropriate financing for the costs associated with the implementation of the measures defined by the PSA Strategy, since accounting reform requires high-quality legal and regulatory support at the state level. The Department of Accounting Methodology and Regulatory Support for Auditing of the MoF is responsible for development of accounting standards. The MoF also develops methodological recommendations for the application of standards, provides methodological support for their application, studies, summarizes, and disseminates the best experience in the organization of accounting work, which is carried out by accounting services based on best international practices. The capacity of the MoF should be strengthened by increasing the number of employees of the Department of Accounting Methodology and Regulatory Support for Auditing to support continued PSA reform and further harmonization with international standards. International technical assistance should be secured to help with the timely comprehensive implementation of all planned PSA reform measures.

125. Implementation of the PSA Strategy to 2025 is especially relevant in the context of **Ukraine's status as a candidate for EU membership** since June 23, 2022. The Strategy contributes towards alignment with the EU, for example the goal of a PSA system that provides timely and relevant information about the activities of the public sector. The implementation of European norms will contribute to anti-corruption measures, and introduce more ecological thinking. The introduction of sustainable development reporting and methods of interpretation of financial indicators in combination with non-financial indicators is a way of demonstrating the effectiveness of government system management.

126. **A number of risks must be recognized**, especially given the ongoing war and pressure to fulfil obligations regarding EU membership. These include:

- The significant pressure on personnel resources to perform current tasks, develop accounting provisions for the detection and assessment of losses, perform accounting in the conditions of personnel conscription, and implement tasks of the PSA Strategy. Adequate personnel resources are needed.
- The need for financial resources to ensure the reform of the accounting system in the public sector.
- The need for available energy resources and means of communication to support continuous activity.
- The priority of security norms and tasks in the conditions of martial law that impact the efficiency of activities of public sector entities.
- Potential implementation of mandatory EU accounting directives and other financial reporting regulations, including European Public Sector Accounting Standards (EPSAS), which might affect both corporate and public sector accounting.

127. The PULSE assessment seeks a comprehensive understanding of the status of the national system of PSA, determines the differences between the national and international structure of PSA, and considers the level of actual compliance with IPSAS-based practices. This assessment demonstrates Ukraine's significant progress on these metrics in developing an efficient and effective PSA system. Implementation of the recommendations will further enhance the quality of PSA and financial reporting, in accordance with international standards and good practices, in order to improve government accountability, transparency, and performance.

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