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ECONOMICS

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PERSPECTIVES OF FINANCIAL REPORTING STANDARDIZATION OF THE PUBLIC SECTOR IN UKRAINE

Global harmonization of requirements in the sphere of accounting and financial reporting is one of the pre-conditions to ensure the stability in the capital markets and to create the favorable conditions for investors. The main link in the informational support of state control, financial planning and forecasting on the state level is the financial reporting of the public sector. The public sector entities are responsible for managing the obtained resources, their rational and efficient usage, reflecting the information in the forms of financial reporting.

The article 58 of the Budget Code of Ukraine determines that the financial reporting should be made in accordance with the national standards of accounting and forms approved by the Ministry of Finance of Ukraine. The procedure of filling the forms of financial reporting of public institutions is regulated by the State Treasury of Ukraine together with the Ministry of Finance of Ukraine. Budgetary reporting reflects the state of budget execution and contains the information in the context of the budget classification. [1]

The results of control measures of the State Financial Inspection of Ukraine confirm the negative practice of illegal misuse of state financial resources and the spread of other budget violations. For example, in 2013 the number of budgetary institutions and organizations, which identified financial irregularities was 3800, or 97% of the total budgetary institutions [2].

The same tendency was in previous reporting periods. These data call into question the reliability of the information, which is reflected in the financial reporting

of public sector entities. But the main requirement for the preparation of the financial statements is its reliability.

The financial reporting of budgetary institutions and organizations has its own specific characteristics that distinguish it from the other entities. The specificity of public sector entities depends on the nature of their activities, which main goal is not to get a profit, but to provide a specific service to society. That is, most of the activities of such entities related to so-called non-exchange transactions, i.e. products and services are provided primarily on a pro bono basis.

It is also necessary to take into consideration that the budgetary institutions are involved in the budget process, forming the bulk of the budget expenditures. Accounting information generated in each budgetary institution should be passed to the appropriate authority for further fiscal consolidation and reporting of the state incomes and expenditures.

Administrators and recipients of state budget assets provide the State Treasury with the appropriate financial reporting. Financial reporting in the public sector provides the information needs of users in the context of: income sources and directions for their usage; the level of financial support of the institution; the status of implementation of all obligations and the ability of institutions to perform them in the future; the financial state and financial discipline of the institution etc. Indicators of financial and budget reporting administrators and recipients of state budget of budget funds, and including summary financial and budget reporting main administrators and recipients of funds of state and local budgets are reviewed by the State Treasury in accordance with those disclosed in the accounting of the State Treasury, and individual indicators of financial and budget reporting institution.

In 2014 the Instruction of the financial and budgetary reporting determines the rules of preparation of monthly, quarterly and annual financial and budgetary reporting and the requirements for disclosure of its elements. The forms of annual financial reporting include: the balance sheet, the financial performance report, the report of cash flows and the explanatory note for disclosure of reporting elements. The other elements of reporting are disclosed in other forms [3].

There are many additional forms of reporting. The whole list of the various reporting forms should fully cover all areas of activity. These forms of financial statements is very diverse and detailed. Their preparation requires extra efforts from employees of the accounting departments and the appropriate distribution of work.

In whole the financial statements of public institutions reflects the state of their assets and results of operations during the execution of the estimate of incomes and expenses.

The integration of the Ukraine into the world economy requires an adequate transformation of accounting system, assuming the transition of the national system of accounting and reporting to international standards (IAS and IFRS).

At the international level the issues of compilation and submission of such reports are considered in the International Public Sector Accounting Standards (IPSAS). The international standards for public sector entities should be very close to the approaches, which are defined in the international standards for the corporations. The standards are the official requirements for financial reporting and applied to the general purpose of financial reporting of public sector entities.

The general purpose financial reporting is reporting, that is released for users who do not have the opportunity to request financial information to meet their specific information needs. They are: citizens, voters and their representatives, other members of the society. In addition the institutions and organizations can prepare financial reports for other users: governments, legislative bodies, and others. These reports are called special purpose financial statements.

The existing standards provide the opportunity to use the accrual method and the cash method.

The basic financial report on the cash method is the report of cash receipts and payments. The report on the accrual basis includes: the report of financial state, the report of financial performance, the report of cash flows, the report of changes in net assets/capital, and the notes to these reports. The latter are relevant to IPSASs only if they meet all requirements of each standard (the system of international standards on

the accrual basis is constructed in such a way that each IPSAS regulates the reporting of any type of asset).

The tendency of accounting on the accrual basis will remain in the future, because the supporting arguments are focused more on requirements of financial management than of accounting. International standards set identical rules for accounting and financial reporting of all public sector entities. The IPSAS state that the adoption of international standards is the necessary pre-condition to improve the transparency of state and local finance, quality and reliability of budget accounting, ensuring full reflection of financial transactions etc [4].

So, there is a necessity to adopt the Ukrainian legislation to the European Union legislation, including the adoption of accounting principles of public sector in accordance with the terms of market economy. So there was a revision of existing forms of financial reporting and of the indicators of budgets performance.

In the period of 2010-2012 the Treasury of Ukraine and recipients of state budget assets were engaged into the development of national standards of financial reporting in the public sector. The introduction of these standards should be implemented in 2015.

The essence of these principles is based on accrual method and accordance of incomes and expenses to determine the financial results of the period. The incomes and expenses are recognized in the accounting and financial reporting exactly at the time of their occurrence.

Nowadays the cash method is used and it complicates the transition to the accrual method. Also the instability of budget incomes makes a bit difficult budget planning.

In of the developed standards tried to resolve these discrepancies. The following standards of financial reporting were developed:

101 “Presentation of Financial Reporting” - discloses information about the contents and forms of financial reporting in the public sector, the general requirements for the recognition and disclosure of its elements;

102 “Consolidated Financial Reporting” - defines the procedure of making the consolidated financial reporting and the general principles of its disclosure;

103 “Financial Reporting by segments” - defines the principles and methodological basis of the information formation on incomes, expenditures, financial results, assets and liabilities;

104 “Financial Reporting in the Hyperinflationary Economy” - determines the procedure of adjustment of the financial reporting and the consolidated financial reporting in hyperinflationary economy and general requirements for disclosure of the information.

Were revised forms of annual financial statements of public institutions. According to the standard 101 “Presentation of Financial Reporting” main components of the financial reporting of public institutions include:

- the balance sheet - Report of the financial state of the assets, liabilities and capital at the beginning and at the end of the year, which is based on the accounting data;
- the financial performance report – Report, that reflects the transactions of increasing or decreasing of incomes and (or) expenses of public sector entities;
- the report of cash flows – Report, that reflects the cash flows during the reporting period from all activities of public sector entities;
- the report of own capital – Report, that discloses information about changes in capital;
- the notes to the financial reporting - Disclose the information, required by the relevant standards of accounting, but it is not directly disclosed in the financial reports [5].

This standard also provides basic principles for preparation of financial statements. These principles are identical with the principles set out in the Law on accounting and financial reporting in Ukraine. Full adherence to these principles will allow of the public institutions to generate a high-quality and accurate information and reflect it in the form of financial statements.

In addition to standard 101 “Presentation of Financial Reporting” state Treasury of Ukraine will need to produce recommendations for more detailed preparation of these financial statements.

The above mentioned forms are fundamentally different in structure and contents from the indicators, recommended by international standards, and, therefore, require further harmonization. The statements were prepared in accordance with the new national standards will have higher information content. Also there is a convergence of positions budgetary and commercial accounting.

Therefore, standardization of financial reporting of public sector entities will contribute to:

1. The improving of management of state finance.
2. The implementation of the strategic budget planning.
3. The increasing of financial control effectiveness of the budget planning.

So, the implementation in 2015 of the national standards will improve the quality of financial reporting of the public sector entities, will lead to more reasonable solutions of recipients of state budget assets and, therefore, will increase transparency and accountability of their usage.

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