

Accounting Support For Ukrainian Budget Process' Transparency Within Martial Law

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Abstract

Introduction: *The importance of reliability and relevance of information and the source of its formation is strengthening and actualising within the implementation of the principles of openness, transparency and accessibility of the budget process declared by Ukraine. The receipt of foreign state resources for Ukraine aimed at combating the aggressor's actions increases the attention of international institutions to the issues of openness and transparency of Ukrainian budget funds' allocation and spending. However, the international concept of accounting support for the processes of openness and transparency of information on public finance was not implemented in the regulatory and accounting system of the domestic budget process in the context of the implementation of the national public sector accounting standards in accordance with IPSAS.*

Aim: *The purpose of the article is to substantiate the fundamental importance of accounting and analytical information produced by the management accounting system of public sector entities to ensure the reliability and objectivity of transparency indicators of the budget process and make suggestions for its improvement.*

Method: *The theoretical and methodological basis of the study is general scientific and special methods of cognition, which are based on a dialectical and systematic study of economic phenomena and processes*

Findings: *The results obtained within the study lead to the conclusion that the integration of management accounting in the public sector accounting system is a necessary condition for the transparency of the budget process, especially within Martial law.*

Key Words: *Openness, Budget Funds, Accessibility, Transparency, Management Accounting.*

Jel Codes: *H52, H83, M41, M48*

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1. INTRODUCTION

The war in Ukraine has changed the country beyond recognition and significantly affected the Ukrainian economy and the financial stability of all budget process' participants. One of the core tools to support the Ukrainian financial system within Martial law is the implementation of targeted programs of international financial assistance, attracting international grants, and receiving humanitarian and other economic aid.

Large-scale use of foreign states' resources to fight the aggressor and European integration vectors of the Ukrainian economy's development increase the attention of international institutions to the issues of openness and transparency in Ukrainian budget funds' allocation and spending. A qualitatively new level of management in the budget system suggests the need to provide users with timely, complete and reliable information on the budget process, which becomes a sign of not only the openness of the government, which should enjoy the citizens' trust, but also an important condition for the functioning and development of a democratic state.

Now in Ukraine, representatives of the legislative and executive branches of government, implementing global trends and fulfilling the requirements of international financial organizations, officially proclaim their aspirations for the accountability and greater transparency of the budget process by providing citizens with access to public information and strengthening their participation in the formation and use of budget funds.

The creation of such an information system is possible by implementing management accounting in the budget process, providing the necessary objective and relevant accounting and analytical information to interested users and all levels of budget funds management, meeting the challenges of the new public finance management paradigm in the context of global trends.

Determining the role and importance of accounting and analytical information in ensuring the openness and transparency of the budget system and substantiating their relationship at the present stage of the modernization of public finance management and the establishment of a democratic society is an extremely relevant and important task of a theoretical, methodological and practical nature, which requires its solution in the scientific area.

2. LITERATURE REVIEW

The issue of transparency and disclosure of information on the formation and use of public finance has been studied mainly in scientific publications of foreign researchers. For example, Gabriel Caldas Montes, Júlio Cesar Albuquerque Bastos & Ana Jordâniade Oliveira (2019) prove the direct impact of transparency on government performance and public spending and find that transparency increases accountability, and therefore the allocation of resources. Andrew Williams (2015), examining the transparency of the budget process of different countries, notes the importance of enhancing the transparency of the budget system. Maria Violeta Cimpoeru & Valentin Cimpoeru (2015) argue that increased budget transparency, on the one hand, improves government policies on the effectiveness of public finances and reducing corruption, and on the other hand, provides important information for the public and regulatory authorities. Teresa M. Harrison & Djoko Sigit Sayogo (2014) examine the relationship between socio-cultural, political, economic, and government conditions and concepts that are important for the openness of government and identify them as: budget transparency, participation in budget processes, and accountability information.

Recently, publications of domestic scientists on this issue have begun to appear. In particular, special attention is paid to the development of budget transparency in the works by T. A. Vasylyeva (2018), N. V. Vynnychenko (2017), S. S. Gasanov (2015).

International organizations such as the International Monetary Fund (hereinafter IMF), the Organization for Economic Co-operation and Development (hereinafter OECD), World Bank institutions, the International Budget Partnership and others have made a great contribution to the development of transparency in the budget process.

Highly appreciating the works of the mentioned scholars, it should be noted that their scientific potential covers mainly research areas such as improving public policy, management and legal support, reforming the financial system, etc. At the same time, the issue of accounting for transparency of the budget process remains outside the scope of their attention, which determines the relevance of this study.

3. RESEARCH METHODOLOGY

Since large-scale hostilities, Ukraine has received international financial, technical and humanitarian support totalling \$ 15 billion. It

should be noted that \$5 billion was sent directly to the budget. The World Bank has decided to allocate \$ 700 million to Ukraine as a matter of urgency to fight the aggressor. The International Monetary Fund has agreed to provide emergency funding of up to \$ 1.4 billion. The Memorandum was also signed with the European Union on the allocation of € 1.2 billion to Ukraine. In March, the European Investment Bank approved € 668 million in emergency assistance to Ukraine. The agency noted that this is only the first step. The whole package of financial aid will be prepared for Ukraine. Ukraine is also supported by the European Bank for Reconstruction and Development by providing a “sustainability package” of € 2 billion for Ukrainians and countries hosting Ukrainian refugees. At the same time, the European Union has decided to increase arms aid to Ukraine to € 1 billion. In April, the European Commission provided the grant funding for € 120 million as part of a general emergency financial assistance package to Ukraine.

Obviously, international financial assistance funding should be carried out exclusively for the intended purpose and be open and transparent for both suppliers and citizens of the country. Transparency is one of the core principles in the activities of foreign governments and international organizations.

Openness and transparency of the budget process as a priority area for the modernization of budget policy and public finance management is recognized by the leading world countries and is regulated by a number of authoritative international acts. So, IMF Fiscal Transparency Code (2019) is an international standard for public finance disclosure; IMF Manual on Fiscal Transparency (2007) provides guidelines on how to make government and business operations transparent; IMF Special Data Dissemination Standard (2013) establishes voluntary standards for the dissemination of economic and financial indicators of national statistics among citizens; OECD Recommendation of the Council on Budgetary Governance (2015) provides a useful reference tool to ensure the planning, management and efficient use of public resources for the positive impact on citizens’ lives, in particular to guarantee that budget reporting and data are open, transparent and accessible; OECD Best Practices for Budget Transparency (2002) is a reference tool that governments should use to increase the budget transparency of their countries; OECD Budget Transparency Toolkit (2017) provides access to budget and financial transparency, official instruments,

standards and methodological materials of various institutions (practical steps to support openness, integrity, accountability in public finance government); WB BOOST Initiative (2010) defines conditions to facilitate access to budget data and provides user-friendly platforms where you can access all cost data (often in combination with non-financial indicators) to study public resource allocation trends, to analyze potential sources of inefficiency and obtain the best information on how to finance the government's provision of public services; IBP Citizen Budget Guide (2012) provides guidelines for governments to develop budgets for citizens and is designed to help governments seek practical advice to ensure transparency in the public finance system.

The implementation of the conceptual provisions to ensure budget transparency is reflected at the international level and in the accounting system of the budget process as a tool for achieving the reliability and objectivity of the information provided. So, in order to improve the information field of transparency and openness of the budget process, two International Public Sector Accounting Standards (hereinafter IPSAS), which are recognized as the goals of reports based on them, including the provision of information useful for decision-making and promulgation of the accountability of public sector entities for the efficient use of the resources entrusted to them, have been introduced into accounting practice. In particular, IPSAS 22 "Disclosure of Financial Information about the General Government Sector" prescribes disclosure requirements for governments that choose to submit information about the general public sector in their consolidated financial statements, as well as IPSAS 24 "Presentation of Budget Information in Financial Statements", which determines what information entities are required to make publicly available by demonstrating compliance with the approved budget(s) for which they are held publicly accountable.

At the same time, the international concept of accounting support for the processes of openness and transparency of information on public finance is not implemented in the regulatory and accounting system of the domestic budget process in the context of the implementation of relevant national public sector accounting standards (hereinafter NPSAS), which would contribute to the formation of accounting and analytical information understandable to citizens for transparent use of public finance.

The accounting system of the Ukrainian budget process is in a state of implementation of a number of international positions in the field of public finance and accounting and does not fully meet modern needs and international requirements for ensuring transparency and openness of information on budget funds management for internal and external users and providing information support for decision making processes in the system of public administration and local self-government.

The key direction of improving the accounting process for the implementation of the accounting and analytical component of information support for the transparency of public sector entities is the development of methodological and methodical approaches to the implementation and functioning of the management accounting system.

In accordance with the legislation, management accounting is a system of collecting, processing and preparing information about the activities of the enterprise for internal users in the process of managing the enterprise (Law "On Accounting and Financial Reporting in Ukraine" (hereinafter Law No. 996)). In addition, the legislative norm is that the company independently develops a system and forms of management accounting, reporting and control of business operations.

It should be noted that the domestic regulatory field of accounting by public sector entities does not determine the principles of organization and does not produce methodological approaches to management accounting. The conceptual foundations of this approach stem from the principles of confidentiality of management accounting data for external users described in the Law No. 996, as well as from empowering enterprises to form the organizational, technical and methodological rules for management accounting. Obviously, this approach is acceptable for private sector enterprises, but reforming the public finance management system and the sphere of relations between the subjects of the financial system of Ukraine based on European principles is impossible without implementing a process aimed at openness and transparency in the use of budget funds.

Article 28 of the Budget Code of Ukraine "Accessibility of Information on Budget" defines the range of subjects and the composition of the information to be made public by them. So, for example, key spending units shall ensure the publication on their official websites of the following information: passports of budget programs for the current budget period (including changes to

passports of budget programs); reports on execution of passports of budget programs for the reporting budget period; reports on execution of state investment projects; the results of evaluating the effectiveness of budget programs for the reporting budget period.

A range of indicators of these documents to be made public are formed on the management accounting data of public sector entities that are directly noted in the "Information Source" column of such documents. For example, in the passport of the budget program and the report on its execution according to the program classification code of expense 2201160 "Training personnel by higher educational institutions of III and IV levels of accreditation and ensuring the activity of their practice bases" (hereinafter PCCE 2201160), cost, product, efficiency and quality indicators are formed on the basis of management accounting data. However, the composition of the indicators of the specified budget program does not correspond to its economic essence and does not reflect the efficiency of the budget use and the quality of public finance management. So, the indicator "cost" does not contain components in the cost meter, but reflects the average annual number of staff and the average annual number of specialists; the indicator «efficiency» reflects the average cost of training specialists, which does not allow an objective assessment of the volume and structure of government spending on training specialists; the indicator "quality" reflects the proportion of specialists who received a certificate of education in the total volume of graduation, which, in fact, corresponds to the "product" indicator in terms of reporting data on the number of graduates but in no way shows the quality of the budget program execution. Obviously, this composition of outcome indicators of budget programs does not ensure transparency of the budget process in terms of interpreting information on the effectiveness of the budget funds use.

The key indicator characterizing the efficiency of use of state resources and provides an assessment of the activity of any entity is aggregated expenses by codes of economic classification of expenses, which form the economic indicator "cost of public services". Given the above, it is necessary to modernize the system of outcome indicators of budget programs for the promulgation of information on the amount and structure of expenditure and the introduction of the indicator "cost of public services", which will allow citizens and other interested users to obtain the necessary relevant accounting and

analytical information on public expenses depending on their economic content and purpose, in particular costs of wages, the acquisition of tangible assets, third-party companies, consumed utilities, travel, etc. Regarding the generation of information on the cost of public services by PCCE 2201160, we believe that by accumulating data of the management accounting system, it is advisable to promulgate information on expenses and cost in the budget program in the context of branches of knowledge and specialties in which higher education applicants are trained to interpret detailed data on volumes and the effectiveness of government spending on training specialists in a particular field. This will ensure the implementation of the key principles of openness in the use of budget funds and access to public information, contribute to the transparency of the budget process and the formation of ways to optimize the use of budget funds related to the provision and ensuring the provision of relevant public services and the implementation of the goals and objectives of the budget program. This approach allows us to determine the effectiveness of public finance management and establish a relationship between the volume of budget spending and the economic and social result of the execution of the budget program to meet the key provisions of the implementation of the program-target method in the budget process.

A range of program documents are aimed at ensuring transparency and openness, including in terms of management and use of budget funds. Thus, the 2021 Public Administration Reform Strategy in Ukraine envisages the provision of accountability of public administration bodies (transparency of work, free access to public information for stakeholders). The Ukraine-2020 Sustainable Development Strategy sets the priority in managing public finance to increase transparency and the efficiency of their distribution and spending. The program of activities of the Cabinet of Ministers of Ukraine dated 04.10.2019, No. 188-IX (hereinafter the program of CMU activities) provides for the extension and acceleration of further promulgation of information on public finance, ensuring publicity and transparency, regular updating and dissemination of reports and relevant important changes and developments in the country's economy.

One of the indicators by which the achievement of the result is measured in accordance with these strategic documents and the degree of transparency of budget operations is assessed, is the position of Ukraine

on the Open Budget Index (the Open Budget Index is the world's budget transparency rating developed by the International Budget Partnership which analyses the budgets of 115 countries according to a single methodology and is made by independent experts every 2 years). The Open Budget Index shows how the information on the budget spending generated by a particular state is useful, timely, transparent and understandable for various stakeholders.

In 2019, Ukraine ranked 26 among 117 countries in the Open Budget Index international rating of budget transparency. Compared to 2017, when Ukraine held 39th place, it increased its rating by 13 points, which indicates positive trends in this direction. According to the results of the 2019 Open Budget Index, Ukraine scored 63 points out of 100, which exceeds the average score of budget transparency around the world, which is 54 points out of 100. This situation reflects a positive trend, which attests to the improvement of the budget process in Ukraine, as well as to increased budget transparency through the implementation of the "E-Data" project of the Ministry of Finance of Ukraine, which publishes information on the use of budget funds and realizes the principles of "Transparent Budget".

One of the indicators of the effectiveness of the goals of the program of CMU activities, is to increase the rating of Ukraine on the Open Budget Index to 25th place according to the results of the assessment of 2024, which provides for further disclosure of information on public finance. This reflects a permanent target orientation towards transparency in the use of public finance and compliance with the principles of a democratic society.

In this context, an important achievement was the adoption of the Law of Ukraine "On Openness of the Use of Public Funds", which obliges public sector entities to quarterly publish on the single web portal "E-Data" information on planned and actual use of budget funds, in particular on the total amount of expenditure, conclusion and execution of contracts, travel expenses, etc., as well as the Law of Ukraine "On Access to Public Information", which determines the procedure for exercising the right of each interested user to access and receive public information and establishes that access to information on the disposal of budget funds, ownership, use or disposal of state and communal property, including copies of relevant documents, the conditions for obtaining these funds or property, full names of legal entities that received these funds or property cannot be restricted (Clause 5, Article 6). That is, the

obligation of public sector entities according to the law is to provide upon request information on the use of budget funds and promulgate specified information on a single state web portal.

Apparently, most of the key indicators that are to be made public are formed in the management accounting system of public sector entities since financial accounting does not provide management personnel and other stakeholders with such transparent, detailed and thorough information about the efficient use of budget funds. Given the above, we conclude that the information generated in the financial and management accounting systems of public sector entities regarding the use of public financial resources cannot be confidential through its public nature and is subject to disclosure in the context of transparent use of budget funds. It is obvious that the users of the information formed in the management accounting system of public sector entities in terms of public finance management are not only internal but also external users, and the scope of its information flows goes beyond internal accounting. Given the above, we consider it appropriate to clarify the interpretation of management accounting given in the Article 1 of Law No. 996: management accounting is a system of collecting, processing and preparing information on business activities for internal users in the process of business management, as well as for internal and external users in the process of public financial management. Such an approach to the definition meets global trends and vectors of domestic legislation development towards ensuring the transparency of public financial management.

One of the core priorities of reforms within Martial law should be to increase the openness and transparency of budget funds and international assistance allocation and spending. For this purpose, the monitoring group may be formed at the national level aimed at monitoring and assessment of the assignment and use of budget funds for budget programs and verification of compliance with the priorities of social and economic development of Ukraine within the postwar period.

4. CONCLUSION

Transparency and openness of the budget process and budget information is the key to effective budget management and public control over public finance. The reliability and objectivity of accounting data and analytical indicators within the framework of the transparency of the

budget process can only be ensured by a management accounting system that produces a full range of financial and non-financial information to ensure openness and transparency of budgets and access of citizens and other interested parties to public information and strengthen their role in generating and using budget funds.

To implement the key principles of openness and transparency of the budget process and use of budget funds declared at the state level, as well as to provide a mechanism for assessing the effectiveness of public financial management, it is necessary to undertake a range of measures:

- to implement into the regulatory and accounting system of the Ukrainian budget process the principles of the international concept of accounting support of openness and transparency of information on public finance in the context of the implementation of the relevant NPSAS based on IPSAS;

- to supplement the outcome indicators of budget programs with the “cost of public services” indicator, which will ensure the interpretation of data on budget resources and their use and will contribute to the openness and transparency of the budget process, as well as determine the effectiveness of public financial management and establish a relationship between the amount of budget spending and the economic and social result of the of the budget program’s execution;

- to change the philosophy of management accounting of public sector entities in the context of the openness of its information flows on public financial management and the expansion of the circle of participants and the scope of use of its indicators not only by internal (as defined by law) but also by external users (including international).

The realization of the proposed approaches will ensure the implementation of the state policy on transparency of information in public financial management, contribute to the transparency of budgets of all levels and the openness of the use of budget funds and the possibility of access to public information, as well as define a new methodological paradigm for the accounting information role in the budget management system.

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