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## ACCOUNTING REFORM IN UKRAINE IN THE CONTEXT OF COOPERATION WITH THE UNITED NATIONS

*The article gives a comprehensive overview of the features of accounting reform in Ukraine in the corporate and public sector in the context of monitoring the implementation, compliance and enforcement of international standards of accounting, reporting and auditing. The authors analyze the main directions of reforming the preparation of accounting information by public sector entities: introduction of the national accounting provisions (standards) to the public sector, training of financial statement compilers, monitoring the efficiency of implementation of innovations, the main risks associated with the presentation of reliable information and reforming the preparation and presentation of reports. The basic prerequisites for the development of financial reporting in the context of globalization are analyzed. The importance of the development of corporate sector in Ukraine and features of its development are highlighted. The role of international organizations in implementing reforms in accounting and reporting is defined. The author undertakes a chronological review of certain aspects of cooperation between Ukraine and the United Nations (The Conference on Trade and Development), in particular, the creation and improvement of guidance in the field of monitoring of compliance and enforcement for high-quality corporate reporting (MC&E). The importance of capacity assessment for high-quality corporate reporting in Ukraine by the UNCTAD-ISAR methodology, the Accounting Development Tool (ADT), is emphasized. The basic stages of the assessment process (ADT): from the establishment of the Working Group of Experts to peers' review of reports and questionnaires by UNCTAD-ISAR experts and involved experts from EU member states are described by the authors. The necessity of monitoring the implementation and compliance with international accounting standards in the public sector; the development and consolidation of its basic principles at the international level and appropriate methodological support for its implementation are substantiated. Recommendations regarding the scope of the MC&E are presented.*

**Keywords:** the UN, The Conference on Trade and Development, reforms in the field of accounting in Ukraine, the International Public Sector Accounting Standards (IPSAS), the International Financial Reporting Standards (IFRS), monitoring of compliance and enforcement for high-quality corporate reporting.

**JEL classification:** M41, M48.

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## РЕФОРМУВАННЯ БУХГАЛТЕРСЬКОГО ОБЛІКУ В УКРАЇНІ В КОНТЕКСТІ СПІВРОБІТНИЦТВА ІЗ ОРГАНІЗАЦІЄЮ ОБ'ЄДНАНИХ НАЦІЙ

*У статті розглянуто особливості реформування бухгалтерського обліку в Україні в корпоративному та державному секторах у розрізі моніторингу запровадження, дотримання і забезпечення виконання вимог міжнародних стандартів бухгалтерського обліку, звітності та аудиту. Проаналізовано основні напрями реформування підготовки облікової інформації суб'єктами державного сектору: запровадження Національних положень (стандартів) бухгалтерського обліку в державному секторі, підвищення кваліфікації укладачів фінансової звітності, здійснення нагляду за результативністю запровадження нововведень, основні ризики, пов'язані з наданням достовірної інформації та реформуванням процесу підготовки й подання звітності. Розглянуто основні передумови розвитку сфери фінансової звітності в контексті глобалізаційних процесів. Наголошено на важливості та особливостях розвитку корпоративного сектору в Україні. Визначено роль міжнародних організацій у проведенні реформ у сфері бухгалтерського обліку та звітності. Здійснено хронологічний огляд окремих аспектів співпраці України із Ор-*

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ганізацією Об'єднаних Націй (Конференцією з торгівлі та розвитку), зокрема, створення та вдосконалення керівництва у сфері здійснення моніторингу дотримання та забезпечення високоякісної корпоративної звітності (МС&Е). Зроблено акцент на проведенні оцінки потенціалу нашої країни у галузі підготовки високоякісної звітності за методикою UNCTAD-ISAR, Accounting Development Tool (ADT). Проаналізовано основні етапи процесу оцінки (ADT): від створення Робочої групи експертів до рецензування звіту й анкети експертами ISAR-UNCTAD та залученими фахівцями з країн – членів Євросоюзу. Обґрунтовано необхідність моніторингу запровадження та дотримання міжнародних стандартів бухгалтерського обліку в державному секторі, розроблення та закріплення основних його принципів на міжнародному рівні, а також відповідного методичного забезпечення для його проведення. Надано рекомендації щодо сфери застосування системи МС&Е.

**Ключові слова:** ООН, Конференція з торгівлі та розвитку, реформування сфери бухгалтерського обліку в Україні, Міжнародні стандарти бухгалтерського обліку в державному секторі (IPSAS), Міжнародні стандарти фінансової звітності (IFRS), моніторинг дотримання та забезпечення високоякісної корпоративної звітності.

Рис. 1. Табл. 1. Літ. 14.

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### РЕФОРМИРОВАНИЕ БУХГАЛТЕРСКОГО УЧЕТА В УКРАИНЕ В КОНТЕКСТЕ СОТРУДНИЧЕСТВА С ОРГАНИЗАЦИЕЙ ОБЪЕДИНЕННЫХ НАЦИЙ

*В статье рассмотрены особенности реформирования бухгалтерского учета в Украине в корпоративном и государственном секторах в разрезе мониторинга внедрения, соблюдения и обеспечения выполнения требований международных стандартов бухгалтерского учета, отчетности и аудита. Проанализированы основные направления реформирования подготовки учетной информации субъектами государственного сектора: внедрение Национальных положений (стандартов) бухгалтерского учета в государственном секторе, повышение квалификации составителей финансовой отчетности, осуществление надзора за результативностью внедрения нововведений, основные риски, связанные с предоставлением достоверной информации и реформированием процесса подготовки и представления отчетности. Рассмотрены основные предпосылки развития сферы финансовой отчетности в контексте глобализационных процессов. Отмечены важность и особенности развития корпоративного сектора в Украине. Определена роль международных организаций в проведении реформ в сфере бухгалтерского учета и отчетности. Осуществлено рассмотрение в хронологическом порядке отдельных аспектов сотрудничества Украины с Организацией Объединенных Наций (Конференцией по торговле и развитию), в частности, создание и усовершенствование руководства в сфере осуществления мониторинга соблюдения и обеспечения высококачественной корпоративной отчетности (МС&Е). Сделан акцент на важности осуществления оценки потенциала нашей страны в сфере подготовки высококачественной отчетности по методике UNCTAD-ISAR, Accounting Development Tool (ADT). Проанализированы основные этапы процесса оценки (ADT): от создания Рабочей группы экспертов до рецензирования отчета и анкеты экспертами ISAR-UNCTAD и привлеченными специалистами из стран – членов Европейского Союза. Обоснована необходимость мониторинга внедрения и соблюдения международных стандартов бухгалтерского учета в государственном секторе, разработки и закрепления основных его принципов на международном уровне, а также соответствующего методического обеспечения для его проведения. Представлены рекомендации относительно сферы применения системы МС&Е.*

**Ключевые слова:** ООН, Конференция по торговле и развитию, реформирование сферы бухгалтерского учета в Украине, Международные стандарты бухгалтерского учета в государственном секторе (IPSAS), Международные стандарты финансовой отчетности (IFRS), мониторинг соблюдения и обеспечения высококачественной корпоративной отчетности.

Since 1945 Ukraine has been one of the founding members of the United Nations. This obliges us to actively support the actions for implementation of the tasks set up by the UN Sustainable Development Goals (2015) and other solutions [1].

The President of Ukraine, the Verkhovna Rada and government of our country make necessary efforts for obtaining the associate member status of the European Union for Ukraine. An important part of converging with the European community is the signing of the Deep and Comprehensive Free Trade Agreement with the EU.

The Comprehensive Free Trade Zone is one of the most ambitious bilateral agreements that have been ever signed by the EU. It will provide opportunities for Ukraine to modernize its trade relations and foster economic development. The tools for this are: opening markets by gradual elimination of customs duties, providing duty-free access within quotas and extensive harmonization of Ukrainian laws, provisions and standards with current EU legislative acts in various sectors. This will create conditions for harmonization of Ukrainian and EU standards in key areas, including the scope of financial reporting.

These epoch-making shifts determine a civilizational choice of the Ukrainian people, their desire to overcome existing challenges to provide further progress and sustainable development in cooperation and friendly collaboration with European nations. Further reforms in Ukraine will contribute to these high goals.

Cooperation with intergovernmental and international professional organizations in the field of developing the strategy and tactics of reforms is crucial.

The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting of the United Nations Conference on Trade and Development (ISAR-UNCTAD) (Geneva, Switzerland) is one of the most authoritative international organizations.

ISAR-UNCTAD was established in 1982 within the United Nations to study the problems of accounting transparency and corporate reporting. Participation in ISAR is open to all states - members of the United Nations [2]. Given the importance of reforming the national accounting and reporting systems based on international standards to attract investments and provide the development of the national economy, Ukraine participates in the activities of ISAR-UNCTAD UN.

However, cooperation with ISAR-UNCTAD started much earlier. Significant changes in the field of financial reporting in Ukraine were the result of the execution of the Cabinet of Ministers Resolution "On Approval of the Strategy of application of International Financial Reporting Standards in Ukraine" (Strategy) [3]. The strategy was the result of Ukrainian cooperation with UNCTAD. In 2007 it was presented and approved at the 24th session of ISAR-UNCTAD.

In Ukraine the transition to the direct application of international financial reporting standards (IFRS) was held according to the Strategy on 1 January 2012.

As of today The Strategy is almost accomplished.

The next step of cooperation with ISAR-UNCTAD was the capacity assessment for high-quality corporate reporting in Ukraine (from April to October, 2013) in accordance with UNCTAD-ISAR methodology, Accounting Development Tool (ADT). The assessment was carried out by the Ministry of Finance of Ukraine (the MOF).

The assessment process included the following steps: establishing the Working Group of Experts; conducting surveys; processing the surveys' results; summarizing the comments and suggestions of experts; discussing the results, providing reviews of the reports and surveys by the experts from ISAR-UNCTAD and involved experts from EU member states.

26 leading experts and 1 observer were involved in the assessment process.

This Working Group included the representatives of: state institutions – 8 (33,7%); professional accountants organizations (PAO) – 4 (15,4%); preparers of financial reporting – 6 (23,1%); auditors and other stakeholders (also with the representatives of “big four”) – 6 (23,1%); doctors of economics – 2 (7,7%).

In our opinion, the presence of experts from various sectors in the working group allowed to obtain objective and impartial results. Overall 4 sessions of the Working group of experts were conducted. Twenty-four questionnaires were received and processed for further consolidation and discussion.

The number of participants in each pillar is characterized by the following data: Pillar A (Legal and regulatory framework) – 22 experts, Pillar B (Institutional framework) – 23, Pillar C (Human capacity) – 8 specialists, Pillar D (Capacity-building process) – 5, Addendum (Public sector) – 7 experts in this field.

The obtained results of capacity assessment helped to determine actions for further development strategy. The significant number of professionals from the Working Groups and councils of the MOF, from the Methodological Council of Accounting, the Methodological Council for IFRS, the Working Group for examination of the accounting system in Ukraine, the Working Group for the development of the order of financial statements presentation prepared in accordance with the international standards in the electronic form, the Working group on adapting of the legislation on audit regulation to European legislation and independent experts were involved in this process.

In general, the following three strategic directions have been defined. The first is the development of the accounting system, the second is the development of independent audit and audit services market, and the third is training accountants, auditors, heads of departments of state authorities and other experts.

The accounting reform in the corporate sector includes the following components:

- designing the strategy for the development of accounting and auditing in the medium term perspectives;

- working out the order of financial statements presentation, prepared under IFRS in electronic format (XBRL) in accordance with the principle of “single window” and strengthening its processing capacity;

- updating the program “Accounting and Auditing Reports on the Observance of Standards and Codes” (A&A ROSC) (the previous 2002 and 2008);
- publishing a printed and online version of the journal “The International standards of financial reporting and auditing”, acquisition of rights and publishing modern textbooks (3-5 units) on IFRS and audit;
- implementating the national certification of professional accountants;
- adapting the legal framework to the international standards for accounting of small businesses by approving respective national accounting standards;
- harmonizing national standards of accounting transactions that are not reflected in the IFRS;
- working out methodological support for application of national accounting standards (brought closer to IFRS).

Designing the Strategy for accounting and auditing development in the medium-term perspectives is an actual issue. This is a perspective for 5-7 years.

The MOF together with the National Commission on Securities and Stock Market works at the development of the order of financial statements presentation prepared under IFRS in electronic format (XBRL) in accordance with the principle of “single window” and strengthening its processing capacity.

The transition to IFRS revealed one of the main problems - the lack of awareness of information on international standards and practical application by preparers of financial reporting and other stakeholders. In order to saturate informational space in this area we consider the following steps to be taken: publication of a printed and online version of the journal “The International standards of financial reporting and auditing”, the acquisition of rights and publishing modern textbooks (3-5 units) on IFRS and audit, involvement of stakeholders in existing distance learning at the virtual university of the MOF, etc.

In Ukraine we can see a great interest of specialists, especially the young ones, in continuing professional development. From year to year, the number of accountants who received recognition of their professional skills and were certified by the wide-known systems such as ACCA, CIPA and others has been constantly increasing. But the market needs more specialists. Therefore, the phenomenon may become more widespread and the introduction of the national certification of professional accountants can facilitate the process.

For the further economic growth, the development support and promotion of small and medium-sized businesses is of great importance. We believe that gained experience and adaptation to international standards of the legal framework for accounting of small businesses by approving respective national accounting standards will help solve these problems.

The adoption of national standards of accounting transactions that are not reflected in the IFRS and the development of methodological support for

application of national accounting standards (brought closer to IFRS) is also an important task.

In the context of accounting reforming in the public sector, it should be noted that great preparatory work is under way, providing major changes in the Governmental Financial Management. The integrated informational system of the Governmental Financial Management is being developed. Against this background, since 1<sup>st</sup> January 2015, public sector entities have been in transition to national provisions (standards) of accounting in the public sector (NP(S)APS), based on international accounting standards in the public sector (IPSAS).

Currently, 19 NP(S)APS and a new chart of accounts in the public sector were approved and designed in accordance with the requirements of IPSAS. However, the ideology of accrual basis of accounting (put into the new chart of accounts) is new to our system. Thus, the transition to it is accompanied by a number of methodological and technical complexities. To overcome them it is necessary to take some measures, in particular:

1) to design the methodological framework for the application of national standards:

- methodology for the application of NP(S)APS;
- order on how to fill in forms of financial reporting in the public sector;
- improvement of the methods of preparing and consolidating financial reporting;
- harmonization of chart of accounts with budget classification;

2) to develop new software. It should be introduced firstly in the treasury system, and then in budget entities system. Currently, the experts are working on the realization of this task;

3) to provide staff training:

- organizing of training for specialists of the MOF, the Treasury, high and low level administrators of budgeted funds (or spending units);
- holding seminars, conferences, consultations for employees of financial and accounting services of budget entities and funds of obligatory state social and pension insurance;
- training workforce for public sector entities that provide public services (especially for experts in the field of finance and accounting of budget entities);
- providing recommendations for improving the system of training, retraining and upgrading of experts in the field of finance and accounting.

The expected results of the reform:

- adaptation of Ukrainian legislation in the field of accounting and reporting to international standards (IPSAS);
- improvement of public financial management system;
- transparency of financial reporting data in the public sector and its comparability with the similar data of other countries;

- modernization of information and communication technologies;
- improvement in training and retraining of personnel in the field of accounting in the public sector.

Thus, in the field of accounting there are active reform processes. The considerable results have been achieved. However, there will be a lot of further work and it is necessary to provide constant monitoring of these processes in order to find out weaknesses.

At the same time, accounting reforming in the public sector can be considered as a “shock therapy.” In order to smooth this transition it is necessary to provide serious consultative support and explanatory work.

Any reforming and administration will not give the desired effect without control and monitoring of the process. Therefore it is necessary to strengthen the control of the State Treasury Service in compliance with the common rules of accounting and preparation of reporting by spending units and other public sector entities.

The direction “Development of independent audit” includes the following tasks:

- compliance with the European Union legislation on auditing;
- restructuring in the field of audit in accordance with the best practices of European countries (strengthening the role of professional organizations in the establishment and implementation of the state policy in the field of independent audit, their institutional capacity, creation of the system of public oversight of the audit profession, etc.);
- expansion of the scope of statutory audit, development of the market;
- provision of measures for improvement of the ability of auditors on statutory audit in accordance with international auditing standards;
- funding the development of methodological support of the improvement of professional skills of auditors and audit activities in Ukraine.

The independent audit was introduced into Ukrainian legislation 20 years ago. During this period, it passed a long way of establishment and achievements. Country’s economy has radically changed. The implementation of new approaches to the development of the entire system of the independent audit is required. First of all, it is necessary to bring the legislation on auditing in compliance with the European Union requirements.

The institutional structure of audit requires restructuring in accordance with the best practices of European countries (strengthening the role of professional organizations in the establishment and implementation of the state policy in the field of the independent audit, institutional capacity, creation of the system of public auditor oversight, quality control systems, etc.).

Also, the scope of the statutory audit requires the expansion and development of audit services market. The governmental support of improving the ability of auditors to conduct the statutory audit of the financial reporting prepared under IFRS in accordance with international auditing standards through training, development

and introduction of modern methods and audit software is necessary. We consider that competitiveness of the national audit activity will strengthen on this basis.

In terms of permanent reforming of the accounting area, the existence of the direction “Professional development” is crucial. The following measures can be offered:

- strengthening the capacity of financial regulators and tax authorities to use financial statements data while exercising their powers;
- focusing special attention on preparers of reporting under IFRS provisions in the banking and insurance sectors;
- holding scientific conferences and seminars for officials of regulatory bodies and practicing auditors on IFRS implementation and audit regulation;
- organizing study visits of officials of regulatory authorities in countries that have conducted successful reforms in the field of accounting;
- upgrading experts in the field of accounting in the public sector.

The mentioned above demonstrates the importance of cooperation between Ukraine and ISAR-UNCTAD and the impact of ADT results on reforming information environment of management in Ukraine.

At the same time we made some suggestions for further improvement of ADT questionnaires and the report layout as an evaluation tool.

Overall scoring elements should be restructured with the inclusion of the Public Sector as a separate Pillar, not only as an addendum.

To get results that can be compared with the results obtained by different countries, it is appropriate, in our view, for the questions of Pillar A (Legal and regulatory framework) to specify in certain types of enterprises the ones of public interest (issuers of securities, financial institutions, enterprises with a great amount of liabilities, etc.).

In addition, a separate question in this Pillar can be devoted to the quantitative criteria for companies of public interest (revenues, the capital, the number of employees, etc.).

Pillar A (Legal and regulatory framework) can be more specific in terms of use of financial reporting data in corporate governance.

The questionnaire should include more questions devoted to the auditors’ appointment procedure, to the review of the audit report, to the approval of financial reporting, to the elements of corporate reporting and others.

The explanation for filling in the questionnaire should be more detailed on how to answer the question if the category of the question is not legally defined in the country.

It should be noted that experts participating in the questionnaire admitted a high level of ADT methodics. The use of this methodics at the stage of tentative conclusions allowed to obtain significant positive results.

After reviewing the summary report and questionnaire, the summary report was updated in accordance with the changes that occurred in legislation on accounting, reporting and auditing, and new trends of reforming (on 1 January, 2016).



The adaptation of Ukrainian legislation in the field of accounting and auditing to EU provisions is one of the main objectives of reforming of this sector. The main EU document regulating accounting is the Directive 2013/34/EU of 26 June 2013.

A comparative analysis of the accounting and reporting regulatory and legislative framework in Ukraine and the Directive 2013/34/EU revealed the following differences:

- The legislation of Ukraine does not contain the definition of the “public-interest entity” concept, due to this, the scope of IFRS application is not clear enough.
- There are various differentiation criteria for large, medium-sized and small undertakings in the EU and Ukraine, which prevents the development of similar approaches to defining the scope of application of IFRS, National Accounting Provisions (standards) and international standard for small and medium-sized entities (hereinafter – IFRS for SMEs).
- The practice of consolidation of financial statements has not gained an adequate extension in Ukraine. One reason for this is lack of legislative regulation on definition of the group of undertakings and selection criteria for small, medium-sized and large groups.
- Currently, Ukraine has already done some work to resolve the issues of corporate governance. Thus, the National Securities and Stock Market Commission approved the corporate governance principles by its decision of 22 July, 2014 № 955 [4]. However, this document contains no reference to the content, mandatory preparation and procedure of reporting on the position and effectiveness of undertaking’s management.

In Ukraine, in contrast to the EU, annual reporting, which discloses material payments made to governments in the countries in which they operate, in particular royalties, dividends, signature, discovery and production bonuses, licence fees, rental fees, entry fees and other considerations for licences and/or concessions, and payments for infrastructure improvements is not prepared by large undertakings and public-interest entities active in the extractive industry or in the logging of primary forests. The purpose of such reporting is to promote transparency of undertakings’ payments to governments and to improve efficiency of natural resources management.

Thus, the strategic directions of the development in the field of accounting based on the Association Agreement with the EU and the results of the assessment of the capacity for high-quality corporate reporting in Ukraine (ADT) (reported at 31 session of UNCTAD-ISAR) are as follows:

— consistency of Ukrainian legislation concerning the content and presentation of the annual financial statements and management reports for various types of undertakings with the EU legislation;

— introduction of a system of accounting and financial reporting regulation in compliance with subsidiarity and proportionality ensuring compliance of

administrative procedures with created preferences (i.e. interaction of various regulators and participation of professional community in accounting regulation);

- optimization of interests of financial statements' users and optimization of undertakings desire to avoid burdening by requirements to reporting;

- simplification of accounting and financial reporting for SMEs in order to create favorable conditions for entrepreneurship, to reduce administrative procedures and promote the internationalization of SMEs;

- exemption for micro-undertakings (except for investment and financial holding undertakings) from certain obligations, applicable for small undertakings, on accounting and reporting, which would be an excessive administrative burden for them, with mandatory record keeping and displaying all business transactions in it;

- implementation of requirements of the Directive to National Accounting Provisions (standards) of accounting and reporting;

- implementation of the accounting system based on fair value for both annual and consolidated financial statements for all undertakings or groups, except for micro-undertakings;

- introduction of the management report which displays the results of analysis of strategic, social, environmental and production aspects of the business necessary for information disclosure on undertaking's development, performance and position;

- introduction of reporting on payments to governments for large undertakings and public-interest entities active in the extractive industry and in the logging of primary forests in order to ensure transparency of efficient use of natural resources, etc.

Further progress in this area requires considerable efforts of state authorities, civil society institutions, experts. It is also very important for us to support and cooperate with relevant international organizations.

The challenges faced by mankind encourage the search for new tools to overcome them. The world and Europe should be open to capitals, financial and commodity flows, flows of information, knowledge and ideas, experts and people. In this case Ukraine always provides the support and active participation.

A new stage of cooperation between Ukraine and UNCTAD-ISAR started with the participation of Ukrainian experts in the development of the draft Guidance "Monitoring of compliance and enforcement for high-quality corporate reporting: guidance on good practices" (MC&E).

IFRS summarizes the world's best accounting practices. At the same time, as rightly mentioned in the Introduction to Guidance developed by UNCTAD, the benefits of their application cannot be realized unless the standards are properly implemented in a specific national environment. Therefore, monitoring of compliance with standards and their enforcement in corporate reporting are crucial for the achievement of economic and social effects from their implementation.

The MCE system is especially important for emerging market economies entering the global economy as new, independent countries. Ukraine is one of them.

Reviewing the draft Guidance showed that it contains information on key elements of monitoring and control. The objective of the document is to provide relevant policy makers and other stakeholders in the area of accounting and reporting of a specific country with a reliable guidance on creating an effective national system of monitoring of compliance and enforcement and on identifying major changes to be addressed in establishing such a system.

As stated in the Draft Guidance, to build an efficient MCE system, it is important to define its scope and objective, design a set of MCE-related benchmarks, activities and methodologies for both the prevention of bad practices and correction of errors, if necessary. In defining the scope of an MCE system, a decision should be made as to whom MCE-related actions will apply and what kind of information will be assessed.

Good practices of Monitoring compliance & enforcement in the Guidance are shown in the example of countries, which can be classified according to the UN into three groups:

- countries with developed economies (16 countries);
- countries with economies in transition (1 country);
- countries with developing economies (7 countries) [5].

Among mentioned 24 countries, most examples demonstrate practices of countries with developed economies. This is reasonable because the Guidance provides the best practices of monitoring of compliance & enforcement system (table 1).

However, sometimes it is impossible to apply best practices of developed countries in countries with economies in transition or developing countries due to lack of appropriate institutional and legal settings for such implementation.

This is stated in the Guidance, but recommendations are not specified according to the stage of development of the country.

The Guidance indicates that effects of recommended procedures of Monitoring of compliance & enforcement can vary depending on the type of the country and such effects can be different for countries with economies in transition and countries with developing economies.

For example, it is noted that "...developing countries (where the credibility of new laws may need to be demonstrated through enforcement) show measurable improvements in market outcomes after enforcement cases, while this effect is harder to observe in developed countries that already have a credible regime", different stages of development (countries with economies in transition and countries with developing economies). Since there is no conditions for the implementation of Monitoring of compliance & enforcement system elements in such countries, which is necessary according to the Guidance, direct implementation of good practices of developed countries can bring the opposite effect or be ineffective.

**Table 1. Countries with developed economies mentioned in the Guidance**

Europe			Other countries	Major developed economies (G7)
European Union	New EU member States	Other Europe		
Austria	Bulgaria	Iceland	Australia	Canada
Belgium	Croatia	Norway	Canada	Japan
Denmark	Cyprus	Switzerland	Japan	France
Finland	Czech Republic		New Zealand	Germany
France	Estonia		United States	Italy
Germany	Hungary			United Kingdom
Greece	Latvia			United States
Ireland	Lithuania			
Italy	Malta			
Luxembourg	Poland			
Netherlands	Romania			
Portugal	Slovakia			
Spain	Slovenia			
Sweden				
United Kingdom				

*Complied by:* [5].

It is appropriate to supplement the Guidance regarding countries with economies in transition and countries with developing economies, in particular:

- specification of recommendations contained in the Guidelines by examples of different options for countries with economies in transition and countries with developing economies;
- best practices and examples of Monitoring of compliance & enforcement system elements in countries with economies in transition and countries with developing economies.

A separate issue is the scope of MCE application, i.e. which elements within a reporting chain should fall under the scope of an MCE system. We share the point of view, reflected in the Guidance, that the following attributes of institutional functions are essential for promoting a higher quality of financial reporting: rule of law; regulatory quality; control of corruption; government effectiveness; political stability; voice and accountability.

The experience of post-Soviet countries suggests that these factors can be assessed and included in the scope of the MCE system. Political instability, violation of law, corruption and governmental non-transparent activities could be an obstacle for the development of national economies. The implementation of IFRS and International Standards on Auditing will significantly disrupt these negative factors. That is especially applicable to the public sector of the economy. In managing this sector, special consideration should be given to the strengthening of accountability, transparency and performance risk assessment. Therefore, we

propose to include the public sector into the scope of the MCE system: the central and local government budgets (treasury system), high and low level of budgeted funds administrators (or spending units).

The following arguments can be given in favor of this proposal.

First, the public sector has a significant share in the institutional structure of economy in general and Ukraine in particular. This is demonstrated by figures that describe the share of the Gross National Disposable Income (GNDI) of the state governance sector in Gross Domestic Product [6, 7].

Second, the shadow economy is one of the manifestations of corruption in the country. Corruption and the shadow economy are two interconnected phenomena that take place in almost all countries. The “shadow” economy, meaning economic activities not included in statistics and not reported in accounting, exists everywhere. In developed countries, the size of the shadow economy ranges from 8 to 28% of the official GDP, in economies in transition – from 10 to 45%, in developing countries – from 60 to 75% [8, 9].

Obviously, the problem of the shadow economy is very pressing for Ukraine in the transition period. Without its resolution, it is impossible to achieve the economic growth, realize a broad external and internal investment potential, and stabilize the financial and economic system. Therefore, monitoring of compliance and enforcement of accounting and audit standards and requirements in the public sector is a protective device against corruption and the shadow economy.

The third argument in favor of including the public sector in the MCE scope is the existence of high risks for the development of national economies in the area of public sector governance. This is especially relevant to economies in transition.

The public sector governance in these countries increasingly faces uncertainty as a result of transition to market relations and their further development. The crisis situation of the last decade exacerbates the general instability of the economy, the widening of gaps between the growth of financial deficit, and public expectations concerning the public sector performance. The government’s room for maneuver is becoming increasingly limited amid accelerated growth of government expenditures compared to increased GDP indicators. Under these conditions, it is even more difficult to forecast and understand what actions should be taken into consideration in making management decisions in the public finance management system. When making reasonable management decisions, it is necessary to consider the complication of cause-and-effect, or functional relations between the elements of a modern market mechanism. This factor causes difficulties in estimates and projections, in the understanding of relations between actions and their result, and in ensuring the reliability of accounting records and financial statements.

The public finance management sector has a number of risk factors, such as inefficient, irrational use of budgeted funds as a result of abuse of office or

commitment of any other violations or corruption actions. Therefore, the risk to be considered in exercising control and verifying the reliability and fairness of reporting information is a risk contingent upon the probability of making inefficient management decisions and irrational use of budgeted funds. This risk causes an increase in the state budget deficit and a failure of the public sector to perform its core functions, such as a social function. For society, the social function of the State is essential, since it aims to ensure social security of citizens, create an environment conducive for the full exercise of their constitutional rights and freedoms, and maintain adequate living standards.

External risks are generally uncontrolled forces outside the public sector that have a significant impact on the informational support of the public finance management system (in particular, through state regulation and requirements for the accountability system; organizational and institutional circumstances and conditions of the preparation of financial statements). These risks include fiscal risks related to ensuring inflows to the state and local budgets and servicing them.

Internal risks arise within the framework of budget-funded entities and institutions of the treasury system. These risks are mainly associated with an imperfect management system and weak internal control system. These risks constitute a significant part of the informational risk – one of the most serious and pressing issues of current management in the Public Finance System.

A number of risks have a significant impact on the informational support to the state governance sector. That is why it is necessary to modify key elements and MCE benchmarks of the Guidance document to create efficient national MCE mechanisms for public sector entities and professional accountants and auditors who work in this sector, and, by their actions, contribute to the development and enforcement of requirements for financial reporting.

To implement such an initiative, we have offered a number of additions to the text of the Draft Guidance in almost all of its sections.

Additional factors that improve the quality of financial reporting and create a favorable investment and business climate, as stated in the Guidance, include: audit quality, corporate governance level, institutional supervision systems, public disclosure, and participation of the public in MCE.

Going forward, the work related to changes proposed by us to the Draft Guidance should cover the following issues:

1) coordination of the work on issues of strengthening corporate and public transparency and accounting. The Framework for building the MCE system should describe the issues of ensuring:

- quality of accounting records and financial statements in the public sector in defining the scope of the MCE system;
- monitoring of compliance of public sector entities with reporting standards;

2) coordination of the work on monitoring of compliance and enforcement of requirements for corporate reporting. Expand the Scope and Objectives Section of MCE to cover public sector entities: general government, government-owned corporations, and budget-funded entities;

3) coordination of the work on monitoring of compliance and enforcement of requirements for audit and quality assurance:

— expand the Scope and Objectives Section by specifying the Oversight Bodies that supervise and control compliance with accounting standards by public sector entities;

— to disclose institutional mechanisms of internal monitoring, it is necessary to consider the appointment of internal auditors in the public sector, their organizational and financial independence, official subordination and accountability, professional and social protection, etc.;

— in the context of improving procedures and methodology, it is advisable to disclose the criteria applied by national regulators to reforms of national accounting and audit systems, in particular, the best global and EU standards;

— in order to add new institutional mechanisms, it is necessary to state the need for post-audit support services – auditors should present their auditor’s report at the meetings of audit committees, supervisory boards and similar corporate governing bodies and provide relevant recommendations as well as initiate the inclusion of a separate item on the increasing the responsibility of the management of a government-owned corporation for the use of the auditor’s report and implementation of recommendations made by the auditor;

4) coordination of work on monitoring of compliance and enforcement of requirements for professional accountants. A potential area of human resources supervision is the training of workforce for public sector entities that provide public services. The issues related to such training should be added to the MCE Guidance. These issues include: replacing/training the personnel, tender-based selection of a professional accountant/state auditor on a new basis (requirements for the competence and qualification of candidates), mandatory professional certification of those responsible for financial statements/auditor’s report. The scope of the impact assessment should be changed to include requirements for public disclosure in the area of disciplinary proceedings and implementing differentiated (violation-based) sanctions against auditors, audit companies and professional accountants.

The revised text of the draft Guidance MC&E was considered at the 33rd session of UNCTAD-ISAR. This document is relevant for economies at different stages of development; however. It is necessary to emphasize that in transition economies, such as Ukraine, the implementation of provisions of this document is especially important. First, to pursue European integration, we are committed to achieving the UN Sustainable Development Goals adapted to the national

environment. The reform processes require the implementation of the state-of-art governance technologies, including monitoring. It is also important in the context of the tasks announced by the G20 leaders at the Hangzhou Summit in September 2016 (China). In particular, building the stable and resilient international financial architecture under the conditions of global economic recovery and the emergence of new sources for growth that carry downside risks [10].

Second, considering the high vulnerability of transition economies to external risks inherent to the global economic environment, it is necessary to perform the continuous monitoring to check the advisability of goals set and, where appropriate, correct the tactics of reform. It is important to focus on the result, which requires the Government to monitor the implementation of tasks, to assess the current status of reform, in order to identify problems and aspects that need improvement.

Despite an unprecedented burden on the Ukrainian budget because of foreign aggression, our economy shows the signs of stabilization and economic recovery. In particular, there is growth in investment activity – in the first half of this year, gross fixed capital accumulation increased by 11.7% compared to the same period of last year and the growth of foreign investment in Ukraine reached 154%. The rate of real GDP in the 2nd quarter of 2016 compared to the relevant quarter of the previous year was 1.4% (in the first half - an increase of 0.8%) [11].

This economic growth is primarily associated with the factors of recovery in domestic investment and consumer demand. Under these conditions it is critical to perform continuous monitoring.

Joint efforts of our country, international organizations and the European Union to improve transparency, together with other factors, contribute to the gradual improvement of the investment and business climate. Thus, in Ukraine, with support from the UN and USAID, the assessment of capacity in corporate reporting (ADT) has been conducted since 2013.

One of the main tasks in this area is to achieve the maximum transparency of information. Disclosures, on the one hand, must meet the needs of users, on the other hand, should not be too burdensome for the preparers of corporate reporting.

Recent trends show that demand for corporate information grows, because the range of consumers of such information is expanding.

It is important to understand that corporate reporting provides information which is the basis for decision making not only for investors, but also for the government, society and international organizations. Thus, the range of information that should be covered in the reports is expanding to include financial and nonfinancial information, such as a sustainability report, governance report, social, environmental information, remuneration report, etc.

The proposed issue “The role of accounting for Sustainable Development: recent trends and challenges” for deliberation at the 33rd session of ISAR is a subject for debate among the global professional community.



Thus, as noted at the event dedicated to the future of corporate reporting that was held in London this year with support from international organizations the main issues for discussion in this context are:

- growing audience for corporate reporting;
- content of corporate reporting (integrated, non-financial, governance reporting etc.);
- policy making and innovation in corporate reporting [12].

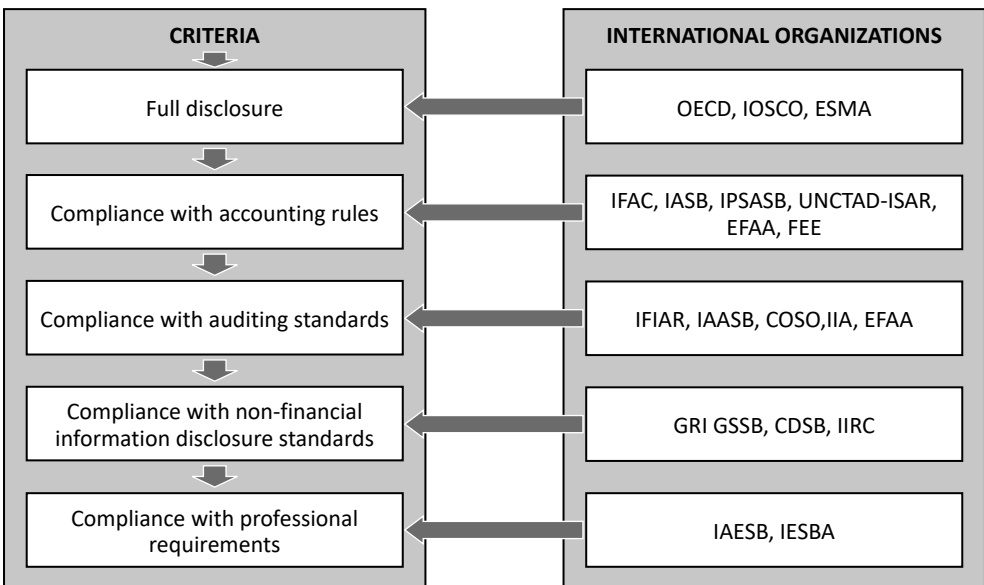
Monitoring of compliance and enforcement for high-quality corporate reporting is one of the tools to overcome challenges and reduce risks that transition economies face (such as financial risks, risks of rapid integration into the international financial markets and interest rate risk) [13].

The most significant aspects of MCE related to the criteria that you can see in picture 1, are addressed by the relevant international organizations mentioned in the Guidance, this is essential for transition economies.

For such countries as Ukraine, it is vital to implement the international best practices presented in the Guidance, but the implementation of these practices should be adapted to the actual economic conditions.

International organizations ,involved in issues relating to monitoring, play an important role in this process, and cooperation of transition economies with such organizations makes reforms more efficient.

**CRITERIA FOR MCE**



*Complied by authors.*

**Picture 1. The criteria of quality of corporate reporting as a subject of activities of the international professional organizations**

The issues inherent to corporate reporting in Ukraine are especially pressing in transition economies and developing countries, because they usually have few elements of monitoring of compliance and enforcement for high-quality corporate reporting system. These elements are primarily focused on the regulation of financial reporting and audit, while the presentation of non-financial information is optional or not regulated.

Just as important is the problem of a lack of coordination and interrelation between those components of the MCE system that exist in the country.

For example, in many of these countries the powers of MCE are divided among different bodies (Audit Chamber, Council for Accounting, Central Bank, etc.). These bodies oversee some areas of those that should be covered by monitoring, such as accounting, audit, the preparation and disclosure of financial information, non-financial information, professional requirements (Albania, Bosnia and Herzegovina, Macedonia, Montenegro, Serbia, Belarus, and others).

In such countries, the scope of MCE is primarily limited to the quality of audit services. The institutional system of such supervision is represented by the Audit Chamber or the Institute of Certified Auditors (which is overseeing auditing) and public oversight body (that verifies the competence of decisions made by the Audit Chamber or the Institute).

A good practice of establishing the MCE body is Georgia, where, in 2016 (two thousand sixteen), under the new law “On accounting, financial reporting and auditing” [14], the supervisory and control authority was set up. This authority is the Council on Accounting, Financial Reporting and Audit Services Quality.

However, the main problem is the need for appropriate sources for development of the oversight system for quality corporate reporting. An equally important aspect in this context is the need to provide highly qualified human resources for the implementation of the MCE, which also requires significant financial resources. It is especially important amid the fight against corruption in such countries.

A lack of consistency between the requirements for high-quality corporate reporting and coordination between agencies that have MCE powers gives rise to the need for a complex approach to reforming the current system of regulation of the preparation of financial statements and the establishment of requirements and institutional mechanisms for the supervision of the non-financial disclosures.

This is a challenge for us, experts in corporate reporting from different countries united under the auspices of UNCTAD-ISAR. It prompts us to work on the creation and improvement of the conceptual framework for building and operation of effective monitoring of compliance and enforcement for high-quality corporate reporting.

The results of this process were summarized and set forth in the draft document “Monitoring of compliance and enforcement for high-quality corporate reporting: guidance on good practices”.

However, this work should be continued in the future, because the situation in the world, as the UNCTAD report 2016 [13] shows, is unstable and requires constant adaptation of mechanisms and tools of regulation to changing conditions.

In the course of finalizing the Guidance, both the content and the structure of the document were amended and updated. An important achievement was the detailing of the MCE principles, including the expansion of transparency, confidentiality and independence principles and the addition of new ones such as accountability, proportionality and public interest focus.

We support the initiative of the EU Member States to implement in the national laws the provisions of the Accounting Directive 2013/34/EU with respect to the obligation to prepare the reports about payments to governments. It has become especially important in the context of the interconnection between the MCE system and the Sustainable Development Goals 2030 [1] developed with the support of the United Nations.

In our opinion, this practice of reporting on payments to governments should be adopted by transition economies and developing countries, especially those that apply for the EU membership.

The examples of the establishment of an MCE body in the EU are very important for such countries. Updating this information was also an important aspect of the document's revision. In particular, the information about different elements and mechanisms of the MCE system in Germany and United Kingdom was updated.

A prerequisite for any reform is the gathering of relevant and complete information about the best current practices, for instance, it is necessary to form a clear view of all the MCE elements and their interaction in order to establish the MCE system. These facts led to changes in the structure of the MCE Guidance. The approaches to introduction of the information about the three basic elements of the MCE system (corporate reporting, audit, requirements for professional accountants) were unified and brought into line with the structure of the MCE conceptual framework (definitions, objective and scope, institutional arrangements, activities and methodologies, monitoring arrangements and impact assessment mechanisms).

Also, it should be noted that the changes in the terminology used in the MCE Guidance, in particular, the transition from the "oversight" of auditing to "monitoring".

In September, we made a number of proposals to further improve the perception of the Guidance and classification of information.

In light of the above, it was proposed to expand information about the regulation and presentation of reports on payments to governments and the MCE best practices for such reports.

The information indicated above proves the advisability of the proposal on presenting the data about the best practices not only by the MCE element, but also by the country. It will be useful to present the information about the best practices

in the developed countries in annexes to the Guidance. This will allow countries that are embarking on the task of implementing such models to choose the most suitable MCE model for the size and structure of their economies.

There is a clear need to unify the requirements for classification of different groups of undertakings in order to enforce the transparency, market efficiency, and comparability of financial and non-financial information. It is critical because the requirements for classification may vary at both national and regional levels.

In implementing MCE, the methodology for assessing the initial conditions and capacity of the country in the field of accounting and audit is the Accounting Development Tool designed by UNCTAD-ISAR.

A survey by this method allows for the detection of gaps in corporate reporting and aspects of oversight that need improvement.

The assessments of various elements of accounting, corporate reporting and auditing can be tracked in dynamics, which is important for determining the success of reform.

Therefore, we proposed to carry out such assessments of accounting and auditing, as well as the effectiveness of the MCE system in countries that pursue corporate reporting reform by using ADT on an annual basis.

The results of this annual monitoring will contribute to the development of the MCE system in countries conducting such assessments. Regular meetings for the discussion of these results will be the foundation for improving the theoretical and methodological pillars of the MCE system and the relevant amendments to the Guidance.

The proposed recommendations will help promote the best practices of monitoring of compliance and enforcement for high-quality corporate reporting, especially for the transition economies that face the abovementioned risks and problems.

In Ukraine, with the full support and assistance of the IMF (International Monetary Fund), we are trying to overcome the crisis and carry out reforms designed to ensure financial stability in the country.

Corporate reporting reform also takes place in our country as in other countries and our participation in the UNCTAD-ISAR Intergovernmental Working Group is of great importance in this process.

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