

Уляна Покиданець

студентка,

Тернопільський національний економічний університет,

Наталія Мельник

к.е.н., доцент,

Тернопільський національний економічний університет

PUBLIC SECTOR ACCOUNTING IN THE MODERN WORLD

The simplest definition of public sector is all organizations which are not privately owned and operated, but established, run and financed by the government on behalf of the public. The definition conveys the idea that public sector consists of organizations where control lies in the hands of public, as opposed to private owners. The objective of public sector is to provide services to the public and profit making is not primary to this sector. Public sector accounting is the process of recording, analyzing, classifying, summarizing communicating and interpreting financial information about public entities in aggregate and in detail reflecting transactions and other economic events involving the receipt, spending, transfer, usability and disposition of assets and liabilities.

According to Adams R. A. public sector accounting as a «process of recording, communicating, summarizing, analysing and interpreting government financial statements and statistics in aggregate and details; it is concerned with receipts, custody and disbursement and rendering of stewardship of public funds entrusted». As mentioned by Fumiki S. «Public sector accounting is an accounting method applied to non-profit pursuing entities in the public sector – including central and local governments, and quasi-governmental special corporations – for which the size of profits does not provide an effective measurement for evaluating performance» [1].

Public Sector Accounting forms the cornerstone for providing an environment for public stewardship and accountability including enabling the citizenry to have financial probity over the collection and use of resources for social and public services. In order, to maintain good social services to the public, it is imperative that Public Sector Accounting is managed properly to achieve the objectives of countries and uphold the provisions of the laws and regulations. For example, in developing countries, where there are huge dependency on donor support, a weak public accounting and finance system may entail withdrawal of donor aid or budgetary support, which might lead to difficulties in financing basic social services like health and education. The importance of public sector accounting finance can therefore not be overemphasised. All government decisions have to be ultimately broken down into financial terms. It can also be said that modern states, cannot function effectively without public sector accounting and finance [4].

The nature of governments and other public sector entities and the environment in which they operate has implications for the concepts that underpin accounting requirements and guidance.

The main purposes of public sector accounting are: ascertaining the legitimacy of transactions and their compliance with established norms, regulations and statutes; providing evidence of stewardship; assisting planning and control; ensuring objective and timely reporting; evaluating costs incurred and benefits derived.

At the same time Public Sector Accounting provides basis for decision making: highlights various sources of revenues receivable and expenditure to be incurred; identifies the source of funds for capital projects; evaluates the economy, efficiency and effectiveness with which the public sector institutions pursue their goals and objectives; provides details of outstanding long term commitments and financial obligations; provides means by which actual performance may be compared with the target set; eliminates corruption.

The development of public sector accounting practices worldwide is encapsulated within global public sector reform. Public sector reform is predominantly based on the idea of improving the manner in which the public sector is managed. The public sector, which is governed by the citizens' representatives (politicians), is composed of a variety of government departments that are responsible for providing those goods and services which all citizens value, but market forces will either under-provide or not provide at all. Thus, in playing such an essential role in the operation of the state's affairs, the efficient management of the public sector is vital, since a well-functioning and proficient public sector is capable of providing satisfactory and quality public services and goods. Hence, public sector reform is about enhancing the manner in which government departments function internally and externally. Specifically, it targets the way departments interact

with a) each other, b) their political bosses, c) the citizens they purport to serve, and ultimately, d) the way in which they deliver public goods and services [3].

In the special resources and publications, we can find modern trends and practices to improve public sector accounting [2]:

1. Analytics: to create accurate budgets, public sector organizations need to take advantage of data. All entities generate millions or even billions of data points every day, and there are almost no limitations on how they can use this information. To give themselves every advantage, entities should try to gather the largest amount of data possible in the most efficient and organized manner. Data analytics increases visibility into the entity, including more accurate details on specific costs, spending and performance.

2. Transparency: transparency benefits public sector entities in numerous ways. One example is that constituents want to know how the entity manages its budget and where the money goes. Making an effort to open data and being transparent also creates public dialogue for the organization and can improve its image. Finally, transparency is beneficial to the internal budgeting process. The deeper stakeholders see into the entity's performance, the better they can manage the budget and adjust for the future.

3. Non-financial performance measures: though often ignored, non-financial issues significantly impact an organization's performance and budget. Public sector organizations need to set, track and evaluate non-financial performance metrics they believe are relevant to their goals. Designating and observing objective measures enables entities to prioritize their limited budgets accurately. Thus, funding goes where it's needed most.

4. Efficient workflow: two problems that plague many budgets for public entities are a lack of organization and set approvals. This is especially true if they rely on a decentralized budgeting system like spreadsheets. Stakeholders need to define specific roles within the budgeting process, ensuring ownership and accountability throughout the cycle. This improves the budgeting process and increases visibility.

5. Strong budgeting tools: implementing modern budgeting practices relies on the right technology. You need technology that efficiently gathers data, delivers state-of-the-art analytics capabilities, and quickly provides an in-depth look into your organization's budget and performance. Organizations need more than standard accounting software or spreadsheets to keep up with the latest public sector accounting standards. They need specialized budgeting software which offers greater accessibility, ease of use, and forecasting options.

There are numerous areas where the transactions, events and other economic phenomena that occur in the public sector are the same as those in the private sector. In such cases accounting that should be applied to determine appropriate financial reporting will probably be the same. However, the characteristics of the public sector may give rise to conceptual perspectives that differ from those in the accounting for private sector.

References

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4. Public Sector Accounting & Finance Professional Level. The Institute of Chartered Accountants in Malawi. URL: <https://www.icam.mw> (Last accessed: 16.10.2019).