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**THE DEVELOPMENT OF THE PUBLIC SECTOR
ACCOUNTING:**

The case study of the Republic of Crimea

BE304E Management Control



Preface

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Abstract

The process of the transformation of the public sector accounting in the Republic of Crimea started from 2014 implying a number of initiatives taken by the central and local government authorities in the relation to the introduction of the changes in the public sector management and new rules and standards of the doing businesses. The public sector entities were forced to get accustomed to the new norms of the game in the first place so that to be able to continue their economic activities. The main forces of promoting a new way of accounting become formal and normative pressures envisaging a large number of new rules, instructions and regulations of the conducting accounting and reporting activities, as well as compliance with them. As the empirical evidence shows that the introduction of a new way of accounting is impeded by the lack of technical preparedness and tools to solve the challenges encountered by the local professionals of the one particular public sector organization.

In the light of the issues mentioned above, this master thesis aims to describe and analyze the initial process of the embedding of new rules and standards for accounting and reporting system on the example of the one particular public sector entity in the Crimea. In doing so, this project work also encompasses the study of the main initiatives of the government authorities towards the new system of the public sector functioning including accounting in order to comprehend the main intentions hidden behind their endeavors to introduce new norms and rules in the public sector entity.

Keywords: public sector, accounting and reporting system, the local government authorities, the central government, accountability, legal framework, norms and rules, the Republic of Crimea, the Russian Federation.

Table of Contents

Preface	i
Abstract	ii
Survey of Tables	iii
Survey of Figures	vi
Survey of Appendixes	vi
List of Acronyms	vii
Introduction	1
1.1. Why is relevant to study the public sector accounting?.....	2
1.2. Context of study: region profile.....	3
1.3. Objectives of the study.....	4
1.4. Problem statement/ research question.....	5
1.5. The rationale for choosing theoretical framework.....	6
1.6. Reminder of the master thesis.....	8
II. Theoretical framework	9
2.1 Introduction.....	9
2.2 Accounting through the system perspective	9
2.2.1 Interplay between accounting and budgeting.....	11
2.3 Accountability perspective	12
2.3.1 The nature of the accountability.....	12
2.3.2 Accountability in the public sector.....	14
2.4 Institutional perspectives	16
2.4.1 Defining different perspectives of the institutional theory.....	17
2.4.2 Isomorphism as a key element towards institutional change.....	19
2.5. Summary.....	21
III. Methodological part	22
3.1 Introduction.....	22
3.2 The philosophy of science.....	22
3.3 The research design.....	23
3.4 Data collection methods.....	24
3.4. 1 Secondary data source.....	24

3.4.2 Primary data collection.....	25
3.5. Data analysis.....	25
3.6 The issues of validity and reliability.....	26
3.7 The politics of access and ethical issues.....	28
3.8 Summary.....	28
IV. Towards a new system of the public sector accounting in Crimea.....	29
4.1 Introduction.....	29
4.2 The transformation path of the Crimean public sector.....	29
4.2.1. The local government initiatives.....	30
4.2.2 The changes in the Treasury activity.....	32
4.2.3. The other government initiative.....	34
4.3. From Ukrainian to Russian public sector accounting.....	35
4.3.1 The legacy of Ukrainian public sector accounting.....	36
4.3.2 The public sector accounting during the transition period.....	38
4.3.3 The new system of public sector accounting.....	40
4.4. Summary of the main empirical findings.....	42
V. The public sector accounting in one particular organization (the Case of “Noviy Svet”).....	45
5.1. Introduction.....	45
5.2 A brief overview of the public sector entity.....	45
5.3 Contemporary developments of the public sector entity.....	47
5.3.1. Towards new legal form.....	48
5.3.2 Organizational structure.....	51
5.4. The Factory Governance System.....	51
5.4.1 The previous system of the governance.....	52
5.4.2 The changes in the governance system.....	53
5.5 Accounting at the winery.....	56
5.5. 1The changes in the accounting policy.....	56
5.5.2 The funding system of the particular public sector entity.....	59
5.5.3. The reporting system of the particular public sector entity.....	62
5.5.4 Challenges of the new accounting system.....	66

5.6. Summary of the empirical findings.....	68
VI. Analysis and discussion.....	69
6.1. Introduction.....	69
6.2. Lens 1: Accounting through “the system” perspective.....	69
6.3. Lens 2: Accountability approach.....	72
6.3.1. The nature of the winery accountability.....	72
6.3.2. The principal mechanisms of the discharging accountability.....	73
6.3.3. The other types of the accountability.....	74
6.4. Lens 4: Institutional Perspectives.....	76
6.4.1 How do the new norms and rules become institutionalized?.....	76
6.4.2 How are the new norms and rules embedded?.....	78
VII. Conclusion.....	81
7.1. Introduction.....	81
7.2. The main empirical findings.....	81
7.3. Contribution to the research.....	82
7.4. Limitations of the study.....	83
7.5. Proposal for further research.....	84
Literature list.....	85
Appendixes.....	100

Survey of Tables

Table 4.1 The composition of main reports has to be submitted within the new accounting system.....	42
Table 4.2 The comparison the development of the public sector accounting from the Ukrainian system to the Russian one in the Crimea.....	43
Table 5.1 The budget statements have to be submitted by the particular public sector entity.....	64
Table 6.1 The accountability mechanism of the particular public sector entity.....	96

Survey of Figures

Figure 4.1. The Structure of the Local Government Authorities: Before and After the transformation process.....	31
Figure 5.1: The dynamics of the Champagne Factory of “Noviy Svet” production during 2010-2014 years.....	47
Figure 5.2: The financing of the Champagne Factory of “Noviy Svet” in 2013.....	49
Figure 5.3. The “Old” system of governing and accountability of the Champagne Factory of “Noviy	53
Figure 5.4. The Up-to-date accountability framework of the Champagne Factory of “Noviy Svet.”.....	54

Survey of Appendixes

Appendix1. The list of respondents and interview details.....	100
Appendix2. Interview guide.....	101
Appendix3. The main accounting reports had to be prepared by the Crimean budget institutions.....	104
Appendix 4 The organizational structure.	105

List of Acronyms

UAS-Ukrainian Accounting Standards

IAS-International Accounting Standards

IFRS-International Financial Reporting Standards

RC-The Republic of Crimea

CFO-Chief Financial Officer

Introduction

The processes taking place in the Republic of Crimea have no analogues in the whole world. The Crimea is the post-Soviet region, which signifies that its past bears a resemblance to Russia state. Consequently, post-Soviet mentality, economic problems and principles of management are all, in fact, remnants of the past. However, the principles of accounting, which lie in the heart of the Western accounting system appear to be at early stage of translation in the system of accounting of the countries with transitional economies like Russian Federation due to a range of objective reasons. These reasons encompass adherence to the old-fashioned ways of accounting conduct and lack of skills or unwillingness of local professionals towards new rules, routines, and standards of accounting promoted by the government authorities (Antipova & Bourmistrov, 2013)

The public sector has happened to be the overwhelming part of the Russian economy since the size of the country, diversity of federal subjects, geographical remoteness, and poly ethnicity require a rigid centralization of power and management. An inalienable place in the process of management of public enterprises is allotted to accounting.

Besides that, accounting, being an element of social and institutional practice, cannot be separated from the context in which it operates (Hoopwood, 1987; Mellembvik *et al.*, 1998; Ahrens & Chapmens, 2007). In other words, accounting should be investigated not only from the perspective of computational functions, but also from the standpoint of interdependence between the processes occurring internally and externally (Miller, 1994). In other words, it implies the interplay between accounting and organizational, political and cultural contexts in which organizations of public sector function (Hopwood, 2005). Consequently, one may go beyond the scope of the particular organizational setting in order to understand how the accounting system of the public sector entity is thought to be altered or modified (Timoshenko, 2008)

The peculiarity of the Republic of Crimea lies in the absence of rigid power and control. Crimean plants, especially the ones located in the coastal area, like the Champagne Factory “Noviy Svet”, will continue working in the shadow as it would be under the old management system. Therefore, the issue above could only be overcome with the new system of rigid centralization, albeit including elements of decentralization and government control. In other words, the control and administration may be established by the capital and in the Republic of Crimea itself.

The Republic as a new de-facto subject of the Russian Federation has to get accustomed to the Russian standards of doing business. The public sector, being the core element of the new system, has to adapt to the new reality in the first place because the changes in the system of management, application of Russian legislation, initiatives of local authorities which are directed towards the provision of a gentle shift to the new rules of the game, all to a greater or lesser extent facilitate the gradual change or translation in the accounting system of the public sector entities in the region.

Accordingly, the ongoing changes and transformations in the accounting system of the public sector organizations have to a high extent been provoked by the appearance of a new approach to implementing economic activities, inherent in Russia, which implies the integration of contemporary accounting technologies and methods as well as strengthening the mechanism of accountability for the public sector organizations.

1.1. Why is relevant to study the public sector accounting?

Over the recent years, the topic concerning public sector transformation and its realignment towards the standardized world has been drawn substantial attention lately. In this context, the notion of New Public Management (NPM) (Hood, 1991:1995; Olson et al., 1998), being a full array of ideas, has exerted strong pressures on the accounting practices (Lapsley et al., 2009). Having spread worldwide as a trend, this tendency has designated a shift from the conventional model of the bureaucracy towards the managerial one. The essence of the former lies in the efficient conduction of power and control, whereas the New Public Management framework implies efficient administration over public resources in a business-related way caused by the new role of government functioning (Hood, 1995; Olson et al., 1998).

In particular, these array of ideas as the NPM agenda are associated with the shifting from the cash - based accounting towards accrual - based accounting, especially put emphasis on the output based measurements in preparing financial statements by the public sector entities towards more efficient and effective resources allocation and accountability (Dunleavy & Hood, 1994; Hood, 1995; Olson et al., 1998; Brunsson & Sahlin-Andersson, 2000; Broadbent & Guthrie, 2008; Lapsley et al., 2009).

Within the academic environment, there are great scope of critique and skepticism towards adoption accrual-based accounting in the public sector entities mainly related to the failure of the faithful

disclosure assets and liabilities, improper resource allocation as well as the inability of the public sector entities to defer their liabilities which in turn induces tax burden for the future taxpayers (Hoque & Moll, 2001, cited in Vinnari and Näsi, 2008:99). However, Lapsley et al. (2009:720) have acknowledged that adoption of the ideas from the private sector, primarily accrual accounting is regarded as a self-evident fact by the exertion pressures over the government authorities to endorse their legitimacy for effective and efficient resource allocation and discharging accountability.

Admittedly, many countries being inspired by this array of ideas have adopted a wide range of developments in their public sector, especially assigned the significant role to the accounting practices and budgeting systems, for example Portugal, Australia, Norway or New Zealand. The comparative international government research (CIGAR) has elucidated that accounting practice developments involve the changing process from pure to accrual accounting or even use of the modified types of cash and accrual methods (Bourmistrov & Mellemvik, 2005). Albeit it is necessary to point out, that rhetoric of the adoption NPM agenda has been not devoted considerable attention from the scholars and practitioners in the context of developing countries and countries with transitional economies (Bourmistrov & Mellemvik, 2005; Timoshenko and Adhikari, 2010). In essence, several scholars have shed light on the government accounting development and its implications in the countries with transitional economies (Bourmistrov & Mellemvik, 1999; Bourmistrov & Mellemvik, 2001; Bourmistrov, 2001; Timoshenko, 2006:2008; Timoshenko and Adhikari, 2010; Antipova and Bourmistrov, 2013). In the light of the dearth of the research concerning public sector accounting development in less developing and countries with transitional economies in the times of change, this project paper aims to contribute to the body of knowledge about the public sector development in times of changes with regards to adoption new norms, rules, routines and changes in the accounting system on the example of the Republic of the Crimea.

1.2. Context of study: region profile

According to Lebedinsky & Kirichenko (2002), occupying a considerably small territory along the Black Sea, the Crimean region is well-known as “an open-air museum” because there is a vast collection of the “monuments” of nature, geology, history, architecture, culture and artwork here. Moreover, this region possesses the deep history and ethnic heritage as it was inhabited by the

various ethnic groups from time immemorial. So we can say that having a unique legacy of the past, the Republic of Crimea is diverse with its history, culture, tenor and way of life.

We witnessed that the Republic of Crimea (the previous name The Autonomous Republic of Crimea) was considered to be a part of the Ukrainian democratic state during the last twenty three years, which has left a trace and impose burdens on historical, economic, financial as well as the social life of the region. Withal, the March of 2014 is becoming as a turning point in the history of the Republic because of the referendum, which has served as de-facto grounds for joining the Crimea to the Russian Federation. This has triggered the processes of the adjustment of the accounting and budget processes towards the new financial and economic system of the Russian state which in turn provokes structural changes and compliance with new norms and rules in order to bring the accounting and budgeting system of the region to the single one (Lukashov, 2014).

From the standpoint of administrative-territorial division, the Crimean region includes twenty five municipalities and higher territorial units such as eleven cities with the status of the Republican Subordination and fourteen districts (The Government Portal of the Republic of Crimea, 2015)

Due to this territorial division, the chosen public organizational setting belongs to the Sudak Municipality. It is situated in the small resort settlement, namely Novyi Svet, not far from Sudak, on the southeastern coast of the Crimea, which belongs a glory of the Crimean champagne creation, whereas Prince Golizin has created his first sparkling wine by the classic French method (Nvsvet.com.ua, without date). The case study of this research project is primarily dedicated to the exploring and discussing the development of the accounting and reporting system of the Champagne Factory of “Novyi Svet”.

1.3. Objectives of the study

The main goals of this research paper aim to describe and analyze the development of the public sector accounting in the Republic of the Crimea on the example of the one particular public sector entity during the transition period. This project work also deals with issues of the accounting and reporting change as well as studies the changes and developments in the legal framework and public sector as whole respectively.

It is worth emphasizing that transition period from 2014-2015 years is chosen as a point of the departure for this project work. I would like to provide two reasons prompting me to start the research from this year. Firstly and foremost, this is considered the turning point of the history of the region. Secondly, a wide range of changes and alterations in the accounting and reporting system of the particular public sector organization and the region as well is thought to be embedded and adopted during this period.

The Champagne Factory of “Novyi Svet” is chosen as an organizational setting for my project work because firstly, it is regarded as one of the largest organizations under the local government authority in the region. Secondly, the head of the organization and chief accountant have agreed to assist me in my endeavors to investigate this topic concerning public sector accounting development and its challenges in adoption and compliance with new accounting norms and rules encountered by this organization and give all necessary information for my project work.

Additionally, there is a need to mention, that this master thesis is said to be a sequel to the previous research project conducted last semester. That is why, the timeframe of the research paper encompasses seven months in total (October 2014-April 2015) (Kravchenko, 2014). In light of all mentioned above, the problem statement and research question are formulated and widely discussed in the next section.

1.4. Problem statement/ research question

According to the issues mentioned above, the questions of how the new accounting norms, standards, and routines are becoming institutionalized and how they are embedded in the practice of the particular public sector entities are assumed to be a central point of this master thesis (Meyer & Rowan, 1977; Czarniawska & Joerges, 1996; Burns & Scapens, 2000). Therefore, the main research question of the project is as follows:

How are the new norms, standards and routines of accounting and reporting system embedded in the daily activities of the certain public sector organization?

At the first place, it is essential to determine how the Russian accounting system and the system of public sector management are integrated in the affairs of the local authorities from the perspective of their legislative activities and other initiatives directed towards transformation and adaptation of

the public sector in the Republic of Crimea in order to answer the question of how the new norms, technologies and practices of accounting and reporting are integrated and exploited in the activities of the certain public sector entity.

In doing so, the study of the main research question is based on the two levels. The first one refers to the main local authorities' initiatives directed towards public sector transformation and associated changes in the legal framework of the accounting and reporting system. The second level is intended to describe and analyze how the new accounting system of the public sector organization looks like and whether or not the new normative system of accounting proposed by the federal and local authorities is translated into the action system of the organization (inspired by Bergevärn *et al.*, 1995).

To understand the development of the accounting and reporting system of the certain entity of the public sector, it is stated to be more better and productive to investigate the complexity of the alterations and developments in the accounting system, centering on the involving and elaborating processes rather than to look at or predict the results and effects of these modifications and evolutions on the particular public sector entity. Thereby, this research work concentrates on the initial attempts of the implementation new changes and developments in the accounting and reporting system of the certain organization rather than on its results and consequences (Preston *et al.*, 1992:563:564, cited in Latour, 1987).

Accordingly, the main emphasis is put on the study of the changes in the accounting and reporting of the particular public sector organization, with consideration of the initiatives in the accounting and reporting system proposed by the federal and local authorities in the present research.

1.5. The rationale for choosing theoretical framework

As previously mentioned, that the theoretical framework of this project constitute of three approaches, namely accounting through the “system” perspective, accountability, and institutional perspectives. To begin with, I would like to point out why I decided to investigate this topic in the light of these three perspectives. It is worth stressing that research papers of the academic milieu of the Bodø Graduate School of Business have prompted me to consider this topic from these theoretical lenses. Secondly, this frame of references can assist in covering all aspects concerning

public sector accounting development over as a technique, interaction between different stakeholders and legitimized environment.

More specifically, accounting through the “system” perspective is used to describe and analyze accounting system from the technical point of view. As Pipan and Czarniawska (2010) have highlighted that the accounting can be viewed through several practices of measurement and implementing calculative techniques that have impacts on the stakeholders. Additionally, it should be added that accounting is closely coupled with the budgetary processes through which the resources are located as well as accountability is strengthened and taken in force both by public entities and within them (Chan, 2002:2). This theoretical approach can serve to elucidate the intrinsic interplay between accounting and budgeting system in the Republic of Crimea.

Secondly, this approach refers to a set of formalized means in order to answer or meet expectations generated both inside and outside of the environment in which the public entities operate (Romzek & Dubnic, 1987). On the basis of these ideas, accountability is scrutinized as a discourse between the accountable and responsible person where the latter may report to the accountable about the conducted actions (Roberts & Scapens, 1985).

It is worth to add, that accountability goes beyond the scope of delegation authority and reporting about actions which have been taken to exercise this power. It means in turn that accountability may be viewed from different perspectives imposing the guidance of such delegation (Robinson, 2003). Therefore, accountability approach is applied to illustrate the interrelationships between local government authorities and public sector organization of the Republic of Crimea, but it also will contribute to the study of institutional processes of the accounting development of this region over time.

The reason for the adoption of the institutional framework is that formalized rule-laden nature in which organizations operate (Meyer & Rowan, 1977). This can be stressed by notion is that institutions involve both in processes, namely triggering and forming of the changes within various contexts as well as they are implicated in changing themselves within these settings (Dacin *et al.*, 2002; Lawrence *et al.*, 2011). That is why the institutional approach is useful for describing and analyzing how the accounting system has been changed. In addition to the mentioned above, as Mellemik *et al.*, (2005) have pointed out that the accounting as institutionalized instrument can serve to elucidate the interaction between norms and actions, but it should be utilized as learning instrument how the standards and practice are embedded, interpreted and traveled.

From this followed that adoption of institutional approach in this research work is intended to elucidate the ways in which the public sector accounting norms and practices are emerged and traveled over time (Czarniawska & Joerges, 1996; Czarniawska, 2009) and provide possibilities to make inquiries into reciprocal processes between local government legitimacy of adoption norms and rules and public sector organization action system in the Republic of the Crimea as well as to get a deeper inquiry into the conflicts and challenges arising from such relationships.

1.6. Reminder of the master thesis

The master thesis is organized as follows. It includes the short overview of the topic, the relevance of the study, context of study, the main objectives, the problem statement/research question as well as the rationale framework are presented and discussed respectively. The second chapter of this project work refers to the theoretical framework, including three lenses, namely the accounting through the “system” perspective, accountability approach, and institutional perspectives. Thirdly, methodological issues and techniques utilized in the study of the central topic are elucidated in the methodology part. Next, the chapters 4 and 5 are devoted to bringing to light the main empirical findings obtained during the investigation of the research topic. The chapter 4 deals with the package of the initiatives in the field of the public sector transformation as well as the accounting and reporting system change over time undertaken by the federal and local authorities. The chapter 5 of the master thesis primarily discusses the main alterations and changes in the accounting and reporting and the way in which the new norms, routines, and techniques are incorporated or utilized in the particular public sector entity. Moreover, the issues of the changes and adjustments in the legal status, financial funding, accountability and management system as well as the main challenges encountered by the certain public sector organization are presented in this section of the project work. Further, analysis and discussion of the empirical findings are taken in the light of three theoretical lenses in the chapter 6. Finally, the issue of the main conclusions and suggestions for the further research are raised in the chapter 7.

II. Theoretical framework

2.1. Introduction

In this part of the research project, the relevant theoretical concepts and perspectives are elaborated and discussed to respond to the main research questions of the study. As is previously pointed out, the frame of references for this research constitutes of three theoretical ‘lenses’. The discussion starts by covering the main aspects of accounting and its components as well as discussing the relationships between accounting and budgeting. Then accountability approach is applied and examined with the emphasis on the nature of accountability and its implications and reflections in the public sector. Afterward, different perspectives of the institutional theory and the principal mechanisms of the exertion pressures over the organizations are adopted as well in order to trace back the processes of the changes in the accounting practices. The final section of this part summarizes the discussion of the main theoretical concepts and perspectives presented in this research project.

2.2. Accounting through the system perspective

The accounting as a phenomenon has been widely discussed in the management control literature in different ways. One line argument here states that the accounting is described as a “technical, formalized, number-based way of describing the consequences of action” (Solli & Jönsson, 1996:20). This issue is subjected by the fact that accounting represents itself more than a set of techniques and procedures, but it is the critical measurement element of the management control system for purposes to make decisions, planning and attaining goals (Busch, 1997; Jönsson, 1996; Timoshenko, 2006; Gårseth-Nesbakk, 2011). Additionally, accounting system may be judged on its ability of accurate reflection and shaping of this reality (Hopwood, 1987; Morgan, 1988; Hines, 1991; Riahi-Belkauoui, 2004; Bayou et al., 2011) as well as considered as accountable as a legitimized apparatus for making judgments and achieve mutual interests (Oguri, 2005).

The idea expressed by Hopwood is that accounting is implicated “in the excising of social power” within the context in which it operates (Hopwood, 1987:213). Another argument in favor of the mentioned ideas was expressed by Ahrens and Chapman (2007). The scholars criticized directly at

the point that accounting may be not viewed as focusing only on its operational functions mainly because accounting creates its context (Ahrens & Chapman, 2007). As is noted already, accounting represents itself as a system of interrelated components which are intended to reflect faithful and accurate recording of the accounts for purposes of fulfilling targets (Ruland, 1984; Mellemik, 1998; Timoshenko, 2006).

In addition, it is important to emphasize that faithfulness is one issue imposed by the accounting policy. Equally important here is to made focus on the main theoretical concepts, techniques and postulates that design the system of the accounting, especially in a hierarchical manner (Riahi-Belkaoui, 2004). The discussion begins with the point is that the accounting is intrinsic two fundamental objectives in terms of facts and reporting events such as accountability and decision-making functions from the normative standpoint. The former requires the provision of information concerning the conducted actions. The later plays a role of the grounding support for decisions taken by the entities (Mellemvik et al., 1998). However, as regards to the accounting operation in diverse contexts, the purposes of accounting objectives could vary from the initial ones. As a result, the accounting as a system obtains many additional objectives to the initially expected (Mellemvik et al., 2005; Oguri, 2005; Olson, 2014).

Further, the accounting concepts encompass characteristics of the accounting, including the accounting and reporting methods and disclosure requirements and definitions of the elements of financial statements. As for accounting postulates, they tend to underlie the main fundamental statements about entity ownerships, going concern nature of the organization and held to account for the transactions in a uniform manner. Accounting principles are assumed like rules of recording, measuring and communicating transactions employed by the organizations. Accounting methods and techniques maintain transaction processing through management accounting system (Riahi-Belkaoui, 2004).

Taking account mentioned above, accounting is intended to describe from the prism of what and how is expected to be done and how it has been done if one considers accounting as a social and institutional calculative technique that triggers structural changes and alterations in the system (Miller, 1994). Furthermore, this section involves describing and analyzing accounting in relation to budgeting processes.

2.2.1. Interplay between accounting and budgeting

As the examining literature has revealed the fact that there is an immediate linkage between accounting and budgeting where these interrelated components involve in incurring and discharging accountability within public sector entities (Wildavsky, 1986; Hogheim et al., 1989; Jones, 2000; Chan, 2003; Parker & Kyi (2006) have argued with reference to the prior research made by Hopwood (1976) that data communication between “superior” and “subordinates” is held by the means of budgets. More specifically, budgets can be implicitly and explicitly viewed through the lens of the articulation of the political preferences by which the resources are distributed, especially in order to perform various functions including planning, decision-making, control, communication and so forth (Wildavsky, 1986; Olson, 1990).

If we look from the government perspective, the budgets are assumed to secure, firstly and foremost, the expression of the government policy and incentives in terms of disclosure, financial reporting and achieving macroeconomic objectives. Particularly interesting here are the ideas that accounting acts as an instrument of the providing budget execution power and manifestations of the accountability and the responsibility delegation (Chan, 2002; 2003).

Another issue concerning budgetary processes that may be raised is that the mechanistic nature of the accounting in the budgeting processes. As Olson (1990) advocated that the primary task of the budgets be considered to concentrate on the planning of the future actions while the accounting system is indented to record the past events. This argument is in the line with the ideas pointed out by Hogheim et al., (1989). The ideas indicate that accounting is considered as a “machine metaphor” which is implicated in the processes of the transforming ideas imposed by the government on the budgets into the recording actions taken by the entities. (Hogheim et al., 1989) The scholars have stated that the process of the control by the governmental authorities constitutes of the formulation programs which are grounded on the budget, recording in the accounts as well as reporting and evaluation of the information based on the taken actions (Hogheim et al., 1989; Olson, 1990).

In the light of the mentioned arguments, it is worth to say that an investigation of the interplay between accounting and budgeting is supposed to be a key element of the portraying of whether the accounting reporting ideology of the local government of the Republic of the Crimea are developed and changed over time. Moreover, getting an inquiry into the different of perspectives of interaction

between accounting and budgeting will assist in the deeper analyzing on how public sector accounting is evolved in this region. In addition, accounting as a system approach and linkage between accounting and budgeting will help to illuminate the ways how the public sector accounting incentives applied by the local government are embedded in the accounting mechanisms of the public sector organization. The next part of the theoretical framework is intended to define and depict the accountability approach applied to this project work.

2.3. Accountability perspective

According to Ebraheim (2003) the main challenge of defining the nature of the accountability lies in the fact of the facing a set accountabilities by the entities. It refers to the issue of the top-down and externally driven accountabilities. In the light of this, that accountability may be viewed by means of externally giving the accounts for the actions and internally taking responsibility by individuals and organizations. Therefore, this section, firstly of all, reflects the nature of accountability processes and then provides a discussion of the alteration of the accountability experienced in different ways both in the local government and in the public organizational settings. It helps to throw the light on the challenges and implications of the incorporated accountability approaches in the public sector accounting of the region.

2.3.1. The nature of the accountability

The accountability perspective implies to some extent the existence of the links between accounting and accountability. It clarifies the ways how the accounting information should be used to the communication and creation of the “images” to which there is a need to be accountable for (Ahrens, 1996:140). The accountability can be applied in particular to the relationships among stakeholders, precisely which encroach and charge responsibility for the conducted actions. This in turn involves the grounding for judgment about the notion of such conduct and accepted performance (Sinclair, 1995:221:222) and elucidating the linkages between “normative discourse” and “organizational conduct” (Ahrens, 1996:140). Consequently, that accountability calls for presentation of the accounts and reporting them. It also entails the engagement in the debate between different actors (Schedler, 1999).

As Sinclair (1995) identified, that accountability resembles a “chameleon” including five types of the accountability, namely managerial, political, personal, public and professional. On the contrary, Roberts (1991) advocated that accountability can be displayed through the “distorting accounting” model by which the individual can discover yourself or others. It implies the presentation of the “individualizing” form of the accountability. Another form of the accountability proposed by Roberts (1991) is called socializing one. Accountability of this kind is implicated in the providing possibilities for getting diverse experiences of oneself and attitudes to the others (Roberts, 1991:363). “Individualizing” form of accountability is indented to represent the world as a whole system with the help of the embedded routines while socializing form of accountability displays the relationships within this world by the means of non-instrumental tools (Timoshenko, 2006).

Starting from the issues as noted above, it should be said, the notion of the accountability carries the social nature which explains explicitly the involvement of the individual in the reciprocal processes of the reflecting accounts to each other in order to articulate the meaning of the actions which are supposed to be taken (Goddard, 2004:545).

As many studies explicitly have articulated, that accounting and accountability are connected with each other where accounting serves as interlink between two parties in order to show their mutual rights and duties (Roberts & Scapens, 1985; Ahrens, 1996; Mellemvik et al., 1998; Goddard, 2004; Olsen, 2013). Roberts (1991) has stated that accounting information facilitates the security of accountability because the routines of accountability are embedded in the accounting system. The recording and reporting of the accounting information entail the strengthening of the principal control over the agent and minimization of uncertainties during the monitoring of the agent activities (Bourmistrov & Hansen, 2014). From this follows, that accounting should be considered as a fundamental aspect of facilitating accountability within and outside the organizational settings and ensuring decision-making and control (Mellemvik et al., 1998; Timoshenko, 2006; Bourmistrov & Hansen, 2014).

With respect to the government accountability, it should be noticed that public accountability can best be understood by examining through the three levels of the reciprocal processes between the stakeholders. To be more precise, these processes are compromising the relationships among principal and agent; the bureaucracy and chief executives; executives and government policy; government and society (Chan, 2003:14). If we look at the accountability through the prism of the principal-agent theory, the accountability is viewed as the processes of the waging a struggle

between two actors, namely principals and agents over the resource allocation by the incentives, norms, social order as well as “habitualization” and “internalization” (Olsen, 2013). This indicates that norms, values, and behaviors are internalized and adjusted through accountability processes (Bovens, 2007). Moreover, the principals force the agents to behave in the favor their aims by the means of the incentives (for example, norms). Additionally, it might be mentioned that accountability is integrated into the institutions that have significant effects on the notion and action of the accountability (Olsen, 2013). However, as Muglan (2000) claims that the dominance of the agent in the relationship triggers the challenges in maintaining control over the agent by the principal.

The overriding comment to the principal-agent theory is that there is great deal of the existence of information asymmetry that elucidates the reasons for conflicts emerge, as well as opportunistic behavior prevailing between policy-maker (principal) and organization (agent). Since the existence of the conflicts between principal and agent provokes the agent not to perform in the favor of the principal’s interest which in turn entails the trust losing between these two parties. In this case, accountability tends to improve the reciprocal relationships between principal and agent trough implementation of the formal agreement and structural control. It may be noted that this view is evidence of that trust-based nature of accountability relationships (Swift, 2001:17:18).

In essence, the accountability refers to the relationships between agent and principal. The former obtains an obligation to give explanations and justice of the actions that are performed while the latter put questions and gives judgments. To be more precise, this means that public entities should hold to account for their conduct to different forums (e.g. local government) (Bovens, 2007).

2.3.2. Accountability in the public sector

The concept of public accountability has been addressed within the management control literature. For example, Paul (1992) pointed out that public accountability comprises of the vast number of approaches and mechanisms implemented by the different actors (stakeholders) to maintain the desired goals and the high level of performance. In the light of government accountability, as Aldons (2001) has stated that public accountability refers to relationships between government entities (e.g., council of ministers) to discharge responsibility. The public accountability has been described from the perspective of formal control assigned between one who is held to account to

another, who is exercised stewardship of public services. For instance, whereas the local government is accountable to the federal government for formulation and implementation policy, ministers and departments are held to account to the local government for the conducting policy and the provision of public services and interests (Ranson 2003).

In that way, the underlying issues entail the bureaucratic and hierarchical nature of the relationships between the actors. It should be mentioned that public accountability is performed in the form of “upward” streamline of the accountability discharging. However, public entities are accountable not only to the principal but are also involved in the processes to hold to account to the considerable number of stakeholders in the environment. Hence, this type of the streamline is called “downward accountability.” Therefore, the main dimensions of the public accountability should encompass compliance, transparency (Shauol et al., 2012). Brennen and Solomon (2008) have stated that one of the mechanisms for achieving transparency and compliance is assumed to occur through the accounting, financial reporting, and accuracy.

Accountability can be implemented in different forms. Bovens (2007) distinguishes three types of the accountability namely, vertical, diagonal and horizontal with the emphasis on the obligation nature imposed by the agent. Vertical accountability is based on the formal execution over the actor. If we look at the case of the charging of the legal responsibility that is identified in accordance with the nature of the principal, the principal (e.g. government) exercises formal power over the actor with regards to laws and regulation, but on the basis of the principal-agent relationships.

As for traditional horizontal accountability, it implies the providing reporting to different stakeholders in the environment carries in the voluntary manner without the intervention of the principal into the relationships. In addition, the relationship between two parties with equal position is also termed as horizontal accountability (Bovens, 2007).

According to Gray & Jenkis (1993:53:56), there is significant scope of the implications of the accountability of the public sector entities which include mythical, technical, legal, economic, social and political rationales of the implementation of the stewardship. Firstly, mythical rationality deals with the commitment to the values, traditions and behavior. Secondly, a technical rationality of the accountability is to provide judgment for purposes of improvement performance of the actors. Thirdly, legal rationality involves the reproducing, internalizing and changing of the rules and norms by which authorities monitor and promote social order. The last one, political rationality concerns to the decision-making with regards to the principal’s interests.

Besides, the scholars have pointed out the wave of the New Public Management ideas (NPM) attempted to transform the reality of the public sector accounting and accountability where the latter is merely shifted towards personal responsibility (Gray & Jenkins, 2003). A critique of this assumption considered prevailing of the individual accountability is posed by Messner (2009) with reference to the prior research (Sinclair, 1995). It underlies there is a great concern about the difficulties of the measurement personal accountability because of the limitations of this type of accountability.

Getting insights into the accountability perspectives can help to investigate the alterations of the accountability patterns in the local government authorities of the Republic of the Crimea and address the main streamlines and implications of the accountability approach to the stewardship within local governments, organizational setting and between each other.

2.4. Institutional perspectives

Over the recent years a significant number of the scholars and practitioners have noted the role of the institutional perspectives in the scrutiny of the management accounting change and learning (Meyer & Rowan, 1977; DiMaggio & Powell, 1991; Bergevärn *et al.*, 1995; Czarniawska & Joerges, 1996; Burns & Scapens, 2000; Beckreft, 2010). According to Burns and Scapens (2000), accounting system deals directly with the norms and rules that are considered the core elements of the existing organizational and social settings. The important point here is that framework of values, norms, and taken-for-granted assumptions, posed by the institutional perspective, forms the guidelines for making changes within the social and organizational environment (Oliver, 1997). That is why it is worth mentioning that accounting is recognized as institutionalized and learning instrument to investigate the development, interpretation and travelling of the norms and rules like a myth posed by the formal organizational structures in order to obtain legitimacy, resource and ability of the surviving (Czarniawska, 2009).

This section of the research project tends to highlight how norms and practices in the public sector accounting are developed and institutionalized within the general organizational setting and investigate how the pressure imposed by the formal structures have an impact on the way of the conducting public sector accounting in the region for getting comprehensive understanding about the public sector accounting development over time.

2.4.1. Defining different perspectives of the institutional theory

One of the points of view to look at the phenomenon of the prevailing formal organization structures was proposed by Meyer and Rowan (1977). They have claimed that that process of the institutionalization encompasses the incorporating of the practices, obligations, norms, procedures, programs and taken-for-granted assumptions as a rule-like notion which are embedded in the consciousness of the social world and operate as a myth. This underlines that these components of the formal structures are the promulgation of the institutional legitimacy and bureaucracy (Meyer & Rowan, 1977). However, it should be said that some incorporating rules and routines tend to fail to acquire taken-for-granted status mainly because of the resistance between different institutional frames within the organization (Burns & Scapens, 2000).

As Scott (1987:496) has stated, the institutionalization of the environment involves the acceptance of the predetermined construction of reality depicting the ways what the things mean and how these things must be done. Additionally, Burns & Scapens, (2000) have claimed in his article that the institutionalized nature of the organization can be constructed and become apparent through the processes of the learning which are realized by the means of the norms, rules and routines whereas the rules involve the formalization of procedures while the routines mean reproduction of the procedures. The central point here is that learning processes maintained interaction between well-established accounting traditions and incorporated new accounting practice by the investigation new procedures, as well as employment taken-for-granted rules at the same time (March, 1991).

Consistent with the ideas expressed by Meyer & Rowan (1977), DiMaggio and Powell (1983) provided a theoretical frame, which illuminates three types of the forces having impacts on the institutional change. The scholars argued about the homogenization of the organizations which means that organizations resemble each other because of firstly, formal and informal pressure exerted on the organizations (DiMaggio & Powell, 1983) and secondly, of the taken-for-granted nature of incorporating norms and rules (Becreft, 2010). Scott (2008:432) highlighted that the organizations shall be obliged to incorporate changes in their formal structures for sustaining conformity with the institutional norms and rule.

Carpertner & Feroz (2001) pointed out in the analysis of the accounting choice from the prism of the institutional theory that values, politics, rules and norms might be considered the drivers of bureaucratic self-interests. This issue deals with the notion that accounting choice can be explained

by statutes, government authorities and organizational power. First, the regulations of the organizations determine the ways and methods of the accounting practices in the organizations. The second is related to the government authorities, which exert pressure on organizations. Furthermore, the powerful organizations can influence the accounting choice or even changes in the accounting practices carried by the public authorities (Carpertner and Feroz 2001). It should be noticed, that these ideas emphasize that accounting practices are implemented by the organization based on the assumption of the predetermined ways how the things might be done rather than on the rational decision-making. For example, government authorities imprint accounting practices in the instructions or laws by binding organizations to employ such accounting methods (Carpertner & Feroz, 2001).

If we look at the translation ideas and practices embodied in the institutional environment, the main proposition concerning this phenomenon is addressed by the concept of “travel of ideas” which can help to understand institutional change (Czarniawska & Joerges, 1996; Czarniawska, 2009; Kurunmaki et al., 2011). This concept involves step by step processes of circulation ideas and practices from time and space of their origin and then these ideas and practices are described and materialized through abstraction (Czarniawska & Joerges, 1996; Czarniawska, 2009). As Czarniawska (2009:425) argues that a circulation of the ideas entails the “symbolic associations” where the ideas and symbols might be transformed into words and images. They travel of the words and images occur if they are emerging in someone’s head, then materialized or simplified to the object. Kurunmaki *et al.*, (2011:4) has stated that traveling of ideas (reforms) and instruments (practices) of the management accounting is assumed like “negotiated order” within and beyond the state. The “negotiated order” can occur in the line with those who implemented changes or in opposite way. In this case, the latter is concerned to the “de-institutionalization” of the well-established rules and norms when “new ways of doing things are more legitimate than older one” (Antipova & Bourmistrov, 2013:446).

Accordingly, that the underlying perspectives of institutional theory emphasize the great role of embodied traditions and rules as “ceremonial myths” (Meyer & Rowan, 1977) in explaining the accounting choice, the nature of the exertion formal and informal pressure on the organizations as well as the processes of translation ideas and practices. As Zilber (2002) claimed that the coupling among well-established traditions, meaning and the actors are supposed to lie at the heart of the emergence of the institutionalized environment. The next section tends to reveal the many

mechanisms of the exerting pressures on the organizations in the light of isomorphism in order to get broader understanding the ways of the institutional change.

2.4.2. Isomorphism as a key element towards institutional change

Within institutional theory, many scholars and practitioners put their emphasis on the investigation forces posed by the institutionalized reality which provoke institutional change as well as induce the homogenization of the organizations (Zucker, 1987; DiMaggio & Powell, 1983; Scott, 1987:2008; Deephouse, 1996). The process of the homogenization is conceptualized by the phenomenon called isomorphism which implies resemblance one organization to another one with regards to incorporating similar formal structures, procedures and traditions (Deephouse, 1996). As stated by Meyer and Rowan (1977), the organizational structures establish institutional linkages for purposes to endorse their legitimacy, acquire resources and ability to survive. Oliver (1991:185:186) has pointed out that the establishment of the institutional linkages entails the recognition of the organization by the social actors and ensure accountability, which refers to the consistency with well-established norms, rules and the ways of conduct.

As for the endorsement of the legitimacy, Deephouse (1996) has identified two types of the endorsement namely regulatory and public which encompass acceptance of the organization by the government authorities and the general public. On the one hand side, the institutional environment provides norms and rules that should be taken-for-granted by the organization. However, on the contrary, the organizations establish their ways of doing things that in turn may be accepted by the social actors (DiMaggio & Powell, 1983; Deephouse, 1996). However, as Kang and Yandori (2011) noticed, if the incorporated new organizational practices are inconsistent with well-established norms and rules then this evokes the decoupling of the practices.

Another issue concerning the implications of isomorphism is associated with the mechanisms of transmitted well-established and taken-for-granted structures and procedures for the organization. DiMaggio and Powell (1983) have distinguished three types of the mechanisms, namely coercive, mimetic and normative which induce the institutional change especially homogenization of the organizations.

First of all, the coercive mechanism involves the processes of the formal and informal exerted power over the organizations in the ways to oblige them to incorporate institutional structures and

procedure to meet institutional demands. Admittedly, this type of mechanism is considered as the outcome of the formal pressure from the external forces, including legal requirements, safety regulations or contractual obligations (DiMaggio & Powell, 1983; Ashworth et al., 2007; Due to Ashworth et al., (2007), the nature of the coercive mechanism lies in the implications of the political processes rather than adoption new techniques or procedures. Ashworth et al. (2007) have provided skepticism towards the evidence that claims that informal and formal exertion of the pressure provokes the changes towards institutional homogenization. He stated that new political regimes like influential bodies constructed institutional structures that can be different from the previous ones. For example, accounting regime changes, on one hand side, involves the insertion of the new set of the techniques and procedures or norms and rules, but on the hand side, some of the techniques and procedures or even ways of doing things can be preserved from the previous accounting regime (Antipova & Bourmistrov, 2013:443).

Secondly, the mimetic mechanism involves the processes of copying or imitation of the organizational structures, activities or procedures. As usual, organizations imitate or copy because of the prevailing uncertainties within organizational settings. It refers to a great number of the management practices. This type of exerting pressure on the organization is associated with getting knowledge through the learning experience of other agencies. The organization models itself based on the successful examples of the organizations from the same or similar fields where another organization creates its ways of behavior which is treated as legitimized (DiMaggio & Powell, 1983; Honig & Karlsson, 2004; Ashworth et al, 2007; Paauwe & Boselie, 2003).

Finally, normative mechanism tends to depict the implications of the professional codes and practitioners on the organizational attributes. This elucidates the ways in which organizations can pursuit the conformity with the professional standards and incorporate the structures and procedures which are perceived to be legitimized by the different occupational groups (DiMaggio & Powell, 1983; Ashworth et al., 2007). It states that professional networks are considered as the primary bodies that construct institutional patterns (DiMaggio & Powell 1983).

As Paauwe and Boselie (2003) have stressed out, such professional networks represent the centers by which organizational norms and standards are developed and diffused among different professional actors. In addition to the mentioned above, DiMaggio and Powell (1983) described, that normative pressure is stemming from three types of sources including professional institution and networks but also highly educational bodies and society. The scholars have claimed that

normative processes have an effect and bound the professional groups like in the organizational settings.

2.5. Summary

The discussion of this part is mainly related to the specification of the main theoretical concepts and perspectives. The theoretical framework of the study includes three theoretical perspectives such as accounting as a system, accountability approach, and institutional theory. At the beginning of each section, the arguments in favor for the chosen theoretical perspectives are illuminated and described. Within the first theoretical perspective, namely accounting as a system, the discussion starts with a description of the accounting system and its main linkages to the social, organizational and institutional contexts. Moreover, the interplay between accounting and budgeting are presented as well. It allows describing and analyzing the main changes associated with accounting and budgeting system occurred within institutional (e.g. local government authority) and organizational settings (e. g organization under the local government authority, namely “Novyi Svet”). The second section of this theoretical part encompasses the nature of accountability approaches, its implications and the challenges associated with adopted accountability approaches in the public sector. The third theoretical ‘lens’ respectively concerns how accounting norms, rules and routines are developed and institutionalized as well as describing the main pressures on the accounting practices, namely coercive, mimetic and normative which accompany processes of accounting developments and alterations in the public sector.

III. Methodological part

3.1. Introduction

This chapter of the master thesis embraces the description and discussion the main methodological and philosophical assumptions underlying this research. It helps to draw attention to the main issues related to the careful and precise putting of the research questions and the objectives. The methodological part also describes the combination of methods and techniques that are identified as central tools in order to collect all required data and obtain a broader understanding of the research phenomenon. It involves a multistage path covering all aspects of doing research concerning the proposal of some philosophical suggestions about the research, identifying relevant data collection procedures and issues of receiving data analysis and interpretation. Then the quality level of conducting research, including the questions of validity and reliability may be discussed as well. Moreover, the ethical issues and politics of access of conducting this research are also presented in this part of the project. Finally, the methodological section ends by summarizing the main methodological points associated with conducting this research project.

3.2. The philosophy of science

Referring to the philosophical positions of the research which constitute of positivism, social constructionism, and critical realism, this research paper is written in the line of social constructionism. This philosophical paradigm is applied because it is implicated in the assessing various constructs and perceptions about what people mean and pose upon their gained experience (Avlesson & Sköldberg, 2009:15). It may be done by conducting interviews with informants in the local government authorities, accountants, CEO of the organization and others to construct the reality through telling stories (Easterby-Smith et al., 2012). In particular, this theoretical paradigm could be associated with an interpretative research approach which in turn concentrates on individuals' perceptions, experiences and meaning involving in the processes of knowledge development (Avlesson & Sköldberg, 2009:9).

3.3. The research design

In the order to answer the central research questions and achieve the goals of the study, the question about formulation research design might respectively be described. In the light of the main research questions to contribute to theoretical and empirical research about public sector development, exploratory research design with the features of descriptive tool analysis is applied. The former is intended to shed light on the new ideas about a social phenomenon, investigate what took place and gave opportunities to envisage the essence of the examined research topic. In doing so, the primary data will be collected by conducting in-depth interviews. The latter concentrates on the description and analysis of the main concepts and characteristics and features related to the central theme (Mitchell & Jolley, 2007).

Moreover, this research project is based on the describing and analyzing a single case study, namely public sector accounting development based on the example of the Republic of Crimea. The single case study embraces deeper investigation of particular events, processes, real situations rather than the study of the cases that are implicated in the study of the overall issues being inherent in the general situations. A wide range of techniques is employed in conducting case study research, including archival analysis, observations, interviews, questions and so on. Interviews and archival research are used for this research project, which are addressed and described in detail below (Yin, 2014).

The case study of the Republic of Crimea is considered in terms of the initiatives of the central and local authorities which aimed at the transformation of the public sector and began to influence the public sector entity namely the Champagne Factory of “Novyi Svet”. In my research project, the emphasis was placed on the study of the organization as mentioned above and innovations in accounting. I also focused on the perceptions and experiences of the local professionals of the particular public sector organization in order to better comprehend what they posed upon their personal experiences and perceptions on the novelties in the accounting and public sector functioning as well through telling stories. In order to better understand what it is going on within the precise organization, I focused on the questions why and how the novelties are embedded and what the main intentions are behind such changes. As the main focus in my study was made on the understanding stories and meaning behind them that are told and put by the local experts, in this way, the new theoretical framework or concepts can arise from the information obtained during the interviews. Therefore, this research has qualitative character, and the inductive approach was

employed during the collection of the data and interpretation of the data received (Bryman, 2012:12).

3.4. Data collection methods

In order to gather, parse and interpret the data, the different types of sources for data collection are incorporated including primary and secondary sources of data collection. It is worth empathizing here that qualitative kind of research is implemented as a research tool for gathering and interpreting the data for this research paper. The data collection work starts with secondary data sources. In general, secondary data collection represents itself the primary data are collected by others researchers and scholars. Another point here, motivating to start with secondary data collection sources remains the issue of saving time and money (Easterby-Smith *et al.*, 2012).

3.4.1. Secondary data source

To begin with, I made search for secondary data sources of needed data which constitutes of laws, acts, some accounting instructions; articles written by the scholars not only in the Western literature but in the Russian one; newspaper publications, reports and documents published by federal and local government authorities in order to obtain a comprehensive understanding of ongoing processes of public sector developments within the transition period in the Republic of Crimea by the means Internet survey and archival research. It should be kept in mind that normative acts, norms, and laws are written in Russian languages that are assumed to be challenged and limited for proper interpretation and translation them into English. Furthermore, it is worth to stress out that it is quite complicated to find proper interpretations of new accounting instructions and norms. In fact, it leads to misunderstanding and a reduction of the quality level of the research project. I think it is one of the limitations of this study. In order to tackle these issues, I asked the advice of my supervisor and other professors of the Bodø Graduate School of Business. In addition, data for this research project is also gathered from external sources, namely the official website of the Council of Ministers of the Republic of Crimea, the State Council of the Republic of Crimea, the Ministry of Finance and the Federal Treasury Office in the Republic of Crimea, official website of “Novyi Svet” and other relevant secondary data sources.

3.4.2. Primary data collection

As for the primary data collection, the in-depth semi-structured type of interview is employed. This kind of interview enables to invoke and discuss issues in different areas of the research topic in detail for gaining more explicit knowledge about examining a phenomenon. Conducting an in-depth semi-structured interview, it is quite crucial that the interviewer might, as far as possible obtain knowledge about the examined topic beforehand (Flick, 2014).

Due to the limitation of time, costs and long distance, some interviews are guided by phone and Skype. It is also central to mention that all interviews are conducted in Russian and translated into English, respectively. It is worth emphasizing that interview guide is prepared in advance in order to envisage all possible difficulties during the interviews. The questions are prepared for each group respondent in order to cover all aspects of the central topic due to the context of the study. It was elaborated based on the theoretical framework and study of the similar topics in terms of the public sector accounting development by other authors. Thirteen interviews are conducted in total. Some interviews are conducted one more time, namely interviews with the chief of the Administrative Department of the Federal Treasury Office, chief accountant of “Novyi Svet”, assistant of the accountant as well as CFO assistant. Due to the complexity of the topic, this has assisted in the obtaining more deeper and comprehensive understanding the main issues of the initial implementation process of new accounting tradition and associated with changes in the particular public sector organization. All interviews are lasted approximately 40-45 minutes. It should be noted some informal conversations are also conducted with other accountants and expert as to understand the perceptions and personal experiences. Additionally, some informal telephone conversations are made to cover aspects and issues that are not comprehended well. The list of respondents and interview guide are presented in Appendix 1 and 2.

In order to achieve reliability and validity of the research, all interviews are recorded and transcribed faithfully. The transcripts of the interviews are sent to all respondents to get permission for using the obtained information during the interviews in public and not to harm the interests of the respondents (Easterby-Smith, 2012). There is a need to mention that I had the opportunity to observe the work of the accountants and engage in the informal conversations with employees of this public sector organization. Some notes are made during such conversation in order to remember some interesting facts from their personal experience and meanings of their stories and triangulate them with other existing data about the topic (Roberts *et al.*, 2006).

3.5. Data analysis

Equally important is to mention the aspect of interpretation the gained data. The notion of hermeneutics circle is applied to obtain pre-understanding of the norms development, and issues and challenges encountered by the local government authorities and public sector organization respectively. The hermeneutical circle enables for researchers to combine the four elements as the key points for achieving originality, including such as “pattern of interpretation”, “text”, “dialogue” and “sub-interpretation” in accordance with Avlesson & Sköldberg (2009:99). In the light of all mentioned above, the various types of data sources are used to understand and respond to the main research question of this research project.

Data analysis began with the searching and interpretation of the secondary information resources, namely legislation, and scientific articles both in Russian and English. The several informal with an expert are held to pre-understand the central points of this investigation. The comments received from the supervisor also sent me in the right direction and helped in interpretation of the data. The hardest and challenging part was interviews because of the large amount of information. It was necessary to choose what is relevant and what is not for this study. Therefore, all interviews were transcribed and translated into English. Moreover, then the information was coded for the simplification of the process of handling it. The data obtained from the interviews are cross-checked and refined several times in order not to make biases and misinterpretation of the data. Finally, when the feedback from respondents is received, the data could be applied to the next step to be analyzed in the light of three elaborated lenses. Moreover, it is important to be aware of the issues of validity and reliability of the research while conducting the research that is discussed in the next section.

3.6. The issues of validity and reliability

The combination types of data collection, such as primary and secondary sources of data collection are incorporated into this research project in order to achieve a high-quality level of the research project. As is previously mentioned, that in-depth interviews are expected to be used as a primary source for conducting research. While conducting this type of interviews, there is a great deal for presenting information in a biased manner by imposing his or her understanding and interpretation

of the questions and answers. In order to avoid bias, the interview guide includes a series of open questions to achieve reliability of the project (Easterby-Smith *et al.*, 2012). It may be said the preparation of the interview guide in advance induces the reliability of the research. In addition to enhancing reliability and validity of the research project through interviews, all interviews are typed and transcribed faithfully and adequately as mentioned above. Besides, they are sent to the respondents and then returned with permission for using information publicly, some comments and recommendations. Additionally, the reliability of this research is achieved through using the research NVivo. It helps to make coding of the information received from the interviews. The coding is made with respect to the primary meaning of the data. The coded data is verified every time in order to capture the main aspects and not to separate the data from the context of the central topic (Roberts *et al.*, 2006).

The interviews were conducted with different groups of people, both with local authorities and with representatives of the organization. It helped to understand better their perception and experience. The findings varied, depending on whether an interview was carried out and the experience respondent. It also contributed to the credibility of the obtained data (Graneheim & Lundman, 2004).

Moreover, it should be stressed out the issue of external validity is not relevant for this research project because the emphasis is placed upon the one particular organization and empirical evidence obtained from this project will be quite difficult to generalize to other cases. The second reason is that the single case study research design is applied in this research paper (Yin, 2014). Internal validity is achieved through accompanying of the empirical evidence and findings derived from the interviews with the help of the secondary data. The enhancing internal validity of this research is also achieved by the means of the triangulation. It means that the received data was analyzed and interpreted in the light of three theoretical lenses in order to cover information in different perspectives. Secondly, the various types of the data sources are used, namely the document analysis (the legal framework and internal documents of the organization) and review of the information put on the official websites of the institutional bodies and the particular public sector organization. Thirdly, the data obtained from the interviews are triangulated with the information from the secondary data collection (Roberts *et al.*, 2006:44). Finally, interpretations of data are supplemented by the quotations of the respondents that assist in strengthening of the quality level of this study.

3.7. The politics of access and ethical issues

Before starting any research, it is quite important to keep mind the question of the policy of access that encompasses the issues of obtaining permission to the research settings (Easterby-Smith et al., 2012:90). I got support from the representatives of local administration of the Republic of Crimea for making my project work and also obtained permission from the CEO of “Novyi Svet” to gather all necessary data within the organization and make interviews with the chief accountant, accountant assistant, and head financial director. As for ethical issues, the questions about recording the interviews and confidentiality of information are supposed to tackle through asking permission for typing and using the obtained information in public as well as sending the transcripts of the interviews and providing results of the project. In addition, the issue of misleading or false reporting obtained information may be also taken into account.

3.8. Summary

In this part of the research paper, the main steps of the research, philosophical and methodological issues and main problems associated with this particular research are specified and discussed. This research paper is written in the line of the social constructionism. The research design is defined as explorative with elements of the descriptive analysis in order to describe and analyze the public sector development over time on the example of the Republic of Crimea. The project work is based on the single case study. The combination of primary and secondary sources of data collection is discussed as well in order to obtain a comprehensive understanding of the examined topic. The in-depth semi-structured interview is a source of primary data collection in this project work. Additionally, the main issues and aspects of conducting an interview are covered and articulated in the methodological part. The issue of validity and reliability and the ways of the enhancing the quality level of the research are taken into account and described. At the end of the methodological part, the questions of politics of access and ethics are raised and discussed respectively.

IV. Towards a new system of the public sector accounting in Crimea

4.1. Introduction

This chapter of the master thesis aims to describe and analyze the local government initiatives in the field of the public sector transformation and associated changes in the accounting and reporting system. The discussion begins with covering the main efforts of the local government policy-makers directed towards the structural changes in the Crimean public sector functioning during the “transition period” (March, 2014-January, 2015). The old-fashioned design of the accounting system was permitted to utilize during this time for the gradual shifting towards the new legal framework. Therefore, this chapter also provides information about the Ukrainian normative and legal acts that regulated the accounting and reporting practices of the Crimean public sector until March, 2014. The study of the Ukrainian legal framework is critical for the sake of this project work. It helps to comprehend and determine the main principles and “technology” of the accounting and reporting system underpinned the public sector functioning in the region before.

Starting from 2015, the public sector of the Crimea begins to operate fully in the Russian legal framework. The Russian legal framework anticipates a lot of the structural changes and adjustments in the accounting and reporting system of the Crimean public sector entities promulgated by the federal and local authorities. Therefore, the primary purpose of this chapter is intended to determine and analyze the main causes, goals and intentions behind the local government authorities’ initiatives in terms of a gentle shift of the public sector towards the new norms, routines and standards of the Russian way of the public sector functioning including accounting respectively. In addition, the figures and tables are provided and elaborated by the author with the emphasis on the obtained information during conducted interviews and thorough review of the secondary data sources. Finally, the chapter ends with the concluding remarks of the main empirical findings.

4.2. The transformation path of the Crimean public sector

As soon as the Crimea becomes a new subject of the Russian Federation, the public sector is beginning to transition to the new rules of doing businesses in the region. From this moment, the economic and financial system of the Republic is undergoing structural alterations. The structural

changes have envisaged the gradual transition from Ukrainian into the Russian legal framework for the accounting and reporting practices and the introduction of new principles and technologies of the accounting. However, it also has led to a restoration of the budget processes; development of the public management system inherent in the Russian public sector and other initiatives proposed by the federal and local government authorities. The adaptation to the new norm system is said to be challenging, forced and burdensome measure for both local authorities and organizations as the many processes have just stopped in the region.

One of the factors triggered the changes and adjustments in the public sector are considered to be a cessation of the financial and budgeting processes. As one of the respondents has noted during the interview:

“The financial system of the region is fully paralyzed since the March, 2014. Everything is stopped. All accounts and payments of the government- financed organizations are “frozen”. They could not pay salaries. In fact, the Republic was left without means of the subsistence. We had no idea about to whom and what we were supposed to account for.”

Additionally, there was a lack of clear control and accountability levers in the previous system of the public sector management. Consequently, the Crimean government authorities have started to develop and establish a new system of the public sector functioning from the scratch. It implies the reorganization of the management system and adoption a wide range of the regulatory and legal acts with an emphasis on the existing experience and social-economic features of the region (Aksenov,2014).

4.2.1. The local government initiatives

One of the initiative of the local government is implicated in the promotion of the new legislative and executive body system as well as establishment municipalities for optimizing the decision-making processes by the participation and involvement of all levels of the local policy-makers in the decision-making processes. In essence, the new system involves a clear separation of the execution chain of command work. It includes the “supervisory body”, namely the Council of Ministers and its “subordinates” including ministries, committees, agencies, services and municipalities that operate within the explicit framework of accountability and responsibility. Moreover, the new agencies, services and committees are the highest authority in charge of the

specific ministry to which they subordinate. As for the Federal Treasury of the Republic of Crimea (RC), it is considered to be a territorial body of the Federal Treasury of the Russian Federation. The main functions of which include control and coordination under the budget execution, reporting and other arrangements of the public sector entities in the region. In addition, it should be pointed out the great role was assigned to the local councils equally with the execution bodies in the previous administrative system. Now, the power of the local types of a council is transferred to the municipalities or in individual cases, the bodies of the executive power (Figure 4.1). Consequently, the main differences in the structure of the execution bodies, compared with the previous system involve the clear lines of authority, accountability, and administration at all levels of the execution chain of command.

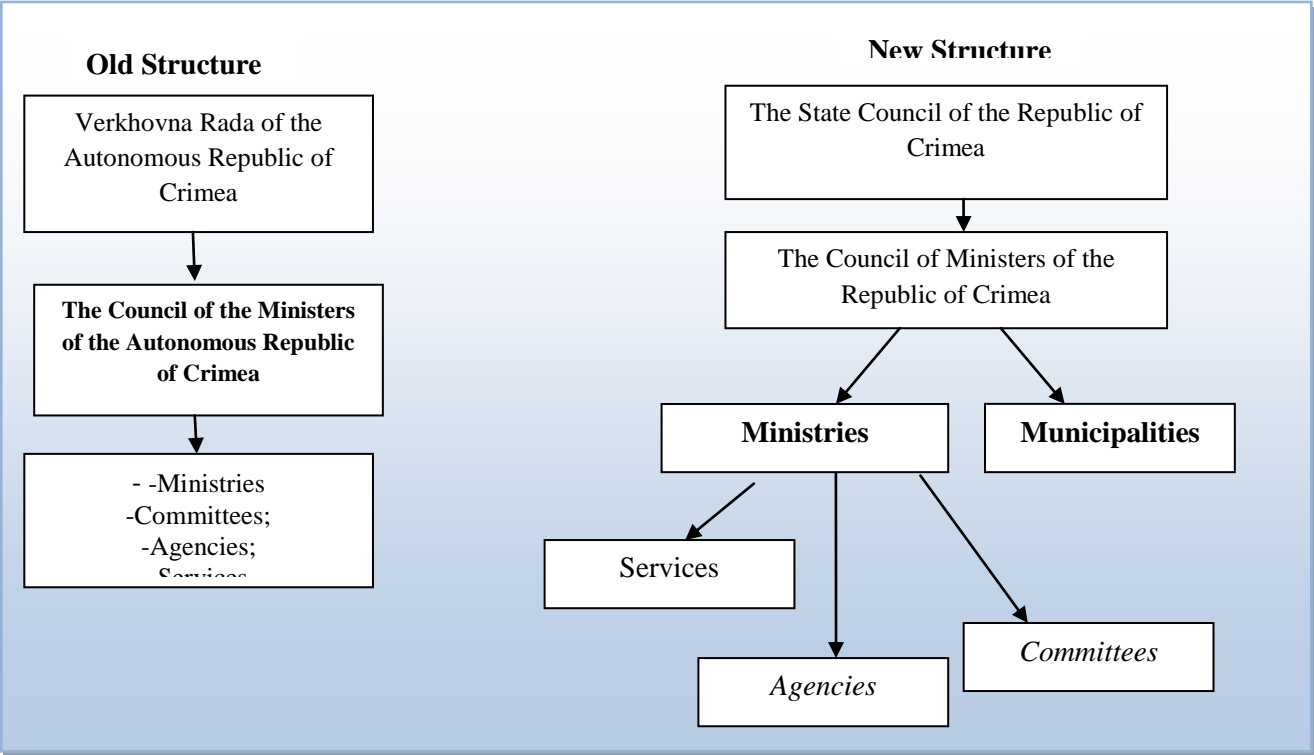


Figure 4.1. *The Structure of the Local Government Authorities: Before and After the transformation process (elaborated by author)*

The particular attention of the local authorities has been devoted to strengthening the role of the public sector entities in the heart of the budget system of the region. The main priorities of the local policy-makers were intended to get budgeting processes back gradually on the track by increasing taxes and fees in the regional budget as well as improving the investment climate for development financial, economic and social infrastructure in the region.

In doing so, the strict and clear order for accounting and tax accounting was set for the Crimean public sector entities, particularly in relation to the budgetary and non-budgetary resource allocation. The budgetary funds right now are only available for special-purpose financing rather than on the basis earlier declared needs and demands of the public sector entities. The entities of the public sector are obliged to accurate presentation and disclosure of all available financial resources, including budgetary, off-budgetary and own funds.

Consistent with this initiative, the local government have taken measures to prevent violations and enforce financial discipline through elaboration a plan of actions and establishing strict financial supervision over compliance with the stated above issues by the public sector entities in the region. As one of the informants has emphasized:

“... Such kind of the march of actions and measures has been developed before without due attention and responsibility of different levels of the local government authorities for implementation and execution in reality. Right now, we are taking into account ups and downs of the previous experience.”

Compliance with new financial discipline proposed by the local authorities also involves carrying out an intensive internal audit and inspection by own means of the public sector entity or by using the audit companies, as well as an external audit and inspections initiated by various executive authorities. The new system of financial supervision aims to avoid risks tremendous sum of financial and tangible asset losses as well as inefficient and dysfunctional management control in the public sector entities of the Republic (The Government Portal of the Republic of Crimea, 2015). In addition, the transformation processes raised questions about the reorganization and the creation of the new Office of the Treasury in the region. The main changes in the Treasury activity are discussed widely in the next section of the project work.

4.2.2. The changes in the Treasury activity

The first step of the Treasury development was to introduce the process of polishing the reporting system, including the introduction of new standards and requirements for accounting and reporting of all budget process participants since the transition period in the region. As the respondent from the Federal Treasury of the Republic of Crimea considers that:

“The present financial system, especially current budgeting processes are at the intersection of entirely different legislation of the two countries that are used to have a common legacy of the past.”

Moreover, the Treasury has launched projects for updating of the budgeting process including such aspects as:

- ❖ Creating and establishment of the unified information space by incorporating management system so-called “The electronic budget”;
- ❖ Implementing the efficient budgetary expenditure control;
- ❖ Facilitating and enhancing reliability of the management control system;
- ❖ Creating of the single treasury account (The Federal Treasury of the Russian Federation, without date).

Alongside with the mentioned above initiative, the steps were undertaken by the Office of the Treasury towards electronic preparation and reporting of financial statements by all participants of the budgetary process. The primary purpose of this initiative implies the achieving efficiency and transparency of usage and safekeeping the provision cash flows of the budgetary fund expenditures using the single information space and treasury accounts. The respondents have noted that the transition towards electronic reporting entailed many difficulties and challenges because of the lack of the practical competence, especially because of the constant changing of the report formats, as well as the ongoing process of the regulatory framework revision and adjustment. The respondent from the Office of the Treasury has expressed some ideas about the new system of the electronic reporting:

“Many mistakes and errors are used to be found in the budget institutions' accounts in terms of accuracy and reporting format conformity. Sampling and control of the financial information are heaped on our shoulders. The peak time for the department and budget organizations work is used to be and remains the period of annual reporting. This period implies additional workload, costs and time, as well as endurance. In my opinion, incorporation new system of management control of the budgeting and inter-budgetary funds usage and transfers is believed to eliminate a lot of “manual” mistakes, errors discrepancies in the reports and of course a pile of unnecessary paperwork”

The respondent has emphasized that the introduction of the uniform system of information control, in turn, would assist in achieving the highest level of the effectiveness and transparency of the treasury activity that involves the execution revenue and expenditure sides of the budget, internal funding sources of the budget deficit, regulating the inter-budgetary relations and performance

measurement as well as removing the burden from the shoulders of accountants. However, the processes of the new system implementation are slowed down by the inability to start working with emphasis on the new norms and rules immediately, availability a bulk of errors, inconsistencies and discrepancies both in the reports of the accountants of the Treasury and public sector entities as well as the commitment to the old-fashioned way of activities. In addition, the electronic circulation of the documents is assumed to be incorporated at all levels of the local government authorities in the region.

Accordingly, the unified system of the budgetary funds management is believed to contribute to promoting the transparency and accountability system of the local authorities and the enterprises of the public sector concerning the special-purpose resource allocation. It seems to confirm the idea of the transparent usage and safe keeping “every budgetary kopeck flows and expenditures for the general” (Kuzina & Gviazin, 2013).

4.2.3. The other government initiative

Consistent with the initiatives as mentioned above, local authorities have provided methodological and technical support to the public sector with regards to the development of the accounting system in the Republic. This initiative of the authorities is aimed to facilitate the public sector entity in the gradual transition to the new accounting and reporting norms, rules, and routines. Moreover, the methodological and technical support is implicated in the conducting of the seminars, webinars and workshops on the new system of accounting and reporting practices as well as the providing accounting software and equipment for the gentle shifting to the new legal framework (1c.ru,2015). Thus, the provision of such support has assisted in the process of adaptation and integration organizations of the public sector to the new norms of the Russian accounting system. Nevertheless, as one of the informants has suggested the following during the interview:

“You understand that it is not enough once or twice to attend a seminar or work with a specialist in order to fully familiarize themselves with the Russian legislation, new norms, rule and routines of accounting and reporting, the financial statement preparation as well as utilizing the Russian single chart of accounts. It is hard to learn all this for 2-3 hours. The most difficult is faced while working.”

Within another initiative as one of the key elements of the development of the accounting system, one may consider the launch of the Pilot Project of the Social Insurance Fund as a system of direct

payments. This method involves the simplification of reporting and calculation of various kinds of benefits which in turn reduces the workload of accountants. In other words, the accountant provides all the necessary reports to the Social Fund then the Fund itself calculated payments and transfers benefit to the employee account. Accordingly, the workload of the accountants is mitigated by the fact that there is no such need to calculate the amount of the payments (The Federal Social Fund in the Republic of Crimea, 2015).

Consequently, this pilot project is expected to give possibilities the avoid lots of paperwork, submission reports electronically, as well as eliminating mistakes and errors in calculations and reporting and detection of frauds. Besides, as is previously mentioned, this entails reducing the cost, time and working resources of the entities of the public sector (Ya-buhgalter: Krym Gazeta, 2014).

As can be seen from all stated above, a key role in the initiatives of local authorities is assigned to restoring budgetary processes, especially strengthening of budgetary accounting of the entities in the region. As one of the respondents has stressed out that the initiatives of the local government are “raise the financial system as well from the ashes”. It is important to mention that there were implemented a bulk of changes and adjustments in the legal framework especially changes in the accounting and reporting system of the Crimean public sector during the transition period (March, 2014-2015), which was marked by the fact of the shifting from Ukrainian legislation and accounting to an entirely new system such as the Russian way of doing accounting as one of the main measures taken by the government authorities for the integration of public sector to the new rules of the economic activities in the region. The next section of the project work is devoted to describing and analyzing the main changes in the accounting and reporting system for the public sector in the region.

4.3. From Ukrainian to Russian public sector accounting

The public sector accounting is said to perform the same functions including registering, measuring and communicating cash flows and expenditures of the budgetary funds, as in the Ukrainian system and the new one of the public sector accounting in Crimea. However, there are strong differences and complexity of the legal framework of the two countries as well as the different accents and nuances of accounting and reporting practices.

4.3.1. The legacy of Ukrainian public sector accounting

First of all, there is a need to emphasize that all enterprises of the public sector in Crimea were regarded as budgetary and funded from state or regional budgets depending on the status of the budget institutions and the line of accountability. Moreover, the general principles of the accounting have been applied both to the budgetary and private entities as they governed by the general legislation on accounting and reporting as well as taxation except Budget Code which is applied only by the budget institutions in Ukraine. According to the Ukrainian legal framework that has regulated the Crimean public sector, the main objective of accounting is as follows:

“... Provision full, accurate and impartial information for users on the financial situation, results of operations and cash flows of the entity funds for decision-making process” (Ukrainian Act #996-XVI Article 3, 1999)

The accounting of the Crimean public sector entities has mainly been carried out by their means or through the signing of contracts with private accounting and audit organizations. This practice is typically implemented by the public sector entities with a few employees or local types of a council (The Budget Code of Ukraine # 2592-VI, 2010 (eds.26.12.2014)). As the representative of the Treasury has pointed out:

“Accounting and reporting of the public sector have envisaged the conducting records in the form of memorial orders that included a list of all operations on the accounts of the organization. Only after the compiling of the memorial orders, the accountant could draw up the balance and prepare the financial statements. Under the conditions of the lack of qualified accountants and complexity of accounting and reporting system, this provision is justified as a reasonable decision”.

Furthermore, the accounting of the budget estimate of the Crimean public organizations was carried out on the accrual basis in accordance with regulations of the Treasury Service of Ukraine. The tax accounting in the budget entities, which is according to the Tax Code of Ukraine #2755-VI (2010), performed on the cash basis. Thus, the revenue and expenditure sides of the budget execution, cash flows of the recipients and disbursements are used to be recorded by double-entry on the accrual basis while the income and expenses are on the cash basis.

As for the chart of accounts, it has been specifically elaborated for the budget institutions with emphasis on the International Accounting Standards (IAS) including the provisions of the fixed

assets, tangible, non-tangible as well as incomplete construction assets (The Order of the Ministry of Finance of Ukrainian #611, 2013).

Remarkably, that Ukrainian chart of accounts for the public sector is based on the IAS practice, inherent in the private business. One of the comments is implicated in that the chart of accounts for financial reporting with emphasis on IAS does not exist in the documentary form. In other words, this provision means that there is to some extent the degree of discretion for the accountants of the public sector entities for relying on their own judgement and the ability to incorporate additional accounts which is along with the principles of accuracy, transparency and objectivity (Schemenev, 2014).

However, due to Gracheva (2014), the Ukrainian chart of accounts and the legal framework for the budget institutions do not provide possibilities of the departing from the rules and regulations as well as flexibility for the accountants in relation to the implementation of the additional or control accounts and rely on their own judgment during the accounting and reporting activities.

Besides, I was very surprised with the fact that the Crimean public sector were obliged to prepare the financial statements based on the International Financial Standards (IFRS) which are inherent in the private practice of accounting and reporting. According to the Ukrainian Accounting Standards (UAS), the application of the IFRS by the budget institutions has voluntary character and partial prevalence. As one of the informants believes that:

“The public sector functioning is out of the picture in using the financial standards as it leads to the uncertainty and burdensome for financial reporting. The Ukrainian accounting standards cannot quickly be harmonized with the international standards as these two systems ever have interests in common.”

It should be mentioned that the there is absence of strict rules and procedures for the application of the international standards that are not clearly promulgated in the legal framework of Ukraine; the achievement of fiscal goals and absence explanatory notes in the financial statements, as well as low level of auditing by the government authorities put into doubt the quality and reliability of financial information provided by all participants of the budget process in Ukraine (The World Bank. 2002).

In general, the respondents have suggested that the accounting and reporting practices in the Crimean public sector were carried out with emphasis on the 2013 UAS and common rules rather on the IFRS as prescribing in the legislation because there are a lot of shortages in the Ukrainian, the

legislation, lack of understanding about standards as well as absence control over the provision of this norm.

Due to the Budget Code of Ukraine # 2592-VI, (2010) the financial statements of the budget institutions are prepared for both internal and external users, whereas the internal reporting is determined by the collective agreement of the budget institutions while the reporting for external users is regulated by the stated above legislation and other normative acts of executive authorities.

Moreover, the financial statements for the external users should provide information about the results of activities, the assets of the organizations and the sources of financing (Svirko, 2003). The composition of the financial statement included the balance sheet, income and operating statements with information on cash flows and equity as well as the report on the budget estimates in accordance with the National Accounting Standard (1), 2013. These reports were also utilized by the organizations during the decision-making processes. One can say that external users of the financial information about the budget institutions involve the following executive bodies, namely the Ministry of Finance, the Treasury Service, the Statistic and Tax Services where the organization are obliged to give accounts and submit reports on the monthly, quarterly and annual basis due to the legal framework on accounting in Ukraine. The composition of the main financial statements is presented in Appendix 3

4.3.2. The public sector accounting during the transition period

During the transition period, namely from March, 2014 till January, 2015 onwards, the Crimean public sector made use the Ukrainian accounting and taxation rules. This measure was undertaken by the federal and local authorities due to the fact that the public sector, being the core element of the new system was primarily forced to conduct accounting and reporting along with new norms, routines, and standards, could gradually adapt to the new system of accounting and reporting in the Crimea. Moreover, the basic principles and norms, which lie in the heart of the Ukrainian accounting system, are said to be inherent in the Russian accounting system due to the common legacy of the Soviet practices of the accounting and reporting practices (Krym. Noviy bukhagalterskiy (byudzhtnyy) uchet, 2014). It is also important to note that the budget legislation of the Russian state came into being only in 2015. Until this time the public sector was living in accordance with the Ukrainian Budget Code. As one of the informants has said:

“I can say that the new accounting and budget legislation is very complex compared to Ukrainian one. There is a large number of pages in the instructions, orders and amendments of the accounting practices. Very surprising is that there is no such information like it was before. It is an enormous challenge for me and my colleagues. There are so many unknown things that need to be explored. It is just the beginning.”

Further, there is a need to say that the changes are referred to using the Ukrainian currency for accounting and reporting in the Crimea. The legal framework has anticipated the accommodation of the Ukrainian currency up to 2016. However, the period was shortened, which in turn has induced a lot of difficulties and problems for the public sector organizations because of the sudden transition the new currency unit (The Government Portal of the Republic of Crimea, 2015). The respondent has mentioned the following during the interview:

“There are two currencies in circulation from April till May. Suddenly the period of hryvna movement in the Republic is decided to be shortened. We were forced to convert account balances from one currency to another. At the beginning, account balances were converted at the exchange rate of the hryvnia to the ruble, which resulted in the daily keeping records and compiling reports. However, the rate was fixed for the budget organizations. We worked with tension during these two months and just a little bit at the beginning of June”.

Despite the fact that the Ukrainian Tax Code applied to and by the public sector entities during this period, there have been made some adjustments to the tax legislation in the region. The main fiscal initiatives have resulted in the reduction of tax and duty rates compared with the previous period. Moreover, a common tax treatment for the public sector entities in differences from the old system, whereas the single agricultural tax and the simplified system of taxation have been implemented by the organizations under the special conditions. These two tax treatments are inherent in the private sector right now (The Federal taxation Service, 2015).

The Crimean budget organizations gradually had to shift to the norms, routines and instructions of the new accounting system, namely the introduction a single chart of accounts and some methodological guidelines prescribed in the Order of the Ministry of Finance #157 *“On Approval of the Single Chart of Accounts for public authorities (government bodies), local authorities, government, state budget funds, state academies of sciences, government (municipal) institutions and instructions of usage it”*, approved 01.12.2010. (Instruction #57) despite the fact that the norms, rules and regulations on accounting and reporting during the transition period has remained

unchangeable, that is application of the Ukrainian accounting and budgeting legal framework as well as some normative and legal acts endorsed by the local government,

To sum up, the accounting and reporting system of the Crimean public sector has not been undergoing dramatic changes during the transition period. The most difficult time, as noted by the respondents was considered to be the period from May to early July. The objectives, technology and method of accounting and reporting were the same as under the previous system of accounting. The accounting and reporting practices of the budget institutions were carried out on the basis of the regulations of the local government of the Republic of Crimea, the Ministry of Finance and the State Treasury of Ukraine. The Crimean budget institutions mainly have utilized the Ukrainian chart of accounts for budget organizations. Additionally, accounting was accomplished in the form of memorial orders, based on which the all subsequent financial statements of the public sector organizations had to be prepared in the region.

The local authorities have endeavored to make a gradual transition to the new tools of accounting and financial management by providing conditions for using the Ukrainian legal framework during the transition period. On the other hand, the shifting towards a new version of the accounting and reporting system of the public sector has resulted in a major restructuring, reorganization or even liquidation of public organizations in the region.

4.3.3. The new system of public sector accounting

Despite the fact that Ukrainian and Russian accounting system has similarities because of a general legacy of the Soviet Union, there have been some alterations in the accounting policy of the Crimean public sector organizations. First and foremost, the new system of accounting and reporting of the public sector organizations is divided into several categories depending on the legal status and sources of the funding, namely state-financed, budget and autonomous ones (the Federal Law #83-FZ, 2010 (eds.31.12.2014). As one of informant has stated:

“All public sector organizations have a generic principle of accounting. The “difference of opinions is implicated in the chart of accounts and reporting for each type of institutions while there was no such division into the different categories in Ukraine. All institutions were either a budget or private ones.”

The accounting of the Crimean public sector organizations is called as budgetary accounting right now. The top priority of the budgetary accounting is assigned "to give provisions of the tangible and non-tangible assets as well as operations which modify data assets and liabilities of all participants in the budget processes" (The Budget Code # 145-FZ of the Russian Federation, Article 262.1, 1998 (26.12.2014)). Due to this, the new scope of the accounting consists of the assets, liabilities, sources of financing, revenue and expenses as well as economic events due to the new legal framework of accounting in the region (The Federal Law #403-FZ Chapter 2, 2011)

As for the objectives of new accounting system, the primary aim of the accounting is considered to be provision the systematic, full and accurate information about the scope of accounting, which is mentioned above, for preparing financial statements (Krym.Noviy bukhgalterskiy (byudzhtnyy) uchët, 2014:19). One of the provisions of the new public sector accounting policy can be considered the application of the single chart of accounts and methodological guidelines for each category of the organization in the public sector. Additionally, there is a need to say that each class of the public sector organizations applies its instructions on how to develop and use the chart of accounts. Furthermore, the public sector organizations are not circumscribed in the development and use its chart of accounts with the possibilities of the implementation different forms of accounts for preparing financial statements due to the Instruction #57. Thereby, this seems to underlie the idea that the new chart of accounts is "intrinsic in the voluntary character for an application that is not disincentive for accountants and it does not constrain the accountants in relying on their judgement.." (Gracheva, 2014).

Compared to the previous accounting system, the accounting of the budget execution, revenues and expenditure is only based on the accrual method (Instruction #157). In addition, the Crimean public sector entities are obliged to undertake analytical accounting of revenues and expenditures based on the Classification Codes of the budget expenditures. As one of the respondents has emphasized that the Budget Classification of the Russian state is opposite and different in relation to definitions, positions and provisions to the Ukrainian one.

It is important to note that there has been a change in the preparation of the financial statements of the public sector entities in the Crimea. The main adjustment is mainly referring to the change in the composition of the financial statements on the budget execution. They have to be submitted to the main authorities, namely the Ministry of Finance, the Office of the Treasury and the main executive authority (owner) of the public sector organization as well as increase a number of the reports for

each supervisory authority over the public sector bodies in the region. According to the new legal framework of accounting, the financial statements are compiled for both internal and external users. The main reports on the budget execution have to be submitted by the public sector organizations in the RC are presented in the Table 4.1. due to the Budget Code of the Russian Federation Article 264.1, (1998).

Table 4.1 *The composition of main reports has to be submitted within the new accounting system*

#	Accounting reports	Supervisory authority	How often
1	Report on the budget execution	The Ministry of Finance and the Office of Treasury	Quarterly and annually
2	Budget execution balance sheet		
3	Income Statement	The main executive authority (owner)	Quarterly and annually
4	Operating Statement		
5	Explanatory notes	The Office of Treasury	Quarterly and annually

As can be derived from the Table and the issues mentioned above, the public sector organizations have to be accountable to the main supervisory authorities with strict compliance over the budget execution. It in turn leads to the establishment transparent system of management and strengthen accountability in terms of the budgetary processes taking place in the region. All things as noted above raise the question of whether or not the local government initiatives with regards to accounting change during such short period is embedded or translated in the current economic activities and management control system of the one particular public sector organization in the Crimea.

4.4. Summary of the main empirical findings

On the basis of the above-stated issues, one may argue that the development of the public sector accounting in the Crimea encompasses three periods of time which are as follows:

- ❖ The Ukrainian public sector accounting and reporting system;
- ❖ The public sector accounting during the transition period;
- ❖ The new system of the public sector accounting.

The accounting policy for the public sector in two countries has its differences and similarities. Moreover, the legal framework of accounting and reporting has become more complex with a great number of regulations and instructions. As a consequence, this entails the shifting emphasis from one method and technology of accounting to another one within the new legal framework of the accounting. In addition, the legal status of the Crimean public sector entities has been undergoing significant changes. In turn, it has induced changes in accounting policy and sources of funding for each particular category of the public sector organizations in the region. The table summarizes the main empirical findings in relation to the alterations in the public sector accounting and reporting system by the juxtaposing three periods of time of the public sector development in the Republic.

Table 4.2. The comparison the development of the public sector accounting from the Ukrainian system to the Russian one in the Crimea

<i>Category</i>	<i>The Ukrainian accounting system</i>	<i>Accounting during the “transition period.”</i>	<i>The Russian way of the public sector accounting</i>
<i>The main purposes of the accounting</i>	Providing reliable, accurate and transparent information for internal and external users	Providing reliable, accurate and transparent information for internal and external users	Providing reliable, precise and transparent information for internal and external users
<i>The basis of the accounting and reporting system</i>	Cash basis for tax accounting; revenues and expenses: accrual for budget estimates	Cash basis for tax accounting; revenues and expenses: accrual for budget estimate	Accrual basis irrespective of the payments and expenditure time
<i>The scope of the accounting and reporting system</i>	Revenue and expenditure sides of the budget execution; cash flows of recipients and disbursements; revenues and expenses of the organization; sources of funding; assets and liabilities	Revenue and expenditure sides of the budget execution; cash flows of recipients and disbursements; revenues and expenses of the organization; sources of funding; liabilities	Assets, liabilities, sources of financing, revenue and expenses, economic events
<i>The accounting system</i>	Normative basis and methodology of accounting practices are single accounting and reporting system for all budget institutions and execution bodies	Normative basis and methodology of accounting practices are single accounting and reporting system for all budget institutions and execution bodies	Unified accounting principle, but different chart of accounts, instructions and reporting system

<i>Category</i>	<i>The Ukrainian accounting system</i>	<i>Accounting during the "transition period."</i>	<i>The Russian way of the public sector accounting</i>
<i>The main composition of financial statements</i>	Report on the execution of budget estimates of the organization; report on receivables; report on liabilities; Operating statement (cash flows and equity); balance sheet; Income statement	Report on the execution of budget estimates of the Organization; report on receivables; report on liabilities; operating statement (cash flows and equity); Balance sheet; Income statement	Report on budget execution; budget execution balance; income statement; operating statement; explanatory notes
<i>The users of accounting information</i>	External and internal users such as execution bodies and other government authorities, investors and so on.	External and internal users such as director; owner; execution bodies and other government authorities, investors and so on.	External and internal users such as director; owner; execution bodies and other government authorities, investors and so on.

V. The public sector accounting in one particular organization (the Case of “Noviy Svet”)

5.1. Introduction

This part of the chapter discloses and discusses the main changes and alterations carried out in the accounting and reporting system of the particular public sector organization. It raises the question in which the manner and whether the local government authorities' initiatives are exploited in actions of this organization. This section also discusses the main aspects of the contemporary development and changes in the accountability framework of the precise organizational setting. The section is supplemented both by the secondary data sources and perceptions and insights of the respondents derived from the interview.

5.2. A brief overview of the public sector entity

The story of the establishment public sector entity, namely the Champagne Factory of “Noviy Svet” being the national heritage of the Republic is deeply rooted in 1878. One of the main characteristics of production is considered to be a keeping method of wine production since that time like as French classical bottle wine and storage method for wine in unique dug a system of tunnels located below sea level which are assisting in long-term wine ripening (Nsvet.com.ua, without date).

The short statics provides some findings of the particular public entity for today based on the information presented on the official website of the organization and obtained during the interview:

- ❖ The winery with all manufacturing workshops and storages occupies more than 9,6 hectares, taking into account territory of the Museum of “Noviy Svet” and tasting rooms;
- ❖ The area of the storage system of the dug tunnels in the amount of 25 dug tunnels encompasses more than 1190 m²; the manufacturing workshops include eight workshops with length approximately 16400 m²;
- ❖ There are three tasting rooms and Prince Golizin Museum at its disposal where various conferences, exhibitions excursions and wine tours with wine sampling are carried out all the year round;

- ❖ There is a club so-called “ The brutarian club” that includes connoisseurs and collectors of the sparkling wines;
- ❖ The winery employs 256 people performing different responsibilities from making decision process and control of wine production to marketing and sales (Nsvet.com.ua,without date)

In addition, the production of the winery is certified by the International Organization for Standardization (ISO) and complied with ISO-9001:2000 since 2003. (Makarov, 2008:164). Moreover, the Champagne Factory of “Noviy Svet” conducts joint Research and Development (R&D), selection work of new types of wine as well as scientific research and qualifying evaluation of its employees with the scientific center of viticulture in the Republic, namely the Magarach National Institute of Vine and Wine (The National Institute of wine and vine-“Magarach”, without date).

As such, the winery is considered as the one of the leading enterprises of sparkling winemaking in the RC. In terms of the production volume, the rates of production and sales are supposed to vary during 2010-2014 on the scope of the productivity, the increase or decrease of the supply and demand as well as the tourist flow in the region. Besides, not the least of the factors are considered to be the social-economic situation and the insufficiency of the financial resources granted through state and local budget allocations, particularly for the purchasing of the raw materials by the wine maker as well as the partners and outlet loss having directly impacts on the decreasing the volumes since March, 2014.

The dynamics of the winery production are presented below in the Figure as a percentage ratio of the total output of wine in the RC during 2010-2014 years. The information is primarily based on the evidence from the State Statics Service of Ukraine and the Ukrainian Association of wine and vine websites as well as the internal sources of the particular public sector organization. The heterogeneous fluctuation of rates is explained by the fact that one can observe the falling off in demand and supply situation, recession in trade and other social-economic factor prevailing in the Republic during this period.

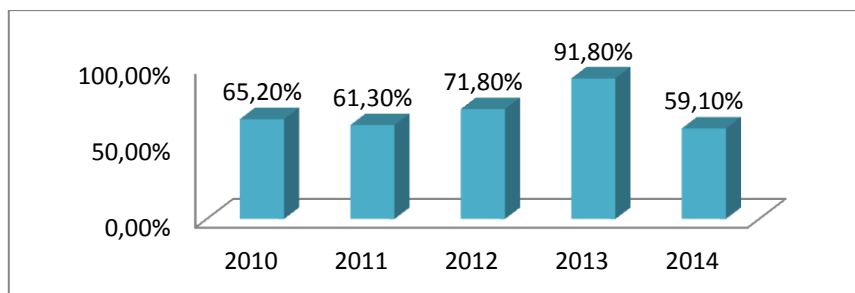


Figure 5.1: *The dynamics of the Champagne Factory of “Noviy Svet” production during 2010-2014 years.*

(Sources: based on The State Statistics Service of Ukraine, <http://www.ukrstat.gov.ua/>; The Ukrainian Association of wine and vine, <http://awwu.org.ua/index.php> and the internal sources of the organization)

Alongside with all mentioned above, it is important to say about the process of joining with public sector organization, namely “Plodovoye-Agroprodukt” like as a part of the “organizational” support of the local government authorities according to the decision of the Ministry of Agriculture of the Republic of Crimea. This initiative of the local authorities is aimed to establish and provide its raw-material sources for the organization that was at its disposal before. The raw materials were formerly bought in different entities of winemaking in the region (The Government Portal of the Republic of Crimea, 2015).

To sum up, the Champagne Factory of “Noviy Svet” is seen as the leading organization for winemaking along with the other wineries located in the Republic of Crimea. The scope of activities encompasses such activities like production of sparkling wines, carrying out vine tours and excursions in the cellars and the Museum of “Noviy Svet”, organization of conferences and exhibition as well as conducting applied research in the field of selection of new types of sparkling wines.

5.3. Contemporary developments of the public sector entity

In present point of time, the production and performance of the certain organization encompass significant changes with respect to implementation structural changes in the line of authority, peculiarities of the organizational functioning accounting and reporting scheme as well as

accountability framework. It also brings up issues of changes in the sources of financing and question about the searching additional funding with the aim of attracting new capital investments in the manufacturing plant. In turn, it seems to confirm the idea pointed out by Pavlenko, (2014), the former director of the Champagne Factory of “Noviy Svet” is that:

“The main task is supposed to regain the worldwide fame of Crimean wine. Especially, despite the hardships, we have managed to preserve exclusive varieties of vine, unique collections, and technologies, as well as titled winemakers. It is demonstrated by a majority of the Crimean wine triumphs at the worldwide competitions. At that time, we have to build the relationships with the government authorities and business partners from the scratch...”(The Ministry of Agriculture of the Republic of Crimea,2014)

Based on all considered above, the next section considers mainly the main challenges and changes in the organizational functioning which seems to be important to mention for the sake of this project in order to get a comprehensive understanding of how the changes and developments undertaken by the local government authorities are translated in the particular public sector

5.3.1. Towards new legal form

Owing to the undertaken local government initiatives and changes in the public sector, the legal form of the system is counted to be altered. The particular public sector entity remains to be in public ownership with one characteristic as distinct from the previous governance system. However, it was prolonged and burdensome period of the shifting to the new legal framework. The process appears to be slowed down by the lack of legal framework and imposed a ban on the public sector registration (The Federal Taxation Service, 2015). One may suggest that the particular public sector entity is supposed to be left hanging up in the air till the end of the year. As one of the informants has pointed out:

“Indeed, it was a very stressful situation for each department, each employee and the entire staff as a body of our factory as a whole. We are not considered to be full-fledged of the business activities within the new without re-registration. All processes suffered. The factory especially manufacturing department stood idle for several weeks because of lack of licenses. The accounts were frozen. The factory facilities did not meet new requirements and standards. Despite all difficulties, we kept working hard to overcome these difficulties with the help of the local government authorities”.

In essence, the transmitting towards the new legal framework assists in the changing of the legal form and sources of financing. It also has provoked changes in the governance and accountability power as well. Based on aforesaid, the public sector organization is reorganized in the form of state unitary enterprise with the possibility of obtaining different sources of funding. This type of legal form presupposes that all belongings granted by the previous state are considered as a basis for the charter capital formation as well the Republic of Crimea, as represented by the Ministry of Agriculture of the RC, is considered to owner of this public sector entity. Additionally, the legal status of the particular organization is transformed from the budget institution to the public sector entity. The CFO of “Noviy Svet” has mentioned as follows:

“... Certainly, these two legal forms are opposite. We are pleased the fact that the changing of the legal form of the winery leads to the opportunity of financial backing from different federal and regional programs. There have been also branch-wise programs formerly. However, as a rule, the factory performance was financed by its funds or bank loans.”

Compared former and current legal form of the winery, the main difference is implicated in the providing financial resources. The mechanism of the providing funds was held out at its expenses and short-term loans. However, it has mainly obtained funding, according to the budget estimates before. It in turn exerted pressure on the public sector entity to search for non-government financing. For instance, conduct other activities that are not affiliated with the primary mission of the establishment such as excursion and other tourist type activities. Under these conditions of shortage of budget allocations, it was possible to observe that the winery was supposed to continue working and return to the breakeven point. The structure of the sources of the financial resources for 2013 is depicted in the Figure.5.2.

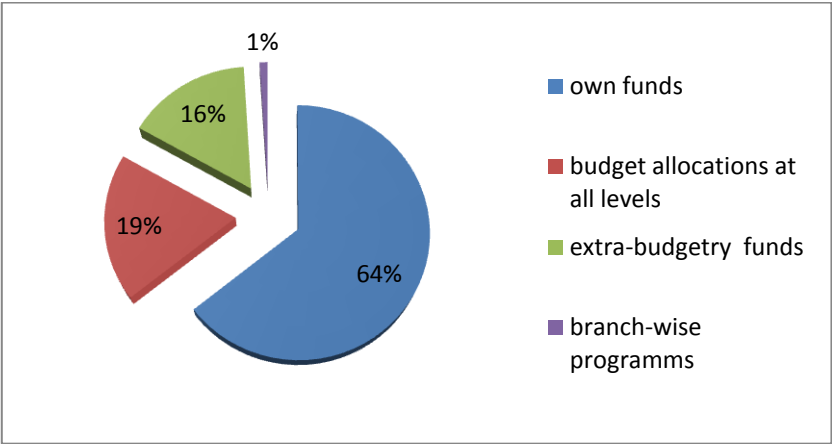


Figure 5.2: The financing of the Champagne Factory of “Noviy Svet” in 2013

(Source: Territorial body of the Federal Service of State Statistics of the Republic of Crimea, <http://gosstat.crimea.ru/>)

The Figure provides the diversified structure of the winery funding at the expenses of its funds, budget allocations, and extra-budgetary resources as well as participating in branch-wise programs for 2013. It indicates that the primary source of financing was income-generating activities. The distribution of the budget allocations and extra-budgetary funds represents itself the approximately equal shares of the resource allocation in 2013. Additionally, the winery was financed by the mechanism of the providing funding through the participation in the branch-wise programs.

When it comes to the current organizational setting affairs, the winery is supposed to conduct income-generating activities and take part in different federal, regional and local budget and branch-wise programs in accordance with the constituent documents of the winery. Obtaining budget allocations, extra-budgetary funds and other sources of financing is enmeshed in a mass of difficulties and challenges in relation to the social-economic situation in the region (The Government Portal of the Republic of Crimea, without date). As the CFO of “Noviy Svet” has elucidated during the interview the following:

“It is very difficult to say something about the amount of the budget funding of our factory. All wineries in the Republic of Crimea are hung up right now. The constituent documents of our factory are got compliance with the Russian legislation only in the beginning of January, 2015. We have got financial support from the local government authorities during this burdensome period. As it will be now within the new legal framework, it is very difficult to predict something.”

Alongside with mentioned above, the question of searching additional capital investments into the development of the winery is supposed to be a matter of vital for the public sector organization. This issue is under the local government authorities control in the light of looking for investors or the use of the existing experience of the Russian government authorities. For example, the holding company would be established in the field of winemaking with the purposes of the provision of additional financial resources in order to improve the production capacity and providing solid backing. It should be noticed that the public sector organization is conceived to be solely in the public ownership of the Republic of Crimea and it will report directly to the Ministry of Agriculture and Ministry of Finance if this project is required to be put into the practice by the local government authorities (The Ministry of Economic development, without date).

All this suggests that the changes in the legal status of the particular public sector entity have brought a number of prospects mainly in the provision of additional financial resources from the budgets at all levels and participation in the winemaking branch-wise programs. The assistant of the CFO has emphasized the fact that the winery has attracted the capital investment inflow through ensured budget allocations and extra-budgetary funds provided by the local government authorities for the improvement of the organizational functioning.

Despite the prevailing substantial financial support from the federal and local government authorities in contrast to the previous years, the winery is going to rely on their funds in terms of backing. It is a consequence of the economic lag of the region and the absence of the integrated approach to the particular organization funding. Moreover, the depreciation of the fixed assets of the particular public sector organization can also be considered as an impediment to the mobilization of the borrowed assets and investment flows of the particular public sector entity.

5.3.2. Organizational structure

As for the organizational structure, it is supposed not to be subjected to dramatic changes in the functioning orientation of every department of the organization like as before. The organizational fabric of the winery represents itself a system of the relations among all departments mainly with emphasis on its functional character of every specific department. It is important to mention that the additional division is included to the winery. It refers to the formal joining process of the winery with the other public sector organization called “Plodovoye-Agroprodukt” like as a structural unit for providing raw resources, facilities and so on. It is accountable to the administration of the winery on the basis of the property relationships with some preserving its organizational structure and line of activities till these questions will not be adjusted. As is noted earlier, this in turn entails the charter capital increase, building its raw resource base and enhancing the efficiency and effectiveness of the winery operation (The Government Portal of the Republic of Crimea, without date).

In fact, the organizational structure of the particular winery consists of five departments, namely Legal, HR, Financial and Economic, Sales and Works Manager which is split into several functional subdivisions with its own roles and responsibilities. The separate, unit of the winery is related to the manufacturing and winemaking that is headed by the works manager. All departments

are interrelated with each other and report directly to the administration. The organizational structure of the winery is viewed in the light of every unit division of the organization taking into account the functional character of the responsibilities and tasks assigned to the departments (Appendix 4).

5.4. The Factory Governance System

5.4.1. The previous system of the governance

Prior to March, 2014, it has operated within the system of accountability and control. To be more precise, it was centrally controlled and gave reports to the Ministry of the Agricultural Policy and Provisions of Ukraine and Finance. The Ministry primarily has determined the direction of the economic activities. Despite this, the Crimea had the status of autonomy and its own legislative, and executive branch of powers, the government of the Crimea has acted as an intermediary in this relationship. The role of the executive authorities has involved in the coordination of the activities of the plant at the local level. The assistant of CFO of “Noviy Svet” has expressed:

“Indeed, we have reported directly to the Ministry of Agricultural Policy and Supply of Ukraine mainly because the winery was public ownership of Ukraine. There were the Ministry of Agriculture of the Autonomous Republic of Crimea and other state and regional instances. However, the Ministry was at the top of this system of relations. On the one hand, the line of authority is determined, but, on the contrary, there is a bulk of offices of other regulatory bodies and paper pushing in the middle of this process.”

Furthermore, a substantial role is assigned to the Ministry of Finance of Ukraine and State Treasury Service. The Ministry of Finance has allocated the budgetary funds and established control over the budget execution by the particular public sector entity on the basis of the budget estimates and the reports of the State Treasury Services. There is a need to say some words about the process of licensing a part of the quality assurance system accomplished by the execution bodies. This process is implicated in acknowledgement with rights by the authorized government body (the Antimonopoly Committee of Ukraine) to produce sparkling wine and selling products on the line with the core and industry standards as well as quality control instructions. These basic standards are as the normative framework regulating the winemaking industry elaborated by the scientific research establishments and associations of winemakers of Ukraine and the Republic of Crimea. The role of the main execution body within the old system of accountability assigned and

empowered by the Cabinet of Ministry of Ukraine. Therefore, the Ministry of Agriculture Policy and Supply and Finance were the principal bodies that have dictated the directions of the organization activities and development as well as provided the financial resources. The Figure depicts the relations between the particular public sector entity and the main execution bodies (Figure 5.3).

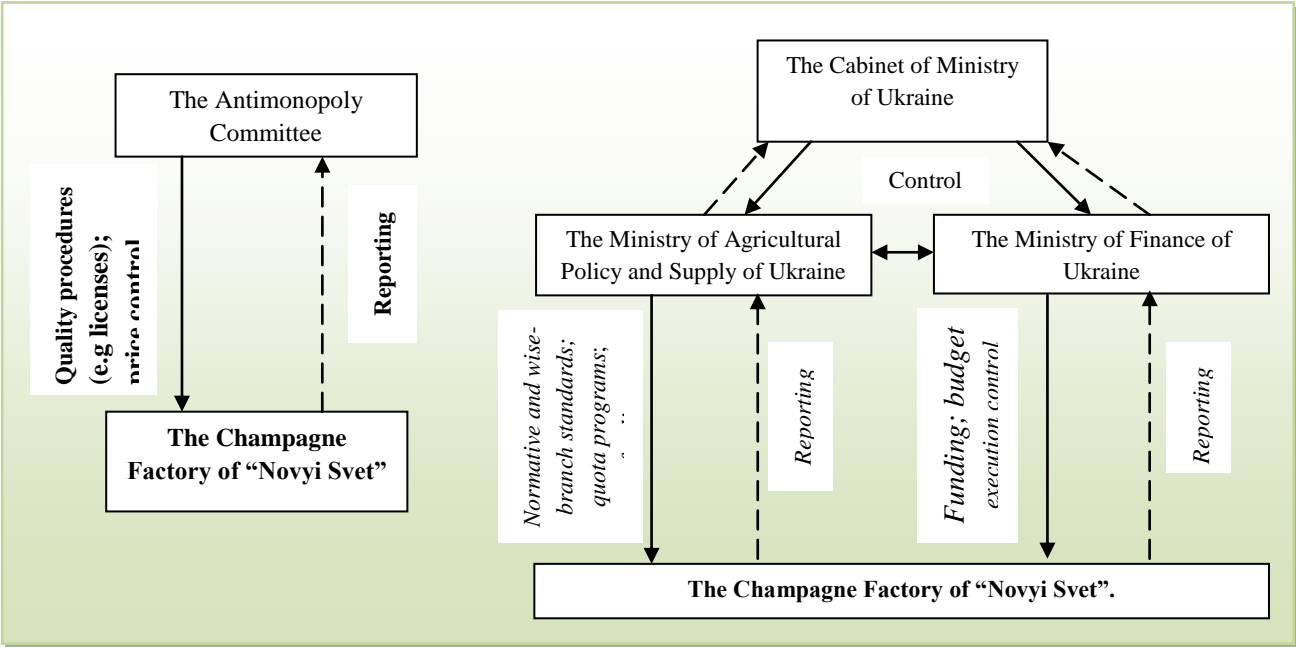


Figure 5.3. *The “Old” system of governing and accountability of the Champagne Factory of “Noviy*

5.4.2 The changes in the governance system

Undertaken local government policy has envisaged the implementation structural changes in the accountability and governance framework of the public sector. The local authorities have conducted an experiment associated with the process of the nationalization including the particular public sector organization. It was done in order to establish the clear line of the institutional control and authority over the public sector entity as well as the improvement of the governing and coordinating model of the public sector as a whole in the RC.

Also, this is thought to be taken place due to the fact that the compliance with a new governance system of the Russian state and adaptation to the new way of public sector functioning implies the carrying out the decentralization process of power and associated processes of the transferring

authority for the local government authorities with the respect to imposed consistent rules and norms of the new system (Demyanenko, 2014). One may consider that the idea mentioned above is supposed necessarily to be taken into account the transparency and effectiveness of the public sector functioning as well as convert the relationships between the local government authorities and public sector entities in the region. The Figure presented below describes the new relationships between the administration and the particular public sector organization taking into account the new context of the organizational functioning and changes were undertaken by the local government authorities (Figure 5.4.)

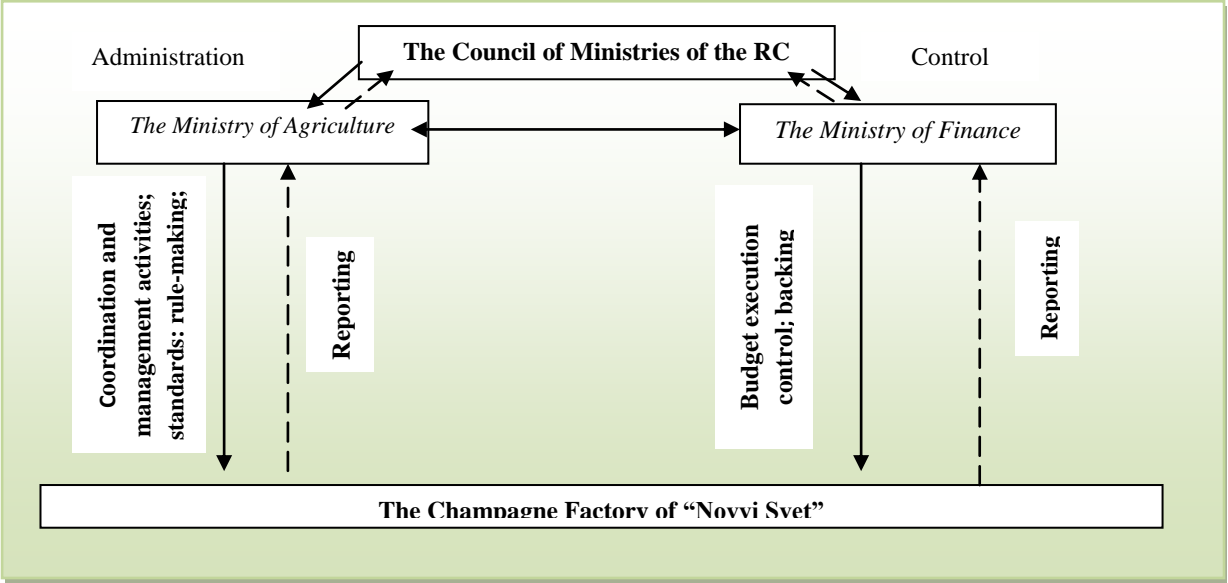


Figure 5.4. *The Up-to-date accountability framework of the Champagne Factory of “Noviy Svet.”*

As can be derived from the Figure, the new administration and accountability framework of the public sector organization represents itself much more structured and “vertically integrated” system of the decentralization authority by defining certain execution bodies in place to which the winery subordinates. In comparison to the previous system, the particular public sector was directly controlled by the top authorities whereas the Ministry of the Agriculture of the Republic of Crimea was figuratively believed to act like as “a mediator” between their relationships. As Pavlenko (2014), the former director of “Noviy Svet”, has expressed the idea which implies the responsibilities of the administration, control and management over the winemaking is moved to “the one hand” mainly the Ministry of the Agriculture of the RC on the behalf of the local government authorities. She has also pointed out as follows:”... *The path from the vine to the counter is vertically integrated which is certainly expected to optimize the decision-making process in the industry*” (C-inform.info,2014).

Moreover, there is a need to mention that providing financial resources, control and administration as well as a quality assurance system in relation to licensing for the particular public sector organization are considered to be reorganized in accordance with the new norms and standards of the governance system inherent in the Russian State

Furthermore, the director remains as the main manager of its financial resources and budgetary funds usage with the assistance of the accounting, financial and manufacturing departments of the particular public sector organization. In fact, the director of the winery is nominated by the Ministry of Agriculture as a main principal to define the main directions and agenda of the winery within the new accountability framework functioning in contrast to the previous system whereas the decision of nomination was decided collectively. The director of the winery is also as an authorized act on behalf of the local government authorities with regards to putting all decisions and guidelines of the government authorities in actions. That is why, the decision-making process in the winery is supposed to be closely coupled with the policy of the Ministry. The particular public sector entity cannot go further without the concurrence of all decisions and actions with the chief institutional body except carrying out economic activities.

The implementation process of the structural changes in the governance and accountability system of the winery entails the improving the local government authorities' image in relation to establishment more transparent and clear accountability framework without involvement any mediators to regulate and coordinate the certain organizational setting as well establishment the control over budgetary funds usage by the winery through single Treasury accounts. Moreover, the new governance system is intended to assist in lobbying and optimizing the management of decision-making related to the backing and obtaining tax privileges for the precise organization. It can be achieved by consolidating of the fee proceeds directly to the budget of the RC rather than the central distribution of the budgetary allocations downward like it was before. In turn, it means that all taxes- and -duties from particular public sector organization are considered to fill out of the regional budget within the transformation from the subsidized to budget generating profile of the RC.

Thus, the new administration and accountability system of the public sector organization are said to entail the changes in the line of authority. In addition, there are still no institutional bodies and trustees exercising legal responsibility and endorsing normative pressures and groundings for the enhancing the effectiveness and efficiency of the particular public sector entity functioning. It

prevents to cope fully with the new accountability framework. The next section describes and analyzes the accounting and reporting system of the organization and to what extent the local government initiatives are going to be embedded in the daily organizational activities.

5.5. Accounting at the winery

The package of initiatives of the central and local authorities within public sector transformation process, especially has affected the accounting and reporting system of the particular public sector entity. These changes have touched upon the issues of measurement, evaluation and monitoring of the budget execution and off-budgetary funds of this organization.

As one of the respondents has noted that new regulations and instructions promulgate the strictly shift towards accruals during accounting and reporting of all public sector organizations. Under the previous accounting system, the public sector entities had to account the budgetary funds only based on the accruals. However, the empirical evidence shows that there are still two methods in the practice of the particular organization such cash and accrual ones. The accrual method is used by the organization in order to control costs and profits. All procedures are accounted on the cash basis. It is due to the reduction in tourist flows and the loss of export opportunities. Since the export and tourist activities are one of the sources of income generating of the certain organization. Because the legal status of the organization is changed, there are more opportunities for getting additional financial resources by the government assistance. That is why the section of the master thesis raises the issues of relations between accounting and budgeting within the precise organizational setting.

Besides, the chief accountant has expressed the following: *“there is the increase the number of reports, tightened control over compliance with all rules, as well as a new chart of accounts. In order to tackle such challenges, we start our day with colleagues from the briefing at which we discuss aspects of the new legislation, issues related to the changes in accounting and exchange of experience”*. Therefore, the following sections will focus on the changes in the accounting and reporting system and challenges associated with these changes.

5.5.1. The changes in the accounting policy

To begin with, the accounting policy of the particular public sector organization is carried out based on the Ukrainian legislation and normative acts published by the local government authorities of the RC during the transition period. The “confusion” in accounting and reporting of the public sector organizations is generated since January, 2015. Starting this year, the accounting and reporting of the certain public sector entity are performed on the basis the federal and industry standards, the generalization of practice of IFRS applicationø guidelines of the Ministry of Finance and the Federal Treasury as well as on the basis of its accounting standards of this organization. The respondents have mentioned that the generalization of the practice is out of the picture. Although it should be noted that one of the points in the Instruction #157 is that the all public sector organizations may disclose the events after the reporting date that in turn is keeping in line with one of the International Accounting Standards (IAS) namely IAS 10 (Zaripova, 2015).

The assistant of chief accountant of “Noviy Svet” also has pointed out that the functioning of the public sector is completely different compared to the overall state level, despite the efforts undertaken by the authorities to copy and implement the uniform way of accounting and reporting activities. It can entail the generation of their ways of accounting. Due to Instruction #157 the accounting policy of the particular public sector organization is carried on the general requirements of the unified state accounting policy of the public sector bodies which encompasses the general rules and norms of assessment, representation and disclosure information about the current, non-current assets, liabilities and financial results as well as general issues related to the budget execution within implementation the Single Chart of Accounts.

Nevertheless, it is hard to say whether all provisions specified in the Instruction #157 are observed in the accounting policy of the particular public sector entity. It can be explained by the fact that the precise public sector organization has adopted new standards recently because of the prolonged process of registration in the new legal framework.

Another comment on the changes in the accounting policy refers to the provision the Single Chart of Accounts defining the overall system of compiling accounts by the public sector entities (The Order of the Ministry of Finance #157, 2010). Along with the conformity of the accounting system of the public sector entity with the Russian one, the accounting department is imposed to elaborate the working chart of accounts like as in the previous system. However, the empirical findings claim

that it is quite a challenging task for the professionals of the certain organization. One of the respondents has elucidated:

“We have not elaborated a working chart of accounts yet. The reason is the absence of the methodological guidelines with regards to the volume, provision and composition of the accounts and control accounts determination as well as the implementation of the Classification Codes of the Budget Expenditures. In addition, we had to approve the uniform design of analytical accounts in order to record and provide full information about the economic activities using inventory cards”.

The respondent has also explained the correspondence of accounts and sub-accounts under the Single Chart of Accounts cannot be achieved primarily because of the complexity and duration of the manufacturing process of winemaking and associated costs of production. It is demonstrated by the fact that the new legal framework for accounting and reporting involves the synthesis of the accounting and reporting issues for all public sector entities without keeping in mind the type of production activity. To be more precise, one of the informants has mentioned that the calculation of the production costs must be treated manually by the accounting department. There is even an insufficient elaborated classification code of costs for the winemaking as it was under the old accounting system.

Additionally, there is need for entering a separate accounting of costs and revenues for external audit of the financial outcomes and generalized statement for decision-making process, whereas under the previous system the income and expenditure accounting are combined, both for external and internal audit and control (Instruction #157). This provision is utilized because the certain public sector entity receives subsidies from the regional budget and due to this it has to conduct strictly accounts to government aid within the regulation of special-purpose funding. Secondly, it is necessary to separate accounting of the revenues and expenses for the efficient and transparent tax accounting due to the Tax Code of the Russian Federation #146-FZ, (1998) (eds.08.03.2015).

As for the analytics and control accounts of the public sector, the entity has to be depicted and entered in the journal order form of accounts register. Moreover, the main difference from the previous form is said to give the possibility for the accountant to incorporate control accounts that it was impossible to manage by using memorial-order form before (The Order of the Ministry of Finance #173, 2010). The chief accountant of “Noviy Svet” has stated as follows:

“...We can implement the control accounts to furnish information in more detail that is thought to assist in the tax accounting conduct in more effective and efficient manner separately by our department.”

However, the one of the respondents has argued that using this form of registering accounts by the particular public sector organization sometimes impedes to envisage the cash flows and make accurate statements of financial performance of the winery. In the respondent's judgment, this issue takes place as a result of the fact that the analytic accounts do not provide broad information about the cash flows with regards to activity cost pools. It in turn leads to the need of manual looking through and verification agenda with the corresponding accounts and control accounts. She also pointed out that this appears to be regarded one of the disadvantages of the current system of cost accounting of the particular public sector entity which is supposed to slow down the process of giving reports to the director and violate the decision-making process because of the constant double-checking information.

As mentioned earlier, the accounting and reporting activities of the particular public sector entity are carried out on both cash and accrual basis as is mentioned earlier. The organization utilizes the accrual for disclosing net income, depreciation costs and deferred revenues. The chief accountant of "Noviy Svet" has explained this subject like:

"It depends on the type of activities and counteragents. For example, providing tourist services by the winery is carried out on the cash basis. However, then the wholesale of the sparkling wines is recorded on the accrual basis by issuing invoices and accrued taxes for each event after the prepayment".

Additionally, it has been mentioned that the particular public sector entity has submitted the reports for the first quarter of this year. With regards to this, the accrual method is primarily used to give an account to the various authorities as it is prescribed in the instructions. This issue undergoes a strict control and verification by the institutional bodies.

Getting a new legal status made it possible to obtain the privileges and government assistance from the regional budget participation in the variety of federal programs. In the light of this, the provision of financial support for the certain public sector entity is carried out through the mechanisms of subsidizing for the public procurement and reduction of the bank loans. This can be considered the grounding for raising the relations between this organization and the local authorities as well as being necessary for the sake of this project from the point of view of studying the relationship between accounting and budgeting. Therefore, the next section of the chapter is intended to discuss the basic mechanism of the government assistance and treatment of the budgetary and off-budgetary funds by the precise organizational setting.

5.5.2. The funding system of the particular public sector entity

The financing of the particular public sector in the form of subsidies is deliberated to be as an instrument of the crisis management, which aims to align the condition of the this organization and increase attractiveness and investment attractiveness and competitiveness of the priority sectors of the economic activity (Demidova & Yakovlev, 2012). In essence, the reliability of the financial statements and the government aid allocation are considered to be a topic of vital interest for the local government authorities which are now paying considerable attention to the special-purpose of the budgetary funds usage.

Due to this, the mechanism of ensuring transparency, openness of the economic activities as well as strengthening of the accountability to the main institutional bodies and the general public of the particular public sector entity is carried out through two communication channels namely grants to participate in the public sector procurement system in order to buy services and government support through the mechanism of reduction of interest rates on the loans. The former aims to prevent the processes of the tax evasion and manipulation of the net profit of the particular public sector organization. The latter involves providing grants and awards to repay the loan rates for the purpose of the capital investments.

Additionally, it is worth to say that local government aid in the form of budgetary fund allocations, grants and awards for a particular public sector entity is exercised towards targeted budgetary funds usage with the defined clear order of the state aid accounting (The Standard of the Accounting # PBU 13/2000 and the Order of the Ministry of Finance of the Russian Federation #92, 2000). As one of the informants has said:

“The operation of procurement of our system was established along the inviting tenders with different public organizations, for example, the electricity purchases from such system like “Krymenergo” without apparent government participation before, only today everything works through the unified government system by entering information on the particular balance accounts”.

If, under the old system, the particular public sector entity had the right to conduct purchase good and service at the expenses of the budgetary funds at its discretion, but now this question is highly regulated. All expenditure and purchases of goods and services at the cost of the budgetary and off-budgetary funds are carried out through the public procurement system by the specific public sector entity. The mechanism of the public purchases includes the compilation of the procurement plan

and schedule as well as provision justification for each open public purchase stated in the scheme. The procurement plan has to be agreed with the Ministry of Agriculture and then put in the procurement system. Finally, the organization announces an auction or competition. There is a need to say that the government procurement process as described above is presented in the outlined form. The process itself involves many aspects and is strictly regulated by the authorities (Open Government Purchases,2015). As one of the informants has noted:

“We faced with the challenge of how to use the system of government procurement and how to put a purchase and announce auction. We have available funds to buy goods or services, but how to use them it is primarily difficult because of the inability to use the system.”

According to the new legal framework that one of the objectives of the government purchases is to achieve the efficiency and transparency of reporting system of the particular public sector entity on the use of the budgetary and off-budgetary funds as well as compliance with all procedures of implementation public procurement system by the organization. Noncompliance with all prescribed regulations entails the imposition of fines. The control over the government procurement system is assigned to the central government (The Federal Law #44-FZ, 2013 (Eds.06.04.2015)).The accounting of the budgetary funds in the form of grants depends on the two issues, including the time of the event and whether the contract was signed with the Ministry for provision subsidies or the budget estimates was drawn up by the Ministry of Finance. The organization applies the accrual method, but in the second one, since there are obligations to the budget execution, the certain organization accounts on the cash basis (Karzaeva, 2014). It should be noted that the distribution of the budgetary funds is carried out only based on the budget estimates and within the budget expenditures. Compliance with the budget estimates is strictly controlled by the Ministry of Finance and the Office of the Federal Treasury.

Further, the process of obtaining budgetary funds was complicated because of the top-down decision processes earlier. Now the question is settled and solved at the local level. The certain public organizational setting has to apply to the Ministry of Agriculture, which agree this issue with the budget owner (The Government Portal of the Republic of Crimea, without date). As for discharging answerability on the budgetary funds usage, the reports have to be submitted to the Ministry of Agriculture directly and the Ministry of Finance by using the single system of the Treasury Office in the Crimea on a quarterly and annual basis.

As for the off-budgetary fund accounting, the particular public sector entity makes the estimates of revenues and expenditure that is regulated by the Ministry of Agriculture. The particular public sector entity has to give account on the plan of financial activity of the certain public sector entity On the quarterly and annual basis. The plan of financial activity has to be drawn up in the light of the specification of all sources of funding especially income-generating activities. The proceeds from the provision of the tourist services are accounted for the off-budgetary funds. The particular does not give account for the such kind of sources of funding to the Treasury Office as it was under the old system

Moreover, the certain public sector entity has to return all undeveloped budgetary appropriations to the main budget owner at the end of the year. Besides, it can in turn entail the risk of the subsidy loss next year. According to this aspect, the particular public sector entity can endeavor to execute contract formally and negotiate with the supplier about the fulfillment of the commitments in the future. Consequently, the particular public sector organization submits the report about the budget execution without explicitly implementing it in practice to the main principal in order to obtain subsequent backing for the next year (Tkachenko *et al.*, 2014).

The empirical data show that the Champagne Factory of “Novyi Svet” still needs substantial funding from the government authorities at the moment, despite the initial attempts made by the local government authorities in relation to the transformation of the public sector management as well as providing financial assistance during the transition period. As a result, the income-generating activities remain the primary sources for maintaining the viability of the particular public sector entity. Additionally, the information on the backing and budgetary funds usage of the certain organization is not still opened to the community

5.5.3. The reporting system of the particular public sector entity

The reporting system of the particular public sector organization has been changed with regards to the provision of detailed financial statements and other reports for conducting deeper analytics by the external users of financial information. To begin with, it is important to note that all the reports have to be submitted to the Federal Tax Office of RC, Fund Pension Fund and Social Insurance Fund through a variety of programs, or on the official website on a quarterly basis. The main difference in contrast to the previous reporting model is the composition and standardized reporting

forms that to be submitted in electronic form by that organization. Under the former system, the composition of the annual financial statements was not deemed to be detailed and it did not include the specification of the financial information on the financial and economic activity of the particular organization of the public sector.

Receiving the subsidies from the regional budget, the particular public sector entity has to compile the budget statements and submit quarterly and annual reports to the Ministry of Finance and the Office of the Federal Treasury (The Budget Code # 145-FZ of the Russian Federation, 1998 (eds. 26.12.2014)). In the light of the issues stated above, the Ministry of Finance is the chief institutional body that monitors and exercises control over compliance with special- purpose usage of the budgetary funds of the certain public sector setting. Simultaneously, the budget reporting is provided to the main executive body to which the specific public sector entity subordinated namely the Ministry of Agriculture. The process of reporting to the Ministry of Agriculture involves the submission of the report on the plan fulfillment of the public sector entity economic activities on the quarterly basis as well as an annual financial statement in accordance with the Order #33 of the Ministry of Finance of the Russian Federation (Instruction #33) "*On Approval of the Instruction on the compilation, submission of annual, quarterly financial statements of state (municipal) budget and autonomous institutions*", approved 25.03.2011). Besides, the particular organization has to make a report on the transferring part of the net income to the budget of the RC and submit to the Ministry of Agriculture on the quarterly basis (The Decree #677 of the Council of Ministers of the Republic of Crimea, 2014).

Furthermore, the financial statements of the winery are produced in the light of the various categories of the sources of the financial resource allocation namely subsidies in terms of the capital investments, fulfillment of the state task and its own revenues from the conducting economic activities. Moreover, the winery is obliged to conduct internal and external audit control with the help of the audit services on the annual basis and enclose audit report to the annual financial statement (Instruction #33). The composition of the budget statements that have to be submitted to the main institutional bodies exercising control over the budget execution is presented in the Table 5.1 below.

Table 5.1 The budget statements have to be submitted by the particular public sector entity

#	Accounting report	Submitted to	How often
f.0503730	The balance of the state (municipal) institution	Ministry of Finance and Agriculture	Annually
f.0503725	Certificate on the consolidated accounts of the organization	Ministry of Finance and the Treasury Office	Quarterly and annually
f.0503710	Certificate on the conclusion of accounts for fiscal year		
f.0503737	Report on the implementation of its plan for establishment of financial and economic activity	Ministry of Agriculture	Quarterly and annually
f.0503738	Report on the liabilities taken by the institution	Ministry of Finance Agriculture and the Treasury Office	Annually
f.05053721	Income statement	Ministry of Finance and Agriculture	
f.0503738	Explanatory note	Ministry of Finance and the Treasury Office	

In essence, the specific public sector entity stands to pay taxes and duties to the regional budget due to the fact that the legal status of the organization provides right to conduct income-generating activities as it was under the old system. The accounting department of the particular public sector organization may submit the reports to the Federal Tax Office. The composition of reports consists of tax invoice, excise tax report, report on the average number of employees and the report on the value-added tax (VAT) on the quarterly basis as well as balance sheet, the report on the plan fulfillment of the economic activities, income statement, providing information about accounts receivables and payables, information about the cash balance on the annual basis (Instruction #33)

The changes in the accounting and reporting system of the particular public sector entity have touched upon the mechanism of the quality assurance system in relation to regulation, licensing and overall winemaking processes as well. The issues of the licensing are rigorously regulated by the

Federal Service on the Regulation of the alcohol market with cooperation with the Ministry of the Industrial Policy and Economic Development of the RC (The Federal Service of the Alcoholic Market Regulation, 2015).

As the one of the informant has mentioned that these questions have not been subjected to strict regulation and control by the previous institutional body. All economic activities are entered as receipts and disbursements in the balance sheet while right now the particular public sector organization should hold all transactions in an accounting log of the retail sales of the alcoholic products. The order of giving reports to the main institutional body is provided on the quarterly basis with an extensive list of the report formats (The Federal Service of the Alcoholic Market Regulation, 2015).

Additionally, the respondents have noticed that the transition to the new norms and rules of the production and accounting alcoholic products is considered to be time-consuming and burdensome task for the winery. This is primarily due to the fact there are difficulties associated with inventory and fixed asset accounting, setting up unified equipment in the production processes and maintaining of records, certification and obtaining federal excise stamp as well the lack of financial resources for re-equipment of the manufacturing and management processes of the particular public sector entity.

Alongside with issues as mentioned above, the accounting department of the particular public sector organization may make reports to Federal Service of the Supervision of the environmental management and Federal Service of the Statistics of the RC on the quarterly and annual basis. As the assistant of chief accountant of “Noviy Svet” has emphasized the following fact:

“We had to make an annual financial statement without the audit account to the State Statics Service of the Republic of Crimea. Right now the composition numbers about 15 reports including annual, quarterly, nine months and monthly ones. As a consequence, we possess much work and scrap of papers”.

Furthermore, it should be noted that the human resource management issues do not remain apart from the accounting policy of the particular public sector entity. Such issues like human resource records management, compliance with all requirements of the labor legislation, wage calculation and so on are subjected to strict regulation and restraint by the federal and local controlling bodies in the area. The assistant of the chief accountant of “Noviy Svet” has clarified the following during the interview:

“Indeed, there is strict regulatory activity on this question right now. For example, if the holiday pay is not accrued during three days before the employee takes a two weeks holiday or the wage is imputed at the time of the employee discharge, the organization is imposed a fine with bearing in account the exchange rate of the National Bank of the Russian Federation at this moment. I can state that the sum of the penalties is incredible large respectively”.

Last, but no least, the empirical findings indicate that accounting and reporting system of the public sector organization are tightly controlled and regulated by the federal and local institutional bodies. This strict rule is implicated in the imposing “sanctions” for errors and distortion in the financial statements, no directional of budgetary funds usages as well as tardiness of giving reports without complying with unified norms and conventions. It is important to note that diversified reporting forms that are submitted to the various institutional bodies listed above are not used in the decision-making within the given public sector entity except the balance of the organization and income statement. As one of the informants has elucidated:

“The reports are compiled and submitted to the Tax Office for the payment of taxes and charges; the statistical reports are for the Statistics; the submission reports to different funds are used for charging pensions, wages and so on. They are not used within the organization. They are needed to be able to carry out economic activities by the organization.”

To sum up, it is worth to point out that accounting and reporting system of the Champagne Factory of “Noviy Svet” is reckoned to be definitely changed because of the new rules of the economic activities conduct. Some provisions of the new accounting policy are already embedded in the particular public sector functioning whether something is said to be under the progress. The arguments mentioned above seem to be confirmed by the conclusion about the new accounting system expressed by the chief accountant of “Noviy Svet, which is as follows: *“There are only common double-entry bookkeeping and principle of balance sheet accounts with the previous system but all the rest has been dramatically changed ”.*

5.5.4. Challenges of the new accounting system

As can be derived from the above mentioned discussion, the transition period and period of time since January, 2015 can be considered to be the crucial point of the restructure of the public sector with regards to strict following of the new rules and norms for doing business which entails changes

in the accounting policy in the first place. The respondents have emphasized that the significant role and burden in terms of preparation financial statements and reporting are assigned to the accounting department of the public sector organizations in accordance with regular alterations, lack of methodological and practical guidelines and explanations, complexity of the Russian accounting legislation, existing the Ukrainian fiscal legislation during the transition period, the implementation new technologies as well as circumscribed the execution budget and fiscal plans since January, 2015. Consequently, this implies the laying heavy burden on the accounting and financial department shoulders during the scene of utter confusion and stressful period for the all public sector structures and institutional bodies in the RC. As the one of the respondents has mentioned:

“One of the main challenges faced by our department every day is considered to be a lack of the consistent and comprehensive information about the introduction of daily innovations in the legal framework.”

Further, the respondents have elucidated that despite the implementation the unified system of the Treasury accounts, the mechanism of budgetary funds usage and giving reports through the system of the treasury services are not fixed and optimized in a proper manner. As a result, there are delays in the transferring the part of the profit to the budget of the RC, receiving budgetary allocations by the public sector organization and tardiness of the giving reports. The assistant of the CFO of “Noviy Svet” has pointed out that:

“In my opinion, there are a lot of standardized formats of documents. For example, we send the reports through the System of the Distant Financial Circulation of Documents of the Federal Treasury. If they do not conform to the standards, the reports will be not accepted. Nothing is explained. It takes more time to verify the accuracy of filling these reports due to a compatible standard rather than drawing up of reports itself.”

As such, the empirical findings have shown that another challenge for the accounting of the particular public sector is the incorporating unified program for the accounting namely 1C like as a part of the organizational government assistance. As one of the informants has emphasized that:

“In fact, there are no experts who can make training for using the accounting program called “1C” which is set up practically at the all public sector organizations. We have used local accounting before. This program is something new for many of my colleagues. They cannot work. To be honest, many accountants cannot stand it longer and just quit because of this. Consequently, there are no accountants.”

Notwithstanding of the challenges mentioned above during the discussion, we may presuppose that the new accounting system and financial mechanism of the particular public sector organization functioning is believed to tend to acquire the features of the Russian public sector functioning

which implies the establishing unified system of accounting policy and boosting efficiency and effectiveness of the management accounting from the committed resources allocation and decision-making perspective of the public sector entities. However, it is too early to judge about any outcomes of the public sector transformation path and the accounting change in the particular public sector entity.

5.6. Summary of the empirical findings

The initiatives of the central and local authorities have introduced the changes in the particular public sector entity functioning. First of all, the legal status of the organization has been amended which gave the right to obtain additional funding from the regional budget. Secondly, the governance system of the certain public organizational setting has undergone changes. All decisions and control level are regulated by the local government (the Ministry of Agriculture). Thirdly, there have been changes in accounting policy of the precise public sector entity. Top managers that are, the central government, remains the principal that promotes and regulates changes in accounting and reporting. Some provisions of the new accounting system have already begun to be integrated into a system of actions of the organization such as the use of a single chart of accounts. Two methods of accounting are employed by the organization, namely cash and accrual ones. The accrual method is utilized for reporting purposes in order to comply with all new instructions and procedures of the accounting. Since the company receives subsidies from the regional budget, it has to prepare budget statements and report to the Ministry of Finance in accordance with the budget estimates. In addition, budget reporting is provided to the Office of the Federal Treasury. All expenditures and acquisitions at the expense of the budgetary and off-budgetary funds of the organization are carried out through the single system of the public procurement. There is an increase in the number of the institutional bodies that regulate the economic activities of this organization and require their formats of the reports. These reports are not used for making decisions, and they are needed to continue economic activities by the organization. Compliance with all rule, regulations, and legal framework are strictly controlled by the institutional bodies. Non-compliance with some rules or formats of the reports leads to the imposition of fines. Finally, the professionals of the particular public sector entity encounter many challenges and difficulties, but they do not dispose of tools or competence to solve them.

VI. Analysis and discussion

6.1. Introduction

This chapter of the project is intended to analyze and discuss the accounting change within the particular public sector entity in the light of the applying of the three theoretical frames of reference, namely accounting through “the system” perspective, accountability approach and institutional theory. These theoretical lenses are applied to get comprehensive understanding and answer the question whether or not the proclaimed government authorities’ initiatives in terms of the accounting change is embodied in the activity system of the particular public sector setting.

6.2. Lens 1: Accounting through “the system” perspective

The point of departure is that the issue of the accrual-basis accounting strongly promoted by the government authorities in the new regulatory acts. Despite the issues discussed above, the accounting system of the public sector entity remains the budgetary accounting, which is supplemented by the deploying of the accruals for reporting. The discussion below addresses the main reasons and arguments for this statement.

First and foremost, it is worth emphasizing that the virtue of the traditional budgetary accounting is implicated in the concentration on the budget execution and comparison with the actual amounts of the expenses and revenues of the public sector entity by deploying of the various basis of recognition (Nasi & Stecollini, 2008:181, cited in Jones & Pendlebury, 2000). In the case of the particular public sector entity, there is a possibility to use either cash or accrual basis. However, the evidence shows that only cash basis is used by the organization for recognition of the revenues and expenditures. The second reason is that the reality of the new public sector functioning in the Republic of Crimea manifests the strict regulation and commitment of the budgetary resource appropriations by the public sector organization which envisages the assigning the significant role to the budgeting processes.

From a technical point of view, authorization of accounting activity as well as the matching principle achievement between the taxes and costs during the deployment of the accrual accounting can not be reached by the public sector entity (Hoek, 2005:37). In addition, the quarterly and annual

reports to the institutional bodies may be reconciled with each other in terms of the commitment to the budget funding and execution. The other coin of this question is that the accrual basis has partial notion of implementation by the public sector entity due to the strongly safeguarding principles of the budgetary accounting. It can be also explained by the fact that the new norms, routines and standards of the accounting and reporting activities for the public sector entity do not provide detailed instructions and guidelines how the accrual accounting should be used by the public sector entity. More specifically, the new legal framework of the new accounting system anticipates only the provision of the accrual basis usage for reporting purposes. The investigation of the accounting instructions as mentioned earlier shows that all reports should be produced with an emphasis on the accrual virtue of the costs incurred by the public sector organization in order to provide more comprehensive insights for the institutional bodies. It is explicitly embedded in the accounting practices of the particular public sector entity. For example, the accounting department deploys the accrual method in relation to representation and disclosure changes in the net income, depreciation costs, and deferred revenues and so on.

In a broader sense, that this public sector entity is relying on the income-generating activities. It conducts accounting activities in the line with the accrual method supposing the fact that production costs will be recognized higher by using the accrual method rather than on the cash basis (Guthrie, 1998:3). It can be confirmed by the fact that accrual method is utilized by the precise public sector entity to managing of cost production. However, it should be noted that the prevalence of the special-purpose backing for the public sector entity and the shortcoming of the new legal framework in relation to the clearly prescribed norms, routines and rules of the accrual accounting employment gives a birth to the opportunistic behavior with regards to the financial information distortions, adjustments and biases to obtain more local government assistance (Subramanyam, 1996:250).

Furthermore, the particular public sector entity has implemented the up-to-date techniques, namely the Single Chart of Accounts with given possibilities to elaborate its own working chart and incorporate control accounts and additional accounts in order to repelling of the full picture about the expenses and revenues for the main principal and other institutional bodies. The empirical findings show that the implementation of the uniform system of the accounting norms, rules, routines, and techniques is regarded to become mandatory for the public sector entity. It in turn emphasizes the institutional notion of the government authorities' initiatives. Consequently, as is articulated earlier, this issue also evokes the opportunistic behavior or even not following the

accounting and reporting ideology of the central government authorities due to the existing punishment in terms of making errors or non-compliance with new norms and rules.

In the line of the mentioned above, there is need to say that the current functions of the public sector entity accounting are mainly intended to assist in the conducting of the stewardship, decision-making processes as well as public incentives in relation to the budget execution and general welfare assuming by the new legal framework. The new legal framework emphasizes the fact that the primary purpose of the public sector entity is considered to perform with regards to the state or municipal orders. Moreover, the certain public sector organization is required to compile and evaluate their quarterly and annual reports with regards to the granted budget allocations. It seems to underline the idea the endorsement of the government authorities administration and control over public sector organization by imposing taken-for-granted norms and routines on the budget execution ascertains mechanistic notion of the public sector accounting (Hogheim *et.al.*, 1989). The accounting and reporting system of the public sector organization is closely coupled with the budget and regulated mechanism of the top managers and local government authorities with the respect to its ownership as it is the establishing institutional administration and accountability.

The data obtained during the interviews showed that the new institutionalized norms and routines of the accounting activities are not in full embedded in the practice of the particular public sector entity. The evidence suggests that the transition towards the new accounting system is an abrupt and coercive measure for this public sector organization. The crux of the new accounting norms and rules, as well as the accrual-based accounting is regarded to remain obscure for the accountants of the certain public sector organization. Moreover, the accrual basis is employed by the public sector organization for managing cost production, but all other transactions are carried out on the cash basis.

Finally, it is worth emphasizing that that budgetary accounting with emphasis on the modified cash basis and budget execution is prevailing over the accrual-based accounting in the accounting practices of the public sector organization. It seems to confirm the idea that accrual-based accounting is like as legitimized initiative undertaken by the government without implementing it in the taken actions by the public sector entities (Mellempvik *et al.*, 1998; Timoshenko, 2008). In the light of the discussed above, it is quite important to consider and analyze the particular public sector entity stewardship to the various institutional bodies and stakeholders through the accountability perspective.

6.3. Lens 2: Accountability approach

The reciprocal relations between the government authorities and the public sector entities involve such dimensions like communication through providing information, answerability through establishing discourse between the authorities and the particular organizational setting as well as enforcement through imposing strict regulatory activity and sanctions by the institutional bodies (Sinclair, 1995; Schedler et al., 1999; Cameron, 2004).

6.3.1. The nature of the winery accountability

There is a need to emphasize that transition period have induced the issue of ambiguity in relation to whom the public sector entity has to be accountable for actions taken. It also has raised the questions to some extent the flexibility and control over the economic activities are possessed by the director or chief executive officer (the CFO) of the public sector entity in the region.

It is worth saying that the notion of relations between the winery and the local government authorities is considered to be twofold. On the one hand, the winery is believed to acquire formal rights to define its strategy of the development and directions of the conducting activities itself without permanently intervention and strict pushing pressure from the top-down mechanism. Due to the new legal status within the proclaimed local government's intention which implies the optimization of the reciprocal relations between the management of the winery and superior body in order to achieve the compromise between them in terms of the providing "practical" flexibility and independence in the administration, management and decision-making processes of the particular public sector organization. In fact, this is supposed to enable to some extent the flexibility of the winery functioning that is embodied by the new legislative framework. As a result, this argument is keeping in line with the idea about the trust-based nature of the reciprocal relations between the particular public sector organization and the local government authorities.

However, the other side of the coin anticipated otherwise. It indicates that the activity of the particular public sector organization is highly restricted by the established control over all processes occurring in the winery. It leads to the fact of the obtaining "formal flexibility of the self-determination" by the winery with regards to defining its strategy of the organizational development and directions of activities. In other words, there is still the existence of the government pressure

over the particular public sector with regards to streamlined discharging accountability and responsibility.

6.3.2. The principal mechanisms of the discharging accountability

The accountability mechanism of the winery involves the following: “to whom” and “for what” the particular public sector organization may give answerability (Ebrahim, 2003). On one hand, the main parties, to whom the particular public sector organization is accountable for the resource allocation, are considered to be the Ministry of Agriculture and the Finance. If earlier all decisions were dictated from the capital, but now they are taken locally. The local government becomes influential agencies in the certain organizational affairs. On the other hand, the particular public sector organization can be accountable to the general public as a provider of the public interest by the rendering tourist services (creating value). These two examples are seemed to be the discharging upward and downward accountability (Christensen & Ebrahim, 2006).

However, the downward form of the accountability is not on the priority basis for the particular public sector entity. The primary sources of the funding of the winery are the income-generating activities and budgetary appropriations at the expense of the regional budget. They maintain the viability of the particular public sector entity performance as a one of the leading organizations in the food industry in the region. Therefore, the primary form of the accountability implies the giving accounts to the agencies (the Ministry of Agriculture and Finance) in accordance with the main mechanisms of the obtaining backing by the particular public sector entity. Consequently, the principal-agent relationships have drawn substantial attention from the local government authorities.

The answerability and decision-making processes of the particular public sector organization remain under the government authorities’ control. On one hand, the accountability of the particular public sector entity is intended to satisfy the principal interests and other institutional bodies by the means of the providing detailed reports without using them during the decision-making process. However, on the other hand, these reciprocal relations underscore the power aspect with respect to the rigorous compliance with the new accounting regulations. It also induces imposing sanctions in the case of the failure or mistake made by the public sector entity. It can entail the legitimacy violation of the main principal or other institutional bodies well as decreasing incentives of the

particular public sector entity in terms of the accommodation the interests of the influential agencies (Mintrop & Sunderman, 2009). Moreover, this situation can induce the conflicts between the interests of the public sector entity and main principal. Another example is that as the particular public sector entity incentive in favor of the obtaining financial funding for the next year and distortion of the financial information in order to get it. As a result, this leads to the risk of neglecting of the main principal preferences in the form of asymmetric information between the main principal and agent (Kluvers, 2003; Murray, 2009).

The accountability of the certain organizational setting is not only communicated through the streamlined interrelations. The evidence demonstrates that the current situation of the particular public sector organization is also enveloped by the processes of the compound financial reporting system which evoke the need to generate and submit a bulk of reports to the different institutional bodies because of the strict control over the compliance with the new accounting norms, routines and standards like as an instrument of the boosting efficiency, effectiveness and transparency of the financial information.

6.3.3. The other types of the accountability

The case of the particular public sector entity provides illustrations that the accountability of the particular public sector entity can be viewed in the form of the managerial, political, public and professional ones. To begin with, the director of the winery is authorized as the public actor and imposed autonomy by the main principal in terms of decision-making processes the income-generating activities of the winery for the provision information about the fulfillment of the state order, allocation of the budgetary funds as well as the changes in the economic activity of the organization which in turn witnesses about the legal nature of the accountability endorsed on the public sector organization (Page, 2006). Moreover, the managerial accountability implies the cooperation between all departments that give directly giving to the administration (the director) of the winery. The director does not only control the main processes, but also evaluates the daily input-output and outcome procedures carrying out in the particular public sector entity (see Appendix 4). As a consequence, that the director is considered as the main principal for the agents (the managers) of different departments by charging of the instructs and transferring a number of functions to them.

The political accountability manifests itself the authorization of the director of the winery as a public actor on the behalf of the local government authorities. In turn, it specifies the fact of the rectilinear notion of such relations between the particular public sector entity and main principal (Sinclair, 1996). In other words, the particular public sector organization gives directly accounts to the main agencies as represented by the Ministry of Agriculture and Finance, which is regarded as an example of the vertical accountability.

Another type of the accountability is linked up to the professional code of practice following by the employees of the public sector entity. It refers to the appearance the professional accountability imposed on the main professions from accounting and financial departments of the particular public sector organization. The director of the winery grants autonomy to them in favor of reaching decisions and relying on their professional values and judgment while conducting activities (Romzek, 2000). Moreover, the professional accountability also arises whether the economic activities of the particular public sector entity are kept in adherence and compliance with the uniform accounting and reporting system of the Russian Federation.

The particular public sector entity may give explanations (accounts) about the financial situation and changes in the economic activities to the general public with regards to the budgetary funds received (subsidies) and tax preferences (Coy *et al.*, 2001:12). Nevertheless, the empirical findings claim that the public accountability of the winery remains weak for the community of the RC despite its legal status and commitments imposed by the local government authorities.

To sum up, the interactions between the particular public sector organization and the principal can be considered as a foundation for the establishing an upward stewardship. Secondly, the current accountability processes are intended to satisfy the needs of various stakeholders (the institutional bodies) which are interested in the varying degree of the answerability and composition of the reports provided by the particular public sector organization. Thirdly, the mechanism of the accountability discharging is carried out through the stricter public administration over the certain public sector entity with regards to the compliance with all norms and procedures without great emphasis on the proper resource allocation. Finally, the new accountability system primarily focuses on the giving accounts of the budget execution for the external users as represented by the main principal, budget owner and other institutional bodies rather than for internal users (the particular organization itself). Confirmation of the social responsibility is not clearly noticeable in

the economic activities of the particular public sector entity. The Table 6.1 summarizes the issue “to whom” and “for what”, the particular public sector organization may be accountable.

Table 6.1 *The accountability mechanism of the particular public sector entity*

<i>Various stakeholders ("To whom?")</i>	<i>"For what actions it can be accountable."</i>	<i>Reporting system ("How to be accountable for?")</i>
The main principal	Economic performance and budget execution	Financial statements on the quarterly and annual basis
The budget owner	Budget execution	Financial statements on the quarterly and annual basis
Other institutional bodies	Depends on the type of the institutional body	Different kind of the reports (i.e. Tax accounts, statistical reporting)
Administration (director)	Input-output processes and daily economic activities	Answerability of each department to the director

6.4. Lens 4: Institutional Perspectives

The accounting and reporting of the particular public sector organization were said to be a continuation of the old tradition of the Ukrainian accounting system during the transition period. The sudden change of the main policymaker (the Russian state) has initiated the establishment of the new tradition of the accounting practices. It is carried out primarily by imprinting a great number of the new accounting norms and rules in the instructions and putting the rigid control and coercive pressure over compliance with the new way of accounting and reporting. Thus, the central point of this section is to comprehend how the new norms and rules of the accounting and reporting system are developed and institutionalized within the particular public organizational setting.

6.4.1 How do the new norms and rules become institutionalized?

The new system of accounting and reporting is influenced by the hierarchical relationships between the main policy-maker and the public sector entity. Under the old conditions and now, the norm system is elaborated and controlled by the executive branch. In this case, the top managers (the

federal authorities) are considered to be primary policy makers that exert formal pressure on the precise organizational setting through the accounting normative system determining new techniques and procedures. The particular public sector organization is legally binding to follow up the norms and rules prescribed by the top government decisions (Timoshenko, 2008).

As soon as the particular public sector organization was registered within the new legal framework, it was circumscribed by the main policy maker in the rigid implementation of all instructions, regulations, new budget and tax legislation as well as disseminating them in the actions. The new norm system does not provide discretion. The government exerts strong pressure and control over the compliance with the new requirements to the forms of the financial statements, but these reports are not utilized in the daily activities. When it comes to the evaluation of the accountants work, this also is subjected to rigid control by the central and local institutions through internal and external audit whereas the internal audit is mandatory for this public sector entity.

Moreover, the rigid control and power also come from the local government. It implies putting pressure with regards to the strict declaration of the taxes and due payments, but also calling for answerability to the main owner as well as transferring a part of the profit to the regional budget as the one of the elements of the put “funding pressures” on the certain organizational setting (Frumkin & Galaskiewicz, 2004). The lack of technical readiness of both the individual, organizational setting and the local institutions leads to the preventing the implementation of the new accounting innovations. In turn, it results in not achieving homogeneity between state and local levels (Berkert, 2010; Tuttle & Dillard, 2007). In this sense, the non-compliance with new norm system entails the imposition of sanctions. The fear of sanctions calls for that the professionals of the particular public sector entity are required to disseminate the new accounting techniques and procedures in the actions as soon as possible.

The empirical data reveal that the decisions of the top government for implementation of the norm system for a short period of time does not take into account the particularities of the regional public sector functioning and the consequences of what they would be in the field (Czarniawska & Joerges, 1996). Thus, these decisions of the main policy-maker lack flexibility and do not leave the choice to the particular organization like as responding by adopting a new pattern of norms and rules rapidly in order to increase its chances of survival in the new institutional environment (Zucker, 1987:453; Oliver, 1991).

The evidence suggests that the normative pressures are also encouraged by the top managers. They include not only compliance with new norms, routines, and standards. Such pressures like from the professional institutions have already been observed during the transition period. It is associated primarily with transmitting to the new accounting software that was required to be used by the accountants and CFO of the particular organization. Moreover, the learning and training of the new norm system is disseminated through the workshops and seminars by various professionals. They conveyed and shared their experience with respect to the legal framework (Asworth et al., 2007; Bergervärn *et al.*, 1995).

To sum up, the initiatives of the government authorities (both the federal and local ones) are primarily presented in the forms of the instructions and directives rather than the actual implementation them in the practice. It is due to the presence of resistance and lack of competence of the professionals of the particular organizational setting to promote a myth and political interests towards the new accounting and reporting. Compliance with the new rules and regulations based is a manifestation of greater legitimacy rather than established tradition. The main instruments in the provision of new technical aspects and routines of accounting and reporting are exertion coercive and normative forces on the precise public sector organization. The main influential actors are considered to be the Ministry of Agriculture of RC and Ministry of Finance in the particular organization performance. The former is the chief principal in terms of establishing control in the place while the latter is regarded as a main policymaker to promulgate the new techniques and procedures.

Based on the mentioned issues, one can stress out that that the attention of the top government is devoted to achieving steadily conformity of the public sector entity with the new accounting tradition at first through the coercive and less extent normative mechanisms of the isomorphic pressures. (DiMaggio & Powell, 1983).

6.4.2. How are the new norms and rules embedded?

As is shown by the empirical evidence, only some of the initiatives of the government authorities began to embed in the accounting design of the public sector entity. These actions are mainly referring to the observance of clearly defined rules and routines and answerability on the budget execution. Otherwise, the translation of the formalized norms and rules of the accounting and

reporting is not exploited in the economic activities of the particular public sector entity to a greater extent. The utilization of the accrual method elucidates only the formal conformity and adherence to the new accounting norms and rules rather than accepting them like as taken-for-granted by the individual public organizational setting. It is like as a tool for answerability to various stakeholders without explicit using accruals in the day-to-day activities. The formal demonstration of this conformity and inconsistency with the prescribed tradition of accounting by the individual organization implies that the initiatives of the government authorities cannot become legitimate (Scott, 2008; Pedersen, 2007). Consequently, the provision of accrual method can be characterized as the promotion of the bureaucratic interests rather than communication a new order of accounting practices endorsed by the government authorities (Ashworth *et al.*, 2007). Such actions of the particular organization are dictated by the fear of sanctions in terms of the non-compliance with new norms and rules that are binding to be followed up by the particular organization.

The evidence manifests that the professional staff (the accountants) utilizes the cash and accrual methods of accounting because of the adherence to the old-fashioned logic and lack of understanding some provisions of the new accounting design. It underlines the fact that the endorsement of new accounting procedures and techniques has not undermined the legitimacy of outdated accounting practices. One can say that there is still an existence of the well-established tradition of the new accounting one. As a consequence, the provision of the accrual-based method is seemed to be like as rhetoric rather than a real practice of the particular public sector entity (Hopwood & Miller, 1994; Guthrie, 1998).

Further, the initiatives are aimed to control over the compliance with all procedures and registering and measuring functions of the accounting on the budget execution by the particular public sector organization. They have not improved the quality of the accounting information for decision-making processes through the provision of the guidelines how to use new accounting technology by the organization (Timoshenko, 2008; Antipova & Bourmistrov, 2013).

As Czarniawska, (2009) has stated that the materialization of ideas and myths took time because they may, firstly, be emerged and comprehended in the head then realized in the actions. The weak translation of the new norms and rules can be explained by fact that the initiatives towards accounting change, cannot be comprehended and interpreted by the professionals (accountants and financial director) of the organizational setting over such short period of time. The case of the individual public sector entity supports the fact that professionals are obliged to comply with the

new techniques and procedures, but the professional staff sometimes cannot stand such coercive and normative pressure. It also occurs due to the existence of the misunderstanding of the new legislation, lack of skills and unreadiness of the accountants and CFO to materialize a new myth advocated by all branches of power in the action system despite the technical and methodological support.

Despite the decoupling, the adoption a new pattern of norms and establishment rigid control locally has induced step-by-step changes in the activity system of the individual public sector organization. One of the evidence of this fact is that the basic norms and rules prescribed in the new regulations began to embody in the actions of this public sector organization. It is related to use of the Single Chart of accounts and related technical aspects. There is a need to say that the institutional homogenization is traced poorly in the accounting practices of the precise organizational setting. It is primarily associated with the firm adherence to the old-fashioned way of accounting and partial application some of the new techniques and procedures (Beckert, 2010). Accordingly, we can emphasize, that implementation of the new version of the accounting and reporting within the particular public organizational setting is at the beginning of its way.

VII. Conclusion

7.1. Introduction

This chapter of the master thesis includes four sections. First of all, it provides some empirical evidence obtained during the research and analysis. Secondly, the main contributions are presented and discussed respectively. The third section refers to the limitations of the study. Finally, the chapter ends with proposals for further research.

7.2. The main empirical findings

This project work aimed to describe and analyze the initial process of the embedding of new accounting and reporting tradition dictated by the new policy-maker on the example of the one particular public sector organization namely the Champagne Factory of “Novyi Svet”. The implementation process of a new variant of accounting system has been affiliated with a number of initiatives promoted both by the central and local authorities in the Crimean public sector for the short period. The initiatives of the local authorities have been directed to develop a new legal framework, implementation of the structural changes in the budget processes and the management system of the public sector as a whole. Simultaneously, the initiatives of the top managers were primarily associated with the spread of the accounting tradition in the form of a vast number of instructions and regulations.

The empirical findings show that budget accounting is prevailing in the practice of the certain public entity. The accrual basis is employed by the public sector organization for managing cost production, but all other transactions are carried out on the cash basis. Moreover, the accrual method is used as an instrument of promotion compliance to the respond to the pressure coming from the external environment as well as discharging accountability by the various institutional bodies in the form of an increased number of reports without implementing them in the daily activities.

As the empirical evidence suggests that the new tradition of accounting inherent in the Russian public sector cannot take a shape of the taken for granted routine rapidly and fully spread in the actions of the particular public sector entity for one year. One of the factors undermining the

process of translation of the new accounting system is the lack of “technical” and solid ground (the skills and competence) of the professionals of the certain organization to support new principles of the accounting promoted by the central government.

It is also due to the fact that the initiative of the central government at this stage mainly focuses on the monitoring compliance with all rules and regulations on accounting and reporting without taking into account the specific of the Crimean public sector functioning and the providing of tools for solving challenges encountered by the local professionals. Formal and normative mechanisms exerted by the central government are the main forces and drivers to spread a new technology for accounting and reporting in the precise public sector entity. Under such normative pressure, the particular public sector entity has no choice as to accelerate the process of adaptation to the external environment and a new way of accounting practices.

Accordingly, it is necessary to say that translation of new techniques and procedures of accounting for the actions of the particular public sector entity is at the very beginning of its development and implementation. The initial process of the application of new accounting can be characterized as a compliance with the formalities rather than the establishment of the new order of things (Oliver, 1991).

7.3. Contribution to the research

This research paper sought to contribute a body of knowledge to the dearth of the research concerning public sector accounting development in countries with transitional economies in times of change. This research is believed to provide a valuable knowledge both for management control literature and practitioners. With regards to the contribution to the management control framework, the application of three theoretical lenses, namely accounting through the system perspective, accountability approach and institutional theory can assist me to identify the main aspects of the accounting change and the pattern of the institutionalization of the new norms and rules on the example of the one particular organization. Secondly, this research can provide information about the process of implementation of new techniques and procedures of accounting from the perspective of the government authority initiatives or the public sector organization. The evidence of this study will be useful for practitioners from prism of how initiatives of the government authorities towards to the new model of public sector accounting travel and interpretation by the professionals locally:

in which way the accounting technology is embodied in the action system; the challenges are faced by the accountants. Finally, the study of the norm and governance systems can be considered to be valuable too.

7.4. Limitations of the study

The study of the public sector accounting development, on the example of the Crimean public sector organization calls for a comprehensive and long-term investigation. The short time span of the implementation of the government initiatives towards to the new model of the public sector functioning and new system of accounting and reporting did not allow to consider the central topic from different point of views because the implementation of a new accounting and reporting system makes the first steps to translate into the particular public sector organization affairs. Not every aspect of the new version of accounting and reporting system within this organizational setting has been carefully analyzed and interpreted.

A second limitation of this study is considered to be a language in which the research study was conducted. All interviews and search for the secondary data sources were conducted in the Russian language and translated into English. Lack of technical knowledge of accounting and the language barrier can be deemed an obstacle to accurate and thorough interpretation of the ideas outlined by the respondents. Despite the fact that all interviews were transcribed and the provision of the obtained information was agreed and validated by the respondents, there is the likelihood of the existence of the misunderstanding in the interpretation of the views and experiences of the informants.

Finally, the application of the theoretical lenses, namely accounting through the system perspective can also be regarded as a limitation of this research. The absence of the proper interpretations of the new accounting instructions and regulations and technical knowledge of the accounting as noted earlier is considered to be problematic and complex for the presentation of the topic in a more comprehensive way. Therefore, this topic is presented from the management viewpoint rather than from the prism of the technical aspects of accounting.

7.5. Proposal for further research

The case study of the development of the public sector accounting is a new topic in the research literature. This research encompasses the discussion and analysis of the implementation of the new accounting and reporting system of one particular public sector entity, whereas the implementation of the new accounting tradition is at the beginning of its path. Moreover, it did not seek to provide generalization of the main empirical evidence. In the light of this, one of the suggestions future research is supposed to study the development of public sector accounting in the Crimean public sector as whole from the long-term perspective. It is also relevant to the investigate the introduction of the new accounting techniques and procedures and related changes in the performance on the example of other public sector institutions in the Republic, for instance, municipalities because the municipal establishments are one of the innovations of the public sector management in Crimea.

The realm of this research work touched upon the issues of development of the accounting system in terms of the initial process of embedding a new version into the daily activities of the one of the Crimean public sector organizations. The covering of the technical aspects of the new system of accounting has not been devoted substantial attention. It is important to say that fundamental principles of new techniques and procedures of accounting have been described and analyzed in this research in order to better comprehend the innovations of the reporting system of the particular organization but not to a significant extent. Additionally, it was focused on the interpretation of qualitative data rather than a quantitative one. Therefore, it would be reasonable to conduct research with emphasis on the qualitative and quantitative data in order to bring light into the technical aspects of the new version of accounting and reporting, which start to be embedded in the accounting system of the public sector entity in the region.

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Appendixes

Appendix 1. The list of respondents and interview details

№	Position	The main purpose	Interview	Duration
1.	The representative of the Council of Ministers of the Republic of Crimea	Discussion the initiatives of the local government and changes in the public sector; perceptions and experience	1	40 min
2.	The representative of the Federal Treasury Office in the Republic of Crimea	Discussion the main aspects of the Ukrainian accounting policy and new innovations in the accounting and Treasury activity as well; perceptions and experience	1	45 min
3.	The representative of the Finance and Accounting Department	Discussion the main changes in accounting; perceptions and experience	1	25 min
4.	The director of “Novyi Svet”	Discussion the issues and directions of the organization functioning	1	42 min
5.	The chief accountant”	Discussion accounting policy, legal framework; aspects of the Ukrainian policy: new norms and rules of accounting; perceptions and experience	3	40-50 min
6.	The assistant of the chief accountant	Discussion perceptions and experience on the changes in the accounting policy	2	35-45 min
7.	Economist of “Novyi Svet	Discussion perceptions and experience on the changes in the organization	1	20 min
8.	CFO	Discussion perceptions and experience on the changes in the organization	2	38-45 min
9	The assistant of CFO	Discussion perceptions and experience on the changes in the organization	1	40 min

Appendix 2. Interview guide

Respondent: The representative of the Council of Ministers

1. What are the main purposes of the implementation process of new changes in the public sector?
2. What does the process of adaptation and integration of the accounting and budgeting system to the new one involve?
3. How is the process of “new reforms” implementation being carried out? What time is expected to take?
4. What does the transformation path of the public sector involve?
5. What do the main challenges and impediments exist in the initial implementation process of changes in the public sector?
6. How are expected these challenges to be solved?
7. What are the main prospects of the new changes being conducted in the public sector?
8. What do you suggest about the future of the region?

Respondents: The representative of the Finance and Accounting Department and The representative of the Federal Treasury Office in the Republic of Crimea

- 1) How can you describe the structure of the accounting and budgeting system of the Republic of Crimea? What has been changed in the accounting and budgeting system?
- 2) What are the advantages and disadvantages of the new system in comparison to the previous one?
- 3) How can you assess and describe the preparedness of the public sector and the region as well to the new changes and modifications in the region?
- 4) What are the main principles and sources governing and dictating the accounting and budgeting processes being carried out in the region?
- 5) What accounting instructions and norms have already endorsed in the Republic of Crimea?
- 6) What do you think about shifting towards accrual accounting? Did it already take place or is there prevailing two types of the accounting system, namely cash and accrual accounting systems?
- 7) How is the process of resource allocation being conducted in the region?
- 8) What are provisions being used for evaluating, monitoring and measuring resource allocation?
- 9) How is the control over public sector organizations in terms of spending funds exerted and executed?
- 10) What are the challenges and difficulties encountered by the Federal Treasury in the Republic of Crimea?

- 11) What are the present consequences of the ongoing process of new changes in the accounting and budgeting system of the region?
- 12) How do you see the future of the Republic of Crimea?

Respondent: The Director of “Novyi Svet.”

- 1) What is the legal status of the organization?
- 2) What activities does the organization perform?
- 3) What are the main “customers” of the organization?
- 4) What can say about the decision-making process in the organization? What are the main challenges associated with this process?
- 5) How do you cooperate with local government authorities and other organizations?
- 6) How do you describe the degree of freedom or flexibility in terms of taken actions? What consequences does the organization face for their activities?
- 7) What challenges are encountered by the organization after the referendum?
- 8) What are sources of control in the organization?
- 9) What are the main pros and cons concerning implementation new changes in the accounting and budgeting system of the region?
- 10) How do the new changes impact on the organization activities after the referendum that was held on March of 2014? What has been modified?
- 11) What do you suggest about the future of the organization?

Respondent: Economist of “Novyi Svet.”

- 1) How are interrelations with the local government authorities constructed?
- 2) What are the sources of funding in the organization? If so, does organization obtain any support from local government authorities?
- 3) What are challenges and difficulties associated with reorganization?
- 4) Does the organization take part in the local government programs? If so, please, name all of them.
- 5) How can you assess the level of performance of the organization since the new changes in the different sphere of the region are being implemented?
- 6) What indicators are deployed in order to determine the efficiency and efficacy of performance in the organization?
- 7) How can you determine the level of flexibility or freedom of the organization after reorganization process taken place in the organization?
- 8) How can the new changes in terms of accounting and budgeting system development influence on the decision-making process in the organization?
- 9) What are the main impediments to the organization after the referendum? If so, what are the ways to find to solve such difficulties?
- 10) What are your future prospects of the organization and the Republic of Crimea as well?

Respondent: The Chief Accountant of “Novyi Svet.”

- 1) How can you describe the accounting system of the organization? What has been changed?
- 2) What are the main purposes of the accounting system of the organization?
- 3) What kind of new principles, norms and rules govern and monitor resource allocation within and outside the organization? What has been changed in comparison to the previous system?
- 4) Do you have enough time for new accounting system implementation?
- 5) What can you tell about the preparedness of the organization to new changes in accounting and budgeting system of the region?
- 6) How are the relations between accounting and budgeting process in the organization built?
- 7) What is the role accounting information within the organization?
- 8) What reports and documents are prepared by the organization? How often are the accounting reports submitted? To whom? How is responsible for this? Are they publicly available?
- 9) What do you think about shifting towards accrual accounting or there is still using both types of accounting system in the organization? How does it influence the decision-making process?
- 10) How does the endorsement of new accounting norms and practices influence on preparation accounting documents?
- 11) What accounts and provisions are used for evaluating and monitoring of the resource allocation?
- 12) What are the main advantages and disadvantages concerning this process? What are the challenges and impediments encountered by the organization?
- 13) How are these challenges and problems solved?
- 14) What are the consequences of new changes implementation for the accounting system development of the organization?

Respondent: CFO Assistant

1. What has been changed in the accounting and budgeting system of the organization after the referendum?
2. How are the accounting reports prepared? What has been modified in comparison with the previous accounting system?
3. What does the decision-making process in the organization involve? How do new norms and rules influence in this process?
4. What reports and documents as a basis for the decision-making process? What has been changed in comparison to the previous system?
5. What are the challenges associated with this process?
6. Who are the users of the financial information inside and outside the organization?

Appendix 3. The main accounting reports had to be prepared by the Crimean budget institutions

#	Accounting reports	Submitted to	How often
1	Report on the execution of budget estimates of the Organization	The main execution body (owner), the Ministry of Finance, and the Treasury Service	Monthly and quarterly
2	Report on Receivables	The Ministry of Finance and the State Treasury	Monthly, quarterly and annually
3	Report on liabilities		
4	Balance sheet	The main execution body (owner), the Ministry of Finance and the State Treasury, the Statistic Service	Quarterly and annually
5	Income Statement		
6	Operating statement (cash flows and equity)	The main execution body (owner), the Ministry of Finance	

Appendix 4. The organizational structure of the particular public sector entity (elaborated by author)

