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Legal mechanisms for improving the efficiency of accounting in the social security sector: Analysis of the regulatory environment and recommendations for improvement

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Abstract

The purpose of this study was to analyse legal accounting instruments, with a focus on the social security sector, by identifying and assessing the key problems affecting the effectiveness of their use. The study analysed Ukrainian legislation governing accounting and taxation and compared it with the legal systems of Germany, the UK, and the US. The study examined the harmonisation of national standards with international ones, specifically focusing on the challenges faced by small and medium-sized enterprises due to inadequate government support and the inconsistency of tax legislation with international requirements. The findings of the study showed that small and medium-sized enterprises in Ukraine are falling behind in the implementation of international standards because of the lack of financial and technical resources. It was also found that many enterprises have no access to qualified personnel capable of working with international standards, which further complicates their transition to international reporting standards. Statistics show that only 35% of medium-sized and 20% of small enterprises in Ukraine have implemented international

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financial reporting standards, which is significantly lower than in Germany, the UK, and the US, where this rate is much higher due to better legislation and government support. Furthermore, insufficient automation of accounting processes and unified reporting requirements in the social security sector complicate the management of pension payments and other social obligations. The study found that insufficient control by government agencies over compliance with international standards reduces the transparency of financial reporting, which leads to a general setback in the competitiveness of Ukrainian enterprises in international markets. The study found a lack of coordination between enterprises and social funds, which increases the risk of delays in payments and reporting errors and requires improved accounting processes to increase the transparency and stability of the social security system. The findings underscore the necessity of reforming legislation to harmonise national standards with international ones and improve accounting efficiency, which will help attract foreign investment and increase the competitiveness of Ukrainian enterprises

Keywords: financial reporting; harmonisation of law; audit; international investments; state support; economic integration; tax law

Introduction

The development of Ukraine's economy in the context of globalisation and integration into international markets requires considerable adaptation of accounting standards to international requirements, which will ensure transparency of financial statements and investor confidence. Implementation of International Financial Reporting Standards (IFRS) is a key condition for increasing the competitiveness of Ukrainian enterprises, including small and medium-sized ones, on the global stage. The principal challenges in this area relate to the integration of national standards with international requirements, the low level of implementation of modern technologies in accounting processes, and the lack of professional skills. These obstacles create further barriers to the effective modernisation of financial reporting. Furthermore, the social security sector, which includes pension payments, social support, and other types of payments to citizens, requires special attention. Imperfect accounting in this area hinders the efficient allocation of public resources and reduces the transparency of the use of budget funds, which undermines the trust of citizens and foreign partners. The integration of international standards in this area can improve the quality of financial control, which is essential both for ensuring social stability and for increasing the efficiency of the use of budget funds.

Insufficient harmonisation of national standards with IFRS is an important problem faced by Ukrainian enterprises. G. Likhonosova and A. Verbytska (2023) and O. Yarmolyuk *et al*. (2021) noted the significance of implementing international standards for large enterprises, but the issue is still relevant for small and medium-sized businesses that lack sufficient resources to adapt. It is more challenging for small businesses to integrate into the international financial system due to limited access to financial and technical resources. On the other hand, the study highlighted the need to strengthen government support and create conditions for a more even integration of international standards across multiple sectors of the economy, particularly through tax incentives and financial aid to SMEs.

A major obstacle to the harmonisation of national standards with international standards is the lack of government support for small and medium-sized businesses in implementing IFRS. Z. Zadorozhnyi and V. Yasyshena (2019) emphasised the need for such support, but their study mainly focused on large companies, leaving aside the problems of smaller enterprises. While large enterprises are better positioned to implement international standards due to access to financial and technical resources, SMEs continue to be vulnerable due to limited financing opportunities, lack of skilled personnel, and lack of adequate infrastructure to transition to new standards. This creates further challenges for their adaptation, especially considering that this business segment is the most dynamic and significantly affects the country's economy.

Automation of accounting processes is also a vital element of improving accounting efficiency. K. Bagrii (2021) showed that automation of accounting processes substantially simplifies accounting operations and facilitates the implementation of international standards, especially in the context of globalisation. However, K. Bagrii's (2021) study focused on technological aspects and did not adequately address legal and organisational issues, which limits the possibility of effective automation in small and medium-sized enterprises. The approach also underestimates the significance of the legislative framework for the introduction of automated systems, which is critical to ensuring the integration of small enterprises into international financial systems.

Another major problem is the insufficient qualification of accounting professionals, particularly those working in small and medium-sized enterprises. L. Polyatykina (2023) stressed the significance of upskilling accounting professionals for successful IFRS integration, but her study focused mainly on large enterprises, while SMEs require more attention and support. The lack of qualified personnel is one of the key obstacles to the effective implementation of international standards in these enterprises, as the lack of knowledge and skills complicates adaptation to new requirements. Furthermore, small businesses rarely have the resources to train and retrain their employees independently, which reduces their international competitiveness.

The problem of harmonisation of tax and accounting also persists for Ukrainian companies. S. Stender (2023) highlighted the challenges posed by the mismatch between tax legislation and IFRS, which complicates accounting for businesses with international operations. Tax regulations in Ukraine often contradict the requirements of international financial reporting standards, which leads to the need to maintain parallel accounting systems. Although the researcher proposed some changes to the national tax legislation, his approach focuses more on large companies, while SMEs need specific solutions. This suggests the need for harmonisation of tax and accounting to ensure transparency of financial reporting, which is crucial for companies seeking to operate in international markets.

The issue of government control over compliance with international standards is another significant aspect. D. Kondratenko (2019) showed that government agencies do not sufficiently monitor the implementation of the International Financial Reporting Standard (IFRS) among Ukrainian enterprises, especially small and medium-sized ones. This results in many companies avoiding compliance with international requirements, which negatively affects their reporting and ability to attract investment. However, the cited study does not consider the problems faced by small enterprises, which require more attention and support from the state. The lack of control and incentives for enterprises results in a low rate of implementation of international financial reporting standards, which worsens the transparency of the economy and reduces its investment attractiveness.

Thus, the study of scientific literature indicates the necessity of a more detailed investigation of legal mechanisms in the field of accounting, especially regarding small and medium-sized enterprises. The purpose of this study was to comprehensively analyse the legal mechanisms for regulating social security accounting on the example of Ukraine, considering the key issues that influence their effectiveness. The principal objectives included identifying legal obstacles to the implementation of international financial reporting standards, analysing the current Ukrainian legislation and its compliance with international requirements, and developing recommendations for improving the legal framework to enhance the efficiency of accounting

Materials and Methods

The study systematically compared the legal provisions governing accounting in Ukraine with those of other countries, including Germany, the United Kingdom, and the United States. The comparison was based on the analysis of legislative acts, such as the Commercial Code of Germany (1897), the Companies Act of the United Kingdom (2006) and US accounting principles (Generally Accepted Accounting..., 2024). For the United States, along with Generally Accepted Accounting Principles (GAAP, 2024), the study paid special attention to the Social Security Act of the United States (1935), which sets out requirements for accounting for social benefits and pensions. The comparison revealed similarities and differences in the approaches to legal regulation of accounting in Ukraine and countries with more developed economies. The study examined accounting requirements in these countries, financial reporting and control systems, which helped to identify the strengths and weaknesses of Ukrainian legislation in the context of international standards. Particular attention was paid to the interaction of these provisions with international financial reporting standards.

In terms of analysing Ukrainian legislation, the study focused on the Law of Ukraine No. 996-XIV "On Accounting and Financial Reporting in Ukraine" (1999), which is the principal document in this area and defines the basic rules for accounting at enterprises, institutions, and organisations, including those providing social benefits. The provisions of the Tax Code of Ukraine (2010), which governs tax accounting and defines the principles of interaction with financial and tax authorities, also play an integral role. The Law of Ukraine No. 2464-VI "On the Collection and Accounting of the Single Contribution for Mandatory State Social Insurance" (2010) was studied to analyse the single contribution accounting mechanisms that ensure control over the receipt and distribution of funds for pension and social benefits. Furthermore, the National Accounting Standards (2024) were reviewed, which are a key tool for standardising accounting according to national and international requirements. The National Regulation (Standard) of Accounting No. 26 (2018) was highlighted, which helped to analyse and systematise social liabilities, including pensions, social benefits, and other payments in the context of building a transparent accounting system. The study also analysed the provisions of the Law of Ukraine "On Audit Activity" (2018), which regulates the activities of auditors and audit firms, defines their obligations and rights, and sets out the requirements for the audit of financial statements. This helped to establish how Ukrainian legislation is harmonised with International Financial Reporting Standards and how these standards are integrated into national practice. The study also examined the Directive No. 2013/34/EU (2013) affecting the regulation of reporting in the European Union. These documents were analysed to assess the extent to which Ukrainian legislation follows international standards and to identify areas for improvement.

To analyse the statistical data, official resources were used, such as the State Statistics Service of Ukraine (2024), which provides up-to-date data on the financial condition of enterprises, as well as data from the National Bank of Ukraine (2024) on financial stability and macroeconomic indicators. The data for 2020-2024 were analysed, which allowed assessing the current state of accounting in Ukraine. Furthermore, international resources, such as the World Bank (2024) and the International Monetary Fund (2024), were used to provide a comparative analysis of global economic trends and their impact on the legal regulation of accounting.

Results

Accounting is a key element of any country's economic system, as it ensures transparency of financial reporting and facilitates investment. In this context, accounting for social security, including pensions and social benefits, is also significant, as transparent reporting in this area increases the confidence of citizens and international partners in the country's financial system. In Ukraine, the legal regulation of accounting is based on national laws and international standards, including IFRS. However, despite the reforms, a series of problems persist in the application and implementation of these standards in practice, which requires improvement of the regulatory environment.

Ukrainian legislation regulating accounting underlies the functioning of the accounting system at the national level. One of the key acts in this area is the Law of Ukraine Law of Ukraine No. 996-XIV (1999). According to its provisions (Articles 1-5), companies are obliged to keep accounting records and prepare financial statements that must follow either national accounting standards (NAS) or IFRS, depending on the type of company. This law plays a key role in harmonising Ukraine's accounting system with international standards, which is a crucial step in Ukraine's integration into the global economy.

However, although the legislation is aimed at harmonisation, its practical implementation is fraught with a series of issues. Article 12 of the Law of Ukraine No. 996-XIV (1999) states that IFRS is mandatory for public companies, banks, insurers, and other large enterprises. At the same time, medium and small enterprises can choose between NAS and simplified reporting forms. This creates further challenges for organisations that provide pension and social support, as they must not only ensure compliance with the standards, but also effectively account for the use of budgetary funds to avoid deficits and ensure financial stability. The choice between NAS and IFRS creates added complexity to the harmonisation of the Ukrainian accounting system with international standards, as national standards do not always fully conform to IFRS requirements. This is particularly true for companies seeking to attract foreign investment or enter international markets, where the use of IFRS is a prerequisite for interacting with international partners (Wajeetongratana, 2020).

For example, according to Article 11 of the Law of Ukraine No. 996-XIV (1999), enterprises are entitled to determine their accounting policies independently, which gives them a choice of accounting methods. However, this freedom leads to inconsistencies between the standards used by the various categories of enterprises, as presented in Table 1. The lack of clear guidance on the implementation of IFRS for small and medium-sized enterprises leads to uneven application, as evidenced by the State Statistics Service of Ukraine (2024). This discrepancy calls for improvements in legislation to ensure greater coverage of enterprises with IFRS requirements.

Table 1. Use of by enterprises in Ukraine in 2022

Indicator	Large enterprises	Medium-sized enterprises	Small enterprises
Enterprises using IFRS	58%	35%	20%
Enterprises using NAS	30%	45%	65%
Enterprises subject to mandatory audit	100%	65%	20%
Enterprises using simplified accounting systems	0%	20%	70%

Source: developed by the authors of this study based on data from the State Statistics Service of Ukraine (2024)

Article 6 of the Law of Ukraine No. 996-XIV (1999) states that violations of accounting and financial reporting requirements may result in sanctions. However, the absence of clear and effective sanctions complicates the enforcement of standards, particularly in the social security sector, where accurate reporting is critical to ensuring adequate funding of pensions and social benefits. Compared to international systems, such as GAAP in the US (Generally Accepted Accounting..., 2024), which clearly defines mechanisms for liability for violations of accounting standards, Ukrainian legislation needs to be strengthened, and more effective sanctions introduced.

Apart from the Law of Ukraine No. 996-XIV (1999), the Law of Ukraine No. 2258-VIII "On Audit Activity" (2018) plays an active role in regulating accounting and financial reporting. According to Article 3 of this law, audits are mandatory for public joint-stock companies, banks, insurers, and other large business entities. However, small and medium-sized enterprises are not subject to mandatory audit, which reduces the level of control over the reliability of their financial statements. According to Article 6 of the law, audits must be conducted following international auditing standards, which improves the quality of audits and the compliance of reporting with international requirements. However, limiting the mandatory audit to small and medium-sized enterprises does not allow for sufficient control over their financial statements.

Additionally, Order of the Ministry of Finance of Ukraine No. 1213 (2006), which approves the National Accounting Regulations (Standards), is a substantial factor influencing accounting policies at enterprises. These standards are mandatory for those companies that are not subject to mandatory application of IFRS. However, NAS often do not follow international standards, which creates barriers for Ukrainian enterprises in entering international markets (Polyatykina, 2023). An essential step in this regard would be the harmonisation of the NAS with IFRS, which would ensure a unified approach to accounting and increase the transparency of financial reporting.

Considering the specifics of the study, it is worth highlighting the National Regulation

(Standard) of Accounting No. 26 (2018), which governs the accounting and disclosure of all types of employee benefits, including salaries, social benefits, and pension accruals in financial statements. The standard requires the classification of benefits into current, non-current, and other liabilities, and sets out how they should be disclosed in the financial statements of companies. However, the problem with this provision lies in the lack of flexibility of the standard for companies with diverse organisational structures, which sometimes leads to reporting errors. This underscores the need to improve the standard to better meet the requirements of modern accounting and increase transparency in the management of social liabilities.

The Tax Code of Ukraine (2010) also plays a significant role in the context of accounting regulation, especially in relation to transfer pricing. According to Article 39, the methods of measuring income and expenses in the transfer pricing process are governed by specific rules applied to control transactions between related parties. However, these methods may not always be consistent with IFRS, especially when measuring the fair value of assets, income, and expenses in international transactions. This can lead to inconsistencies in the financial statements that reduce the transparency of such transactions and pose challenges for entities operating in international markets (Kameel & Festus, 2023).

Furthermore, the inconsistency between the provisions of the Tax Code of Ukraine (2010) and IFRS may complicate reporting for companies that have to follow both national tax requirements and international standards. This often requires parallel accounting, which increases the administrative burden on companies and increases the risk of reporting errors. This situation can also negatively affect interaction with foreign partners who expect transparency and compliance with international standards.

In the area of social security, the Law of Ukraine No. 2464-VI "On the Collection and Accounting of the Single Contribution for Mandatory State Social Insurance" (2010) is illustrative, as it establishes the obligation of enterprises, institutions, and individuals to keep accounting records of the single contribution for financing pension and social benefits. According to Article 4 of this Law, both legal entities and individuals using hired labour are liable for the tax payment, which makes them responsible for the correctness of accounting and prompt payment of taxes. This ensures transparency of social obligations of enterprises and control over their performance. At the same time, the Law of Ukraine No. 2464-VI (2010) has some problematic aspects, including the unified requirements for all payers, regardless of their size or financial capacity, which may create barriers for small businesses to meet their accounting obligations. Furthermore, the Law requires strict adherence to reporting deadlines and forms, which often complicates adaptation to changes in social and labour legislation, increasing the risk of reporting errors and penalties for taxpayers.

An essential element in this area is the Law of Ukraine "On Prevention and Counteraction to Legalisation (Laundering) of the Proceeds of Crime" (2019). It obliges businesses, including financial institutions, to ensure transparency of financial reporting to prevent financial crime. However, the lack of clear mechanisms for controlling small and medium-sized enterprises hinders compliance with these requirements. In this context, it is necessary to improve the interaction between legal requirements and general accounting standards to strengthen control over their observance. This is particularly true for the implementation of the recommendations of the International Financial Action Task Force (Financial Action Task Force, 2024), which contributes to the transparency of companies' reporting.

Particular attention should be paid to the Law of Ukraine No. 1877-IV "On State Support of Agriculture of Ukraine" (2019), which establishes separate rules for accounting and reporting of agricultural enterprises and is of substantial importance for social security, as some agricultural enterprises make social payments, particularly to employees in the form of pension contributions or social benefits. The simplified accounting system for small agricultural enterprises is adapted to the specifics of their activities, but this approach does not facilitate compliance with international standards, which also negatively affects the reporting of social obligations to employees (Zadorozhnyi & Yasyshena, 2019). Businesses that export or cooperate with foreign investors should introduce mandatory application of IFRS. This will help agricultural companies improve their image in the international market and attract more foreign investment, as international partners prefer companies with transparent and standardised financial reporting.

Also worth mentioning is the Law of Ukraine No. 922-VIII "On Public Procurement" (2015), which regulates financial reporting requirements for companies taking part in public tenders. While the law requires the submission of reliable financial statements, it does not introduce mandatory use of IFRS, which could increase the transparency of financial transactions. It would be advisable to make international financial reporting standards mandatory for companies that enter into significant government contracts. This would increase confidence in the financial statements of public procurement participants and reduce the risks of corruption and dishonest financial practices.

Accounting regulation in Germany is based on a well-structured legal framework that ensures a prominent level of transparency and consistency in financial reporting. According to Article 238 of the German Commercial Code (1897), all companies are obliged to keep accurate and truthful accounts, which increases the reliability of the data in financial statements. According to Article 242, companies must submit an annual financial report consisting of a balance sheet and a profit and loss account, even if they are small companies. This creates a high degree of financial transparency, as even small enterprises must report their financial performance. However, small enterprises can use simplified reporting forms, which gives them flexibility in accounting, but also reduces transparency (Wajeetongratana, 2019). This can be considered a disadvantage of the German system, as the difference in requirements for small and large enterprises creates heterogeneity in reporting approaches, which can affect the availability of information for investors and regulators.

Article 316 of the Commercial Code of Germany (1897) stipulates that large enterprises must undergo a statutory audit, which ensures high reliability of their financial statements and increases market confidence. According to Eurostat (2024), about 98% of large enterprises in Germany are subject to statutory audits, which ensures increased transparency of their operations and greatly increases investor confidence. In Ukraine, according to Article 12 of the Law of Ukraine No. 996-XIV (1999), an audit is mandatory only for public companies and large enterprises. Compared to Germany, the Ukrainian system involves less stringent control over compliance with audit standards. According to the State Statistics Service of Ukraine (2024), only 65% of medium-sized enterprises are audited, which is much lower than in Germany. The introduction of mandatory audits for medium-sized enterprises in Ukraine, following the example of Germany, could substantially increase the transparency and accountability of medium-sized businesses.

In the UK, accounting and financial reporting are regulated by the UK Companies Act (2006), which requires all companies, regardless of their size, to submit annual financial statements. According to Article 394 of the Act, every company must file financial statements, including a balance sheet, income statement, and notes to the financial statements. This approach ensures transparency of financial information, even for small companies, which is important for attracting investors and increasing confidence in their operations. In Ukraine, according to the Law of Ukraine No. 996-XIV (1999), small enterprises can submit simplified financial statements, which reduces the level of detail in their financial indicators. This helps to reduce accounting costs, but at the same time prevents investors from obtaining complete information about the financial standing of such companies.

Furthermore, the UK has a flaw in its legislation that exempts small businesses from statutory audit. Thus, according to Article 477 of the UK Companies Act (2006), small businesses can avoid an audit if their financial performance does not exceed the statutory limits. This creates risks for investors, as the absence of audit control reduces the level of confidence in the financial statements of such enterprises (Herrera & Mayka, 2020). Ukraine has a comparable problem, as small businesses can also avoid audits and use simplified reporting forms, which negatively affects the transparency of their operations. This not only reduces the transparency of their operations but can also hinder the control over the correct accounting of social payments, including pension contributions, which is crucial for the coordination of enterprises with social funds and in the context of attracting state subsidies. To improve the situation, mandatory audits should be introduced for small businesses that have international contracts or work with large clients.

The active application of IFRS is particularly characteristic of the UK. According to Article 395 of the UK Companies Act (2006), public companies must use IFRS, which ensures a high degree of transparency in their operations and facilitates integration into international markets. According to the IFRS Foundation (2024), about 85% of public companies in the UK use IFRS, which considerably increases their ability to attract foreign investment and meet international standards. According to the State Statistics Service of Ukraine (2024), this figure among large enterprises is only 58%, which indicates the need for wider application of IFRS, especially among medium and small enterprises that conduct international operations or attract foreign investors.

Generally Accepted Accounting Principles (GAAP) (2024) form the basis of the US system and are characterised by great detail and rigour in financial reporting requirements. According to the Securities Exchange Act of USA (1934), public companies must apply GAAP, and their financial statements are subject to mandatory audit. According to the Securities and Exchange Commission (2024), about 95% of public companies in the US use GAAP, which ensures transparency of their operations and investor confidence. However, GAAP is criticised for its rigidity and complexity compared to IFRS, which is a more flexible standard. The Ukrainian system, where the National Accounting Standards (NAS) (2024) are less detailed and do not have a mandatory structure for medium-sized enterprises, does not meet international requirements to the same extent as GAAP or IFRS. According to the State Statistics

Service of Ukraine (2024), only 35% of medium-sized and 20% of small enterprises in Ukraine apply IFRS, which limits their competitiveness in international markets.

The centralised social security system in the United States, based on the Social Security Act of USA (1935), allows for precise control of contributions and benefits through unique Social Security Numbers (SSNs), which minimises errors and abuse through digital data processing. Financial transparency plays a key role: assets are accumulated in special funds that are invested in government bonds, and their use is subject to regular audits and reporting, which is regulated in detail by Articles 202-207 of Title II of the Social Security Act of the United States (1935). This system ensures automated reporting, reduces administrative costs, and rapidly adapts to changes in the social sphere. In Ukraine, the Law of Ukraine No. 2464-VI (2010) performs analogous functions, but its implementation is constrained by the complexity of administrative procedures and insufficient automation. Although the Ukrainian system also requires centralised accounting of contributions, the lack of flexible mechanisms to control their use reduces the efficiency of social benefit management. Compared to the US model, which better integrates modern technologies, the Ukrainian system could be improved to increase transparency and efficiency in the social security sector.

The integration of IFRS is a milestone for Ukraine on its path towards increased transparency of financial reporting and integration into the global economy. This process opens more opportunities for Ukrainian companies, but at the same time creates many challenges related to the adaptation of national legislation, training of specialists, and ensuring that Ukrainian companies follow international standards. One of the principal standards that facilitates the transition to IFRS is IFRS 1 (2021), which requires entities that have not previously used IFRS to prepare their reports following the new standards. For many Ukrainian companies, especially small and medium-sized ones, the transition to IFRS 1 is quite challenging due to lack of experience and resources. Many companies face a shortage of qualified specialists and relevant software, which complicates the transition to IFRS. This underscores the significance of developing government policies to support small and medium-sized enterprises in their adaptation to international standards. According to Article 12 of Law of Ukraine No. 996-XIV (1999), IFRS is mandatory only for large enterprises and public companies, which limits the adoption of these standards by SMEs, where the transition is still voluntary and poorly regulated.

Specifically, problems arise in connection with the application of IFRS 9 (2018), which establishes principles for accounting for loans, credits, and other financial instruments. This standard ensures accuracy and transparency in the accounting for transactions with financial instruments, but its implementation in Ukraine is facing difficulties due to the mismatch between the NSAU and IFRS 9 requirements. In Ukraine, companies that are active in international markets or interact with foreign investors are forced to implement IFRS to meet international requirements. However, the lack of clear guidelines for small and medium-sized businesses creates major difficulties in applying this standard, which affects the quality of their financial statements (Bagrii, 2021). According to Article 11 of the Law of Ukraine No. 996-XIV (1999), enterprises are entitled to choose their accounting policies independently, but in the absence of sufficient government support, this complicates the standardisation of their financial statements.

IFRS 16 (2016), which governs the accounting for leases, also poses certain challenges in the Ukrainian context. This standard requires companies to recognise all leases on their balance sheet, which increases the transparency of financial statements and facilitates the assessment of the financial position of companies. However, small enterprises in Ukraine often do not follow this standard due to the lack of clear regulatory requirements (Aničić *et al.*, 2023). Ukrainian legislation does not have sufficiently stringent requirements for the accounting for lease agreements, which allows many companies to avoid fully recognising lease liabilities on their balance sheets. This poses a problem for foreign investors and partners who expect full transparency in the financial statements of Ukrainian companies, especially those operating in international markets.

One of the key documents governing international accounting standards is the International Accounting Standards Convention (2020) adopted by the United Nations. The Convention obliges member states to gradually implement international standards to ensure transparency and unification of financial reporting. However, the document provides not only general requirements for financial reporting transparency but also standards for social security reporting. This is crucial for companies that provide pension payments and other forms of social benefits, as the correct accounting of such payments allows for proper planning of government and corporate liabilities. Ukraine, as a signatory to several international treaties within the UN and EU, is trying to adapt its legislation to these international standards. However, the integration process is being delayed by the lack of a systematic approach to implementing international requirements.

Notably, the financial sector in Ukraine is influenced by the Basel Accords, particularly Basel III (2010), which sets out requirements for banks' capital and transparency in reporting (these requirements also apply to the accounting for social benefits that banks must provide to their employees). Ukrainian banks are gradually adapting to these requirements, but the process is rather slow, which limits the full integration of Ukrainian financial institutions into the international system. According to the National Bank of Ukraine (2024), only 40% of financial institutions comply with Basel III (2010), which indicates the need for further regulation and support from the state to ensure compliance with international standards. Implementation of the Basel standards is an essential step to increase the confidence of international partners and investors in Ukrainian banks and financial institutions.

An equally important international document that affects the field of financial reporting and the fight against corruption is the United Nations Convention Against Corruption (2003). It requires transparency in financial reporting, which is particularly relevant for the private sector, where financial statements are often used to conceal illegal transactions. Implementation of IFRS is important for ensuring transparency and compliance of Ukrainian enterprises with international anti-corruption standards. However, in practice, the implementation of these standards is still partial and uneven. According to Transparency International (2024), the level of transparency of financial reporting of Ukrainian companies is still considerably lower than in the European Union, which underscores the significance of strengthening control over compliance with international standards.

Overall, the implementation of IFRS in Ukraine is gradual, but is accompanied by certain difficulties, especially among small and medium-sized enterprises (Table 2). The greatest progress is observed among financial institutions, which indicates improved compliance in the financial sector. However, the lack of strong readiness of small and medium-sized enterprises to implement IFRS continues to be a fundamental problem that may negatively affect their competitiveness and investment. In contrast to Ukraine, EU countries demonstrate consistently strong IFRS compliance, which underscores the need for further reforms to achieve greater harmonisation of the Ukrainian accounting system with European standards.

Table 2. IFRS implementation dynamics in Ukraine and EU for 2020-2023

Indicators	2020	2021	2022	2023
Financial institutions compliant with IFRS,	38%	40%	42%	45%
IFRS-compliant companies in the service sector	40%	41%	42%	44%
Small and medium-sized enterprises ready to transition to IFRS	23%	24%	25%	25%
Level of IFRS compliance in the EU	78%	79%	80%	82%

Source: developed by the authors of this study based on data from the Statistics Service of Ukraine (2024) and the International Monetary Fund (2024)

Improving the effectiveness of accounting in Ukraine requires improved legislation, government support, and reform of the professional training system. One key aspect is to update the Law of Ukraine No. 996-XIV (1999), as it does not clearly define the criteria for mandatory application of IFRS for medium and small enterprises. According to Article 121 of this law, IFRS are mandatory only for large enterprises and public joint stock companies, while small and medium-sized enterprises can choose between NAS and simplified reporting forms. This creates a variety of approaches to accounting, which impedes the harmonisation of reporting with international standards.

This shortcoming can be addressed by supplementing Article 12[1] with new provisions that would require the mandatory application of IFRS for medium-sized enterprises engaged in foreign economic activity or having international contracts, considering their growing influence on the market. This will help to achieve uniformity in accounting for companies operating in international markets and increase the transparency of their reporting. The practical benefits of such changes are to strengthen the confidence of foreign investors in Ukrainian companies, facilitate the attraction of financing, and improve the competitiveness of enterprises in the global market.

Technological support for the introduction of automated accounting systems is also important, especially in the context of accounting for social benefits such as pensions and allowances. For institutions that operate social funds, automation will help to make the administration of financial resources more efficient and reduce reporting errors. Large enterprises are already actively using such systems, but small and medium-sized enterprises face challenges due to the prohibitive cost of the software. Government support in the form of subsidies or tax breaks could simplify the transition to IFRS and facilitate the integration of automated solutions for enterprises involved in social payments (Le *et al*., 2019). This would ensure better control over the use of budget funds and increase the transparency of accounting processes.

Reforming the system of training accounting professionals is critical for the successful integration of IFRS. One of the major challenges is the lack of qualified specialists capable of implementing international standards and working with modern accounting automation tools. Updating educational programmes and upgrading the skills of existing accountants will help prepare specialists who can work with modern automation tools and ensure correct accounting (including social liabilities) (Johnson & Festus, 2021). Furthermore, state support for such training initiatives will help accelerate the integration of international standards and technologies into the accounting practices of enterprises.

In summary, improving the efficiency of accounting in Ukraine requires comprehensive changes. The primary challenges include the harmonisation of national standards with international ones, the lack of readiness of small and medium-sized enterprises to implement IFRS, and the need to modernise technological infrastructure and educational programmes. Particular attention should be paid to the accounting for social benefits, as the proper administration of pensions and other social obligations is important for ensuring financial stability and public confidence. While notable improvements have been observed among large enterprises, issues with accounting automation, training, and the regulatory framework require further attention to ensure that Ukrainian companies stay transparent and competitive on the international stage. Improvements in these areas will not only help attract foreign investment but will also increase the efficiency of managing social funds and the use of public resources.

Discussion

A study of the legal mechanisms for improving the efficiency of accounting in Ukraine revealed substantial problems in harmonising national standards with international ones. The implementation of IFRS for small and medium-sized enterprises is still insufficient, while the inconsistency of national tax regulations with international standards complicates the accounting and financial reporting process for Ukrainian companies. In the context of globalised financial markets and economic integration, these issues are particularly important for Ukraine as it seeks to attract international investment and strengthen its presence in the global economy.

The study focuses on the problem of insufficient harmonisation of national standards with IFRS for medium-sized enterprises with international operations. This is consistent with the findings of O. Tunde and E. Adekunle (2023) and C. Lentner *et al.* (2020), who also noted the significance of extending IFRS to a wider segment of enterprises to improve transparency and attract international investment. Of particular importance in this context are medium-sized enterprises, which are not only actively developing but can also play a vital role in the social security sector by ensuring proper accounting for pension contributions and social benefits. However, this study emphasises that special attention should be paid to medium-sized enterprises as their market influence is growing, making them more relevant in the context of global economic relations.

Another aspect that was analysed concerns the shortcomings in the implementation of international standards in the state bodies controlling financial reporting. The findings showed that the lack of proper control by government agencies over IFRS compliance among small and medium-sized enterprises leads to a decrease in the level of transparency of reporting. This is in line with the findings of F. Ahakiri *et al.* (2020) and S. Knežević *et al.* (2021), which focused on the lack of control by government agencies over the implementation of international financial requirements. However, these studies mostly focused on large enterprises, while the present study showed that the lack of control is more relevant to small and medium-sized enterprises, which often ignore international standards due to lack of proper oversight. This highlights the need to develop an effective oversight system that covers all enterprises regardless of their size, which will increase transparency.

The lack of uniformity in the requirements of the Law of Ukraine No. 2464-VI (2010) creates major obstacles for small businesses in performing their accounting obligations. Regardless of their financial capabilities, businesses must follow the same reporting deadlines and forms, which often complicates their adaptation to changes in social and labour legislation. This increases the risk of reporting errors and the probability of penalties, especially for those entities that do not have sufficient resources to meet all requirements promptly. V. Laux and P. Stocken (2017) stressed the value of a differentiated approach to reporting depending on the size of the company, but the cited study focused mainly on large companies and multinationals. In contrast, the current findings revealed that the lack of flexibility in the legal requirements in the social sphere increases the burden on small enterprises, which may affect their ability to perform their social payment accounting obligations on time. This indicates the need to improve legislation and introduce differentiated requirements for enterprises of varying sizes, which will help improve reporting efficiency and reduce the risk of violations in the social sphere.

In terms of transfer pricing, the results point to the difficulties associated with the mismatch between Article 39 of the Tax Code of Ukraine (2010) and international IFRS standards, which creates further barriers for businesses with international operations. This partially correlates with the findings of J. Li *et al.* (2021) and M. Bromwich *et al.* (2020), who also focused on the challenges posed by the lack of clear rules for transfer price accounting and the difficulties of their practical application. However, the present study focused on the necessity of harmonising tax legislation with IFRS to avoid parallel accounting, which would facilitate reporting and increase the transparency of financial information. The comparison of approaches shows that the integration of international standards into national legislation can be a more effective way to facilitate the activities of enterprises in international markets, increase their competitiveness and transparency.

The study showed that the implementation of IFRS in Ukraine is slower due to inadequate government support. This pace of integration negatively affects the transparency of financial statements and the ability to attract international investment. This is consistent with the findings of L. Anderlini *et al*. (2020) and M. Hebatallah (2020), which indicated that the implementation of IFRS in EU countries considerably increased the level of transparency and investment attraction. Comparison of these data underlines that Ukraine can achieve comparable results, but it is necessary to accelerate the integration process substantially and provide enterprises with more support through government programmes and incentives. State support should be comprehensive, including both financial aid and information resources.

Another major aspect identified in the survey is the introduction of automated accounting systems. The data suggest that small and medium-sized enterprises lack the financial and technical resources to implement such systems, which complicates their compliance with international standards. O. Shubailat *et al.* (2024) and H. Tooranloo and M. Shahamabad (2020) also discussed the significance of automation for improving accounting efficiency but focused on large companies that have the resources to make such changes. The present study found that small and medium-sized enterprises also need access to automated systems to properly account for social benefits and follow financial reporting standards. Government support programmes that facilitate the automation of such processes can ensure equitable access to modern technology, increasing accounting efficiency and reducing the risk of errors. Without adequate support, most small companies will be left behind, which will negatively impact both their competitiveness and the quality of social liability accounting.

Another critical issue addressed by the study is the qualifications of accounting professionals. The data showed that small and medium-sized enterprises lack qualified professionals capable of working with IFRS and modern accounting technologies. Although H. El-Chaarani and Z. El-Abiad (2022) and D. Sudarmadi (2023) addressed the significance of accountants' qualifications, they focused mainly on large companies that are already implementing international standards. Specifically, the need for specialists to account for social benefits and pension obligations, which is critical for enterprises and social security institutions, should be considered. The present study noted that small and medium-sized businesses are particularly vulnerable in this regard due to a lack of access to resources for staff training and development. This underscores the need to expand government initiatives to improve the skills of accountants to help SMEs meet international standards. Education and training should be a key focus of government policy in the accounting sector.

The study also revealed a significant problem with updating national accounting standards in the context of IFRS requirements. Ukrainian national standards lag far behind international standards and need to be substantially updated to meet modern international reporting requirements. This partially correlates with the findings of M. Chy *et al.* (2020) and M. Ardiana *et al.* (2023), who also pointed out the need to modernise national standards. However, the studies of these researchers focused more on the impact of these changes on large businesses, while the present study focused on the challenges faced by small and medium-sized enterprises that have more limited resources to adapt to new requirements. This comparison indicates that the modernisation of standards should be tailored to the specifics of each category of enterprises, ensuring that the new norms are gradually introduced in line with their capabilities. This will help make the standards reform more effective and comprehensive.

The study identified the problem of insufficient coordination between social funds and accounting departments of enterprises, which complicates the prompt accrual and payment of pensions and other social benefits. The lack of uniform procedures for accounting for such liabilities leads to discrepancies in reporting and increases the risk of delays in payments. S. Aldeia and S. Jayantilal (2023) confirmed that effective management of social benefits requires coordinated accounting processes, but their study focused on the internal corporate processes of large organisations. The present study showed that insufficient coordination between enterprises and state social funds creates major obstacles in the administration of social benefits. The solution to this problem requires the development of unified accounting standards and the integration of automated systems between government agencies and enterprises to ensure accurate reporting and uninterrupted funding of social programmes.

The study revealed another substantial problematic aspect – the lack of a unified approach to the formation of accounting policies for diverse categories of enterprises operating in international markets. The analysis found that enterprises independently choose their accounting policies pursuant to Article 11 of the Law of Ukraine No. 996-XIV (1999). This leads to considerable discrepancies in accounting approaches, especially among small and medium-sized enterprises. This partially coincides with the findings of D. Nguyen (2021) and A. Abdelhalim *et al.* (2023), who emphasised that the lack of clear accounting policy guidance for enterprises of varying sizes leads to instability in reporting. However, the present study focused on the problems faced by SMEs due to the lack of unified requirements, while D. Nguyen (2021) and A. Abdelhalim *et al.* (2023) focused more on large companies. A comparison of these findings shows that clearer legislative guidance on accounting policies for SMEs is needed to simplify reporting and increase their compliance with international standards.

Overall, there is a variety of issues in the legal framework for accounting in Ukraine, including insufficient harmonisation of national standards with international standards, problems in tax legislation, lack of proper control over their compliance, and insufficient government support for the introduction of modern accounting technologies. Overcoming these challenges requires a comprehensive approach, including updating standards, strengthening oversight, and developing educational programmes to improve the skills of professionals, which will facilitate Ukraine's integration into the international economic space.

Conclusions

An analysis of Ukrainian legislation governing the accounting system revealed substantial inconsistencies with international standards. The study found that the current regulations do not fully consider the specifics of small and medium-sized enterprises. This is particularly pronounced due to the lack of clear mechanisms for implementing international financial reporting standards, which negatively affects the transparency of their reporting and reduces their competitiveness. Ensuring that national standards conform to international standards is an essential task, especially for enterprises that administer social benefits. The lack of flexible reporting requirements in the social security sector complicates the performance of accounting obligations, especially for small enterprises.

Analysis of the legal systems of other countries, such as the UK, Germany, and the US, showed that these countries have been much more successful in implementing international standards in their respective national systems. Their legislation clearly stipulates mandatory application of IFRS for most companies and contains effective mechanisms for overseeing compliance. In the UK and Germany, the implementation of international standards has greatly contributed to increasing the transparency of financial reporting and attracting foreign investment. At the same time, the US uses the GAAP system, which also ensures high-quality accounting processes, although its principles differ from IFRS. This demonstrates the significance of building a clear and transparent regulatory framework in Ukraine that meets international requirements and provides companies with easier access to international markets.

It was concluded that Ukraine should consider the practices of these countries and implement analogous oversight and support mechanisms for small and medium-sized businesses. The comparative analysis showed that the approaches to accounting regulation in these countries are much more effective due to clear regulation and government support. This is particularly true in the social security sector, where the establishment of clear requirements for accounting for pension contributions and social benefits increases transparency and efficiency in the management of public resources. This underscores the significance of reforming Ukrainian legislation to ensure its compliance with international standards, including the integration of modern social benefit accounting mechanisms, which will also help to simplify business operations for all types of enterprises and increase the confidence of citizens and international investors.

In addition, the adoption of automated accounting systems in Ukrainian companies is still limited, largely due to the lack of financial and technical resources. This greatly reduces the efficiency of accounting processes and makes companies less competitive in international markets. Successful implementation of automated accounting systems is crucial to improve the accuracy of social payments, including pension accruals and benefits, which will contribute to transparency and efficient use of public resources. The study also showed that the low level of qualification of accounting professionals is a major obstacle to the implementation of international standards. Training of accountants capable of handling the accounting of social benefits according to IFRS is a key factor in improving the efficiency of accounting processes and ensuring the sustainability of the social sector.

In summary, this study showed that the implementation of international financial reporting standards in Ukraine faces a series of legal, technical, and organisational obstacles that need to be overcome through reforming the regulatory framework, strengthening government support, and improving the skills of personnel. In the future, it is worth focusing on analysing the impact of accounting automation on various industries, which will improve the transparency of financial reporting and increase the competitiveness of Ukrainian enterprises on the international level.

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Conflict of Interest

The authors of this study declare no conflict of interest.

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Правові механізми підвищення ефективності бухгалтерського обліку у сфері соціального забезпечення: аналіз нормативно-правового середовища та рекомендації щодо вдосконалення

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Анотація

Метою дослідження було проаналізувати юридичні інструменти бухгалтерського обліку, акцентуючи на галузі соціального забезпечення, шляхом виявлення та оцінки основних проблем, що впливають на ефективність їх використання. Був проведений аналіз українського законодавства, що регулює бухгалтерський облік і податкове регулювання, проведено його порівняння з правовими системами Німеччини, Великобританії і США. Було вивчено питання гармонізації національних стандартів із міжнародними, що, зокрема, стосувалося труднощів, з якими стикаються малі та середні підприємства через недостатню підтримку з боку держави та невідповідність податкового законодавства міжнародним вимогам. Результати дослідження показали, що малі та середні підприємства в Україні відстають у впровадженні міжнародних стандартів через брак фінансових та технічних ресурсів. Також виявлено, що значна частина підприємств не має доступу до кваліфікованих кадрів, здатних працювати з міжнародними стандартами, що ще більше ускладнює їхній перехід на міжнародні стандарти звітності. Статистичні дані свідчать, що лише 35% середніх і 20% малих підприємств в Україні впровадили міжнародні стандарти фінансової звітності, що значно відстає від рівнів у Німеччині, Великобританії та США, де цей показник значно вищий завдяки кращому законодавчому регулюванню та підтримці з боку держави. Крім того, недостатня автоматизація облікових процесів та уніфікованість вимог до звітності у сфері соціального забезпечення ускладнює управління пенсійними виплатами та іншими соціальними зобов'язаннями. Виявлено, що недостатній контроль з боку державних органів за дотриманням міжнародних стандартів спричиняє зниження прозорості фінансової звітності, що призводить до загального відставання у конкурентоспроможності українських підприємств на міжнародних ринках. Дослідження вказало на відсутність координації між підприємствами та соціальними фондами, що підвищує ризики затримок виплат і помилок у звітності, що потребує вдосконалення облікових процесів для підвищення прозорості й стабільності системи соціального забезпечення. Отримані результати підкреслюють необхідність реформування законодавства для гармонізації національних стандартів із міжнародними та підвищення ефективності бухгалтерського обліку, що сприятиме залученню іноземних інвестицій і підвищенню конкурентоспроможності українських підприємств

Ключові слова: фінансова звітність; гармонізація права; аудит; міжнародні інвестиції; державна підтримка; економічна інтеграція; податкове право