

**Lyutyy I.O.**Doctor of Economic Sciences, Professor  
Head of Department "Finance"  
Taras Shevchenko National University of Kyiv**Pidchosa L.V.**PhD Student  
State Scientific – Research Institute  
Informatization and Economic Modelling  
Ministry of Economic Development and Trade of Ukraine

## EFFICIENT FINANCIAL CONTROL AS A CONDITION FOR EFFECTIVE BUDGETING IN UKRAINE

Issues of improvement of the control system have become one of the topical issues at the present stage of development of the country. The state cannot function and develop without a well-organized system of control over accumulation, distribution and redistribution of public funds as well as other spheres of public life in the country. The government control in the financial sphere helps to prevent, detect and eliminate financial violations, and also requires operation of an effective system of public financial control in order to increase the efficiency of public funds' use, achieve government policy effectiveness, use budget funds properly and efficiently, and optimize the structure of budget expenditure, which is the important condition for restructuring the budget system and democratization of the society.

**Key words:** Government financial control, financial audit, risk map, management, budget funds, expenditure.

На сучасному етапі розвитку країни особливої актуальності набувають питання вдосконалення системи управління, однією з важливих функцій якої є контроль. Держава не може функціонувати і розвиватися без чітко організованої системи контролю за акумулюванням, розподілом і перерозподілом державних коштів та іншими сферами суспільного життя в країні. Контрольна функція держави у фінансовій сфері допомагає попередити, виявити і ліквідувати фінансові правопорушення, а також потребує функціонування дієвої системи державного фінансового контролю з метою підвищення ефективності використання державних коштів, досягнення результативності політики уряду, цільового та ефективного використання бюджетних коштів, а також оптимізації структури бюджетних видатків? що є умовою реструктуризації бюджетної системи та демократизації суспільства.

**Ключові слова:** Державний фінансовий контроль, фінансовий аудит, карта ризиків, управління, бюджетні кошти, видатки.

**Formulation of the Problem.** Currently, the ways of reforming and improving the efficiency of public authorities are being actively discussed. They are connected with such challenges as aggravation of the military situation in eastern Ukraine; strict adherence to high European standards; mismanagement of budget funds; ineffective budget decentralization, etc. These problems can be solved by creating efficient rigid anti-corruption government financial control.

**Analysis of Basic Research and Publications.** The urgency of the chosen topic and definition of the main topical issues discussed in this article was proved and considered by such well-known scientists and leading world-famous economists as I. Lyuty, A. Burmistrov, R. McKinnon, N. Ruban, I. Stefanyuk, and others.

**Selection of Previously Unsolved Parts of the General Problem.** Existing studies suggest overly optimistic or pessimistic evaluation of the economic situation.

**Main Results of the Study.** Today's economic realities give rise to numerous complex problems and contradictions (Fig. 1).

One of the brightest examples of today's challenges is the negative external effect<sup>1</sup> which, over a long period of time, has been leading to the transfer of total value to third parties, society, environment and future generations. One of the elements of dealing with such challenges and problems is the introduction of meaningful and effective control.

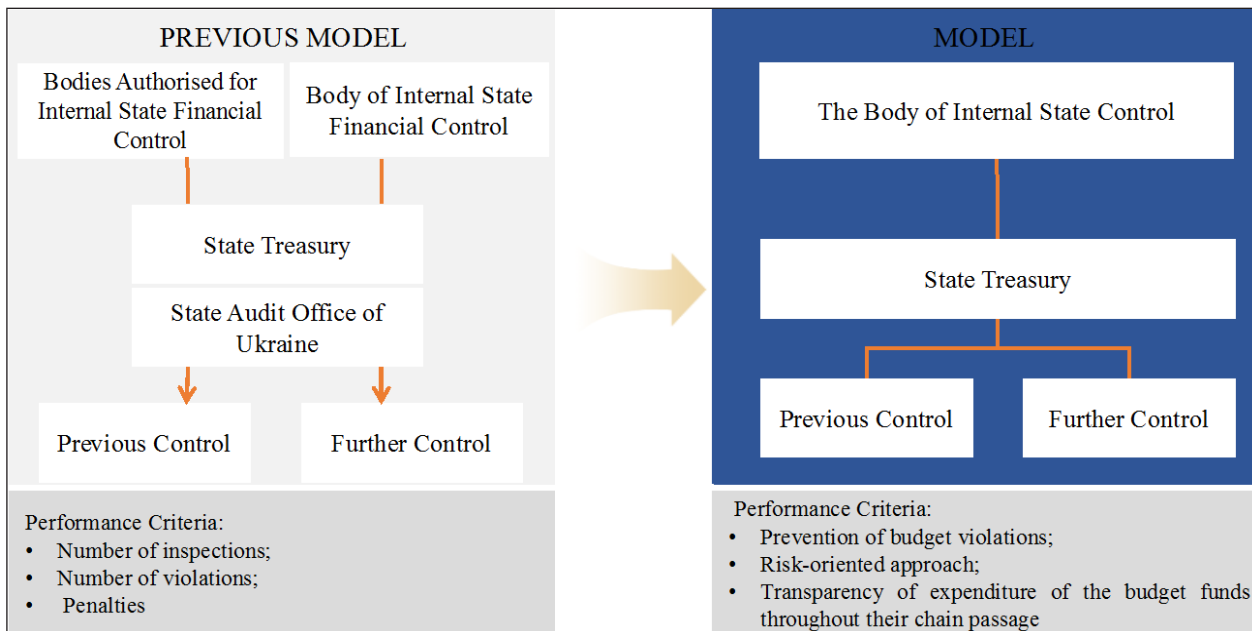
Government financial control is one of the most important functions of public administration. This is the law-regulated activity of public authorities over certain specific aspects, such as: timeliness and accuracy of financial planning; soundness and completeness of receipt and movement of state financial

<sup>1</sup> **External diseconomy** - the cost of economic activity not carried out directly by the entrepreneur or the company involved in this activity. For example, industrial production damages the environment, harmful exhaust fumes lead to air pollution, irrational use of non-renewable resources causes environmental imbalances and leads to natural disasters.



**Fig. 1. Main socio-economical insights for 2015–2016 in Ukraine**

Source: The table is compiled by the authors



**Fig. 2. Internal state financial control model**

Source: The table is compiled by the authors

and material resources; correctness and effectiveness of their use, aimed at identifying deviations from the legal principles, expediency and effectiveness of financial resource management, and, as a consequence, timely corrective and preventive measures.

At the same time, the government financial control is a key tool for achieving the most important social and economic goals with the general objective to increase the efficiency of the entire system of public administration functioning. According to some experts, the effectiveness of public financial control and public administration is provided by a set of measures (Table 1).

However, this issue has become critical in terms of certain factors (Fig. 3):

1. The urgent question of building a transparent efficient state economic system, abiding to laws of the civilized market, is closely connected with the developing democratization of the society. The consequence of these changes is the transformation of the role, place and significance of public financial control; formation of an effective nationwide control system focused on solving new problems and challenges faced by the state.

2. Appropriate and efficient expenditure of budget funds. Today's economic conditions of inclusiveness and transparency of capital have caused fundamental transformation of the relation to the budget and budget funds. In particular, in modern conditions, the budget should be

Extensive Measures to Ensure the Effective Public Financial Control

1.	Optimization of functioning of the public finance management system
2.	In the context of democratization of the society, ensuring financial flow transparency for society, and clear legal regulation of the process of their accumulation and movement
3.	Minimization of financial loss of the state in the use and disposal of national property
4.	Optimization of budget expenditure, which contributes to the full financial support of the functions of the state
5.	Sequence in the development of fiscal decentralization; provision of financial resources for implementation of budgetary obligations at each level of the budget process on the basis of legally approved minimum national social standards and reasonable minimum budget provision standards [7, ch. 4, p.9]
6.	Implementation of modern methods for assessing the rationality of budget allocations; indicators of the efficiency of expenditure of national funds, modern methods of result-oriented budget planning, as well as introduction of incentives for budget organizations and authorities of different levels to use budgetary funds appropriately and effectively

Source: The table is composed personally by the authors

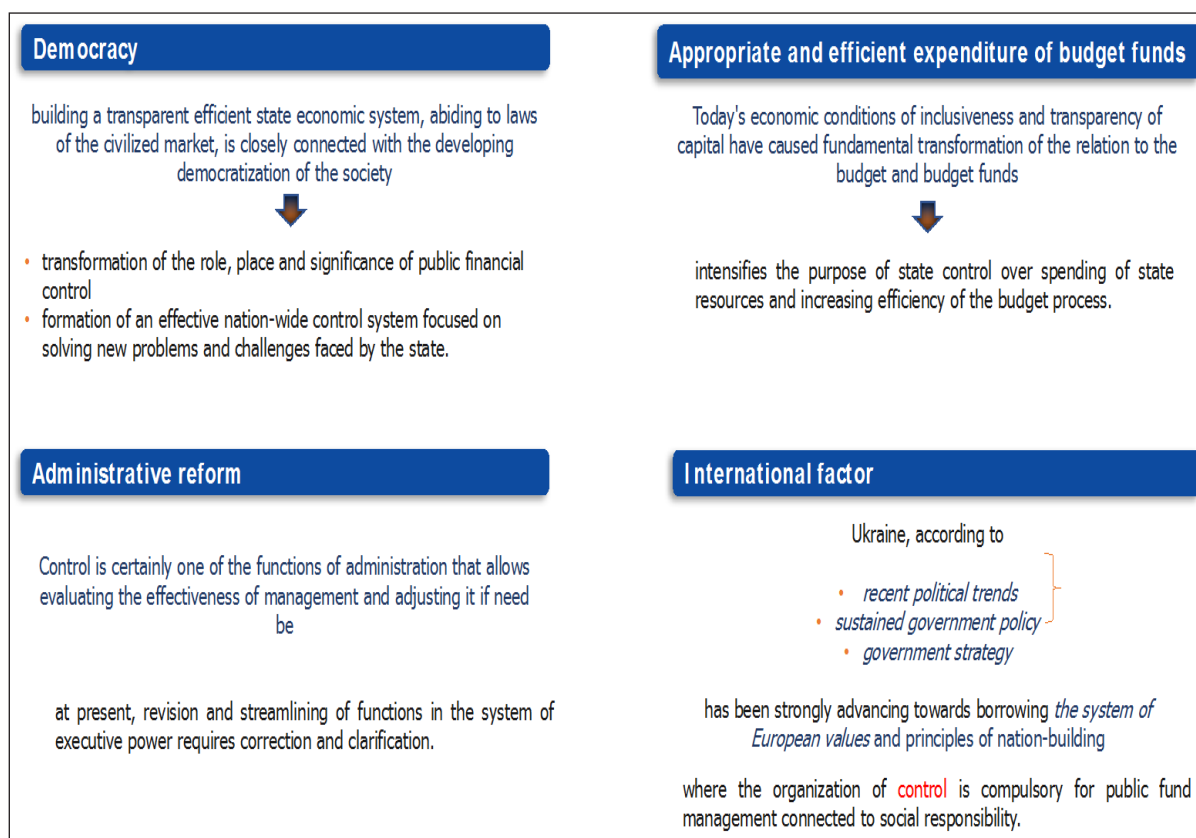


Fig. 3. The main factors of the Government Financial Control

Source: The table is compiled by the authors

considered not only as a form of accumulation and spending of funds in the fiscal year, but also as a leading tool for implementing government policy and strategy, as well as main objectives of the state. This aspect intensifies the purpose of state control over spending of state (municipal) resources and increasing efficiency of the budget process.

3. Conducting the administrative reform. Control is certainly one of the functions of admin-

istration that allows evaluating the effectiveness of management and adjusting it if need be. At present, revision and streamlining of functions in the system of executive power requires correction and clarification.

4. International factor. Ukraine, according to recent political trends, sustained government policy, and government strategy, has been strongly advancing towards borrowing the system of Euro-

pean values and principles of nation-building, where the organization of control is compulsory for public fund management connected to social responsibility. The above mentioned European system of state control is an integral part of the regulatory system aimed at identifying deviations from the accepted standards and principles of legality, efficiency and cost cut of budget spending in order to take timely corrective measures.

It should be noted that the essence of financial control is not only to ensure the lawfulness in the financial sector, but also provides feedback to obtain the necessary information about the actual state of the institution and its employees, as well as the degree of implementation of the tasks.

The main purpose of the government financial control is to promote the effective use of state material and monetary resources; establishing the legality, feasibility and cost-effectiveness of financial and business operations, and identifying internal reserves for increasing state capabilities. In this context, it is sensible to analyze the maintenance and financing of state financial control bodies. This funding is a part of public spending and its intended distribution is the task of the government both in the construction and operation of the system of state control itself. It should be noted that the optimization of budget expenditure, its goal, the high level of the budget process organization (including implementation of budgets of all levels) create an effect of economic growth. However, carrying out by the controlling bodies of the traditional audit of compliance of budget allocation and its implementation is not a highly effective follow-up mechanism, since the effectiveness of spending during the execution of budgets and the implementation of programs and projects

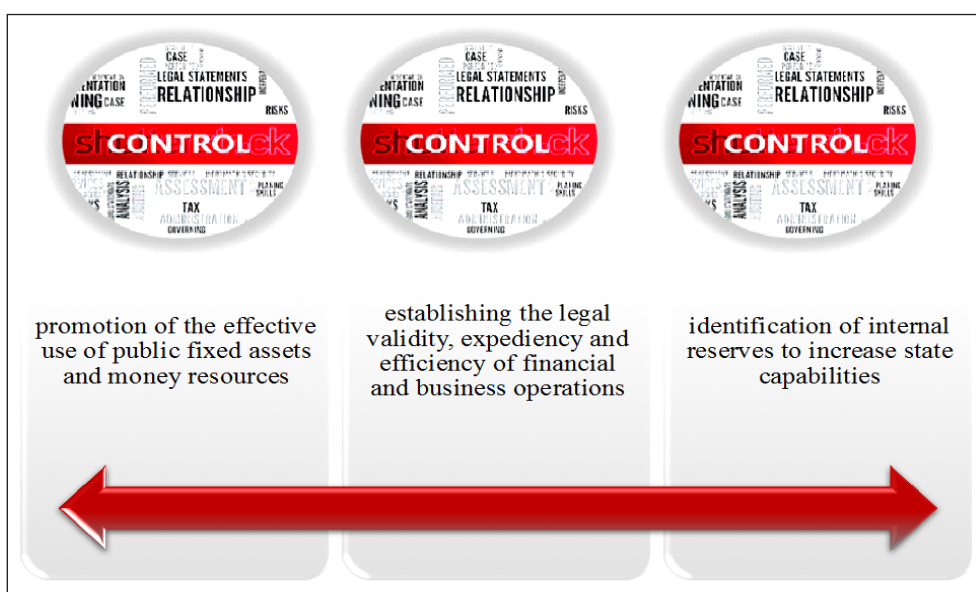
are not determined. As a result, there is no economic development of the country.

Consequently, it is necessary to create risk maps (for example, Table 2). Based on them all possible risks and problems during implementation of programs, projects, distribution of budget funds and target allocation of these funds will be analyzed.

The system of risk management itself must have a certain functional management structure, namely (Fig. 6).

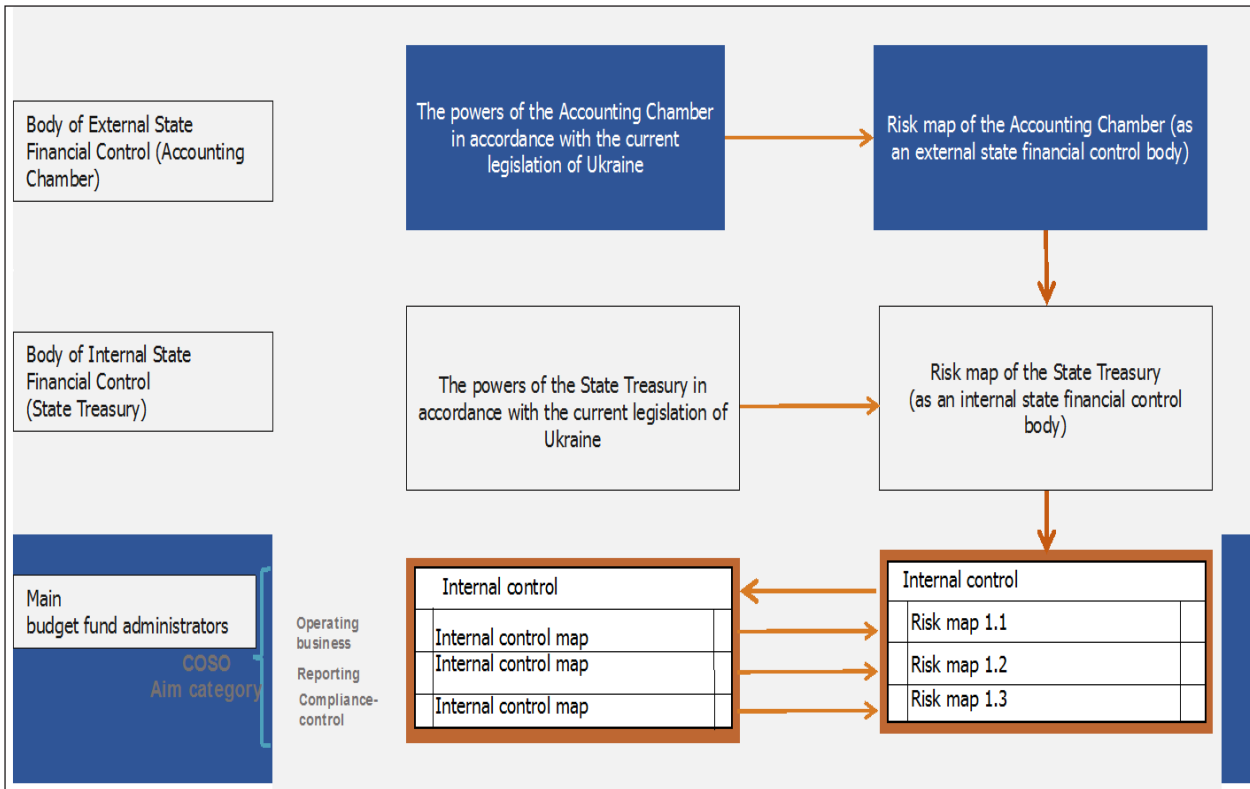
The abovementioned system of Government Financial Control also solves the issue of spending budget funds by representative authorities. Lack of effective and operative monitoring and government control in this area, due to imperfect legislative framework in particular, became a trigger of spending a large part of the budget without proper control by the representative authorities in the face of numerous violations and deviations during the execution of the budget. As a result, there are certain problems regarding the system of control and audit bodies and legislative regulation of their activities. Thus, considerably more finance than mobilized in the budget is spent. Consequently, it is an urgent to create an appropriate legal framework and effective mechanism for ensuring the appropriate and effective use of public funds and control over their spending. The incomplete legal framework for government financial control and absence of its definition have led to controlling bodies' departmentalism.

It should be noted that the incomplete control system in Ukraine resembles an array of controlling bodies and certain legal acts regulating their activities. As a result, these overabundant controlling bodies and legal acts result in duplication of their functions, lack of coordination,



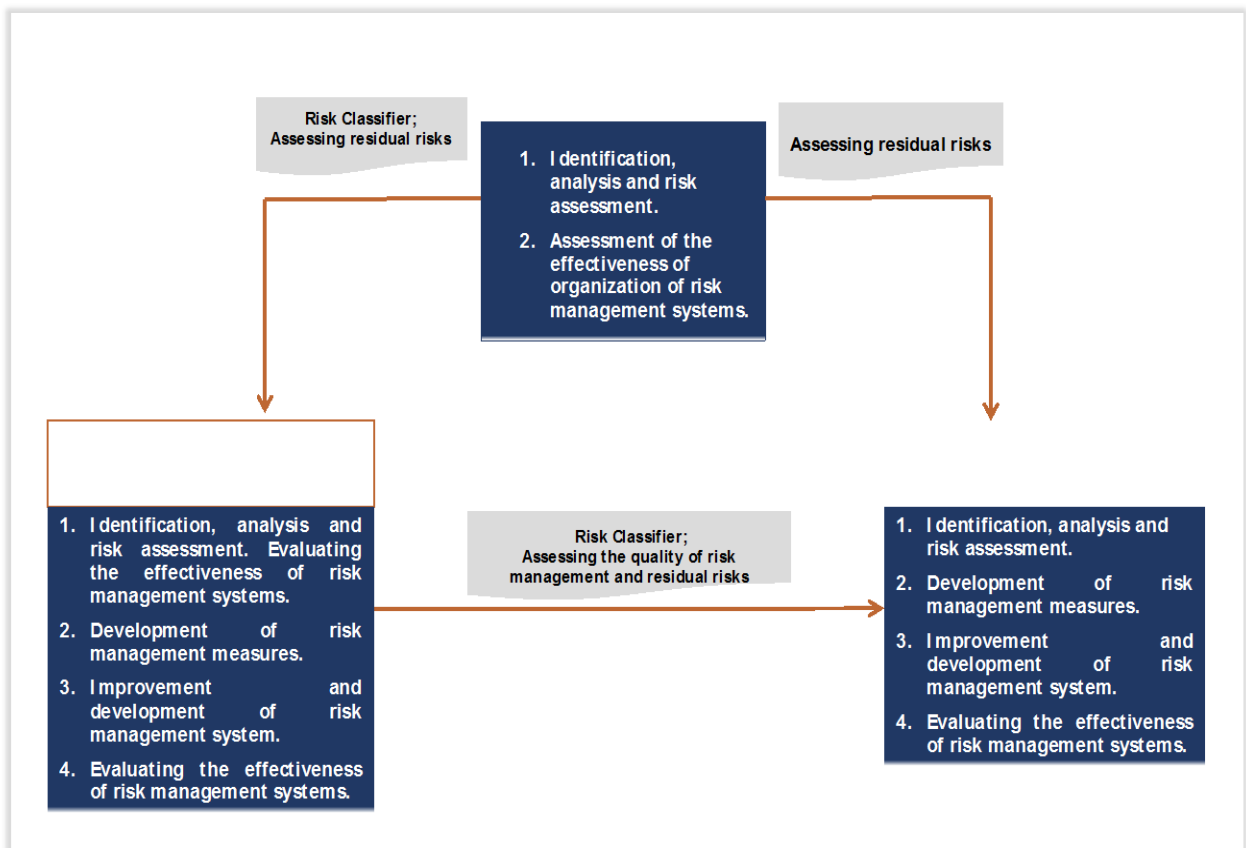
**Fig. 4. The Main Purpose of the Government Financial Control**

Source: The table is compiled by the authors



**Fig. 5. Model of Risk Mapping**

Source: The table is compiled by the authors



**Fig. 6. System of Risk Management**

Source: The table is compiled by the authors

Table 2

## National Treasury Risk Maps

Budget Risk	Possibility of Occurrence	Significance	Response Measures
Unreliability of budget reporting	High	High	Self-checking of indicators of budget reporting
Significant level of receivables from state budget payments	High	High	Provision of funds from the state budget in the amount of actual needs, treasury letter of credit
Significant level of payables for state budget payments	High	High	Treasury support of government contracts, treaties and agreements on the provision of special-purpose funds from the state budget
Failure to achieve the purpose of providing funds from the state budget	High	High	Treasury support, extended treasury support of treaties and agreements on provision of special-purpose funds from the state budget
Inefficiency of the systems of internal state financial control	High	High	Formation of risk maps of internal state financial control bodies and their interconnection by control levels
Risk of purchasing goods, works and services that do not meet the established requirements	High	High	Control provided by the legislation of Ukraine

Source: The table is compiled by the authors

inhibition of their work, and underperformance. Multitude of independent bodies, subordinated to various authorities, supervise the targeted use of budget funds and in Ukraine. However, neither clear delineation of functions among them and nor proper coordination of their activities is ensured. Control activities in this country are regulated by laws of Ukraine, decrees, resolutions and other norms. But these numerous norms do not regulate the relationship between control bodies and subjects of control, and introduce elements of inconsistency and disorganization into control activities. As a result, the budget control, independent of the executive branch, is symbolic; which, in turn, creates the preconditions for misuse of budget funds and national property. However, there are preconditions for solving this issue (Fig. 7):

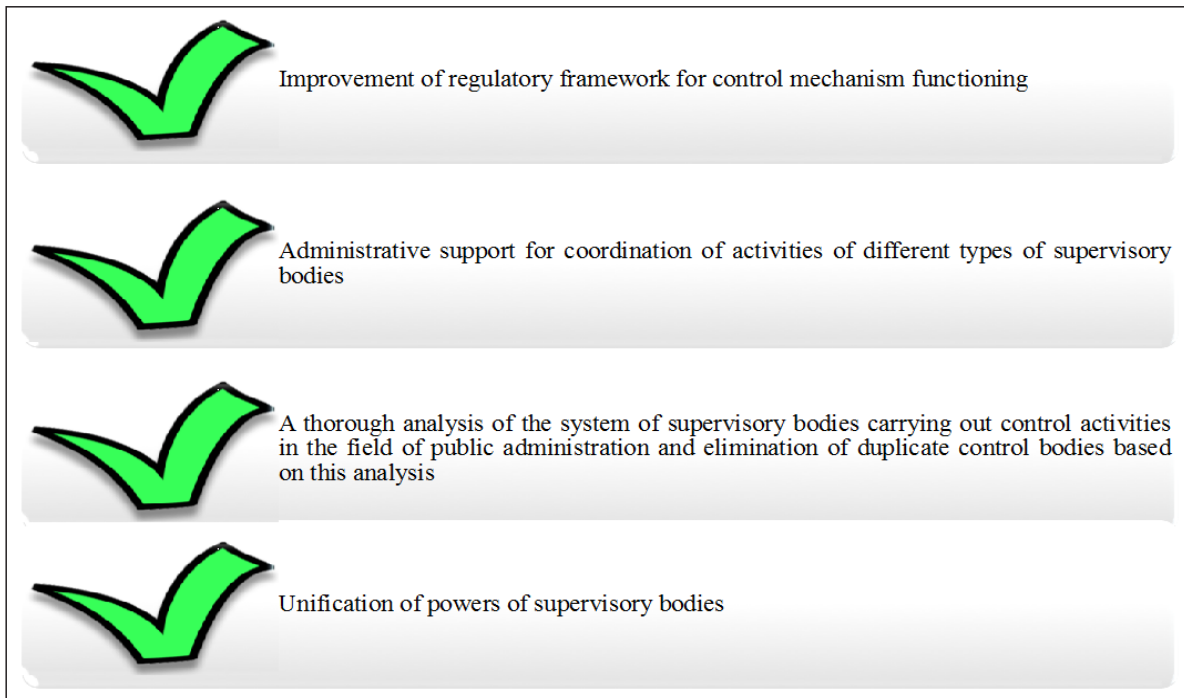
- improvement of the regulatory framework for functioning of the control mechanism;
- organizational support for coordinating the activities of various types of supervisory bodies;
- a thorough analysis of the system of bodies conducting control activities in the field of public administration, and elimination of duplicate control bodies based on the conclusions;
- unification of powers of control and supervisory bodies.

The power motive for improving the system of control and audit bodies is to improve the organization and structure, level and forms of interaction with other government controlling bodies; their staffing, material, technical and information support to satisfy the tasks set before them.

At the same time, it becomes clear that, despite the multilevel nature and complexity of the tasks to be solved, the budget system of the country should remain the integrated financial institution where all coordinated processes of public finance management should be implemented and the balanced development of all its elements and the system as a whole should be ensured. The unity of management system naturally requires creation of a system of financial control that, based on common control mechanisms and clear hierarchical structure of control bodies, will ensure the legality and consistency of monitoring and control over the funds of the entire Ukrainian budgetary system and will allow comparing the indicators of economical efficiency of the use of national financial resources at various levels and stages.

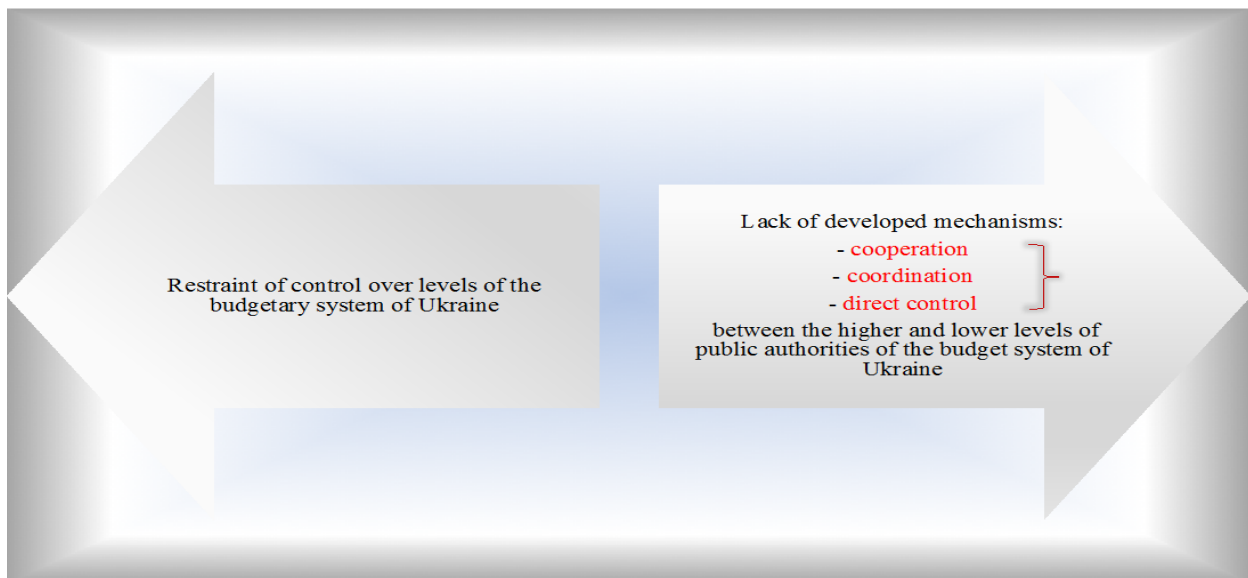
The provisions of the current Budget Code of Ukraine determine the bases of the government control, but their inaccuracy and contradiction lead to the following consequences: restraint of control over the levels of the budget system and lack of developed mechanisms of interaction, coordination and direct control between the state authorities of the higher level of the budget system and lower levels.

The proposed model of internal State control and risk mapping can provide some positive effect. An independent Law determining the basic principles of organization and activity of controlling legislative (representative) bodies and representative bodies of regional and local government should



**Fig. 7. Government Financial Control Functions**

*Source: The table is compiled by the authors*



**Fig. 8. Consequences of Inaccuracy and Contradiction in the Definition of Control in the Current Legislation of Ukraine**

*Source: The table is compiled by the authors*

be adopted as well. The Law must lay the principles for organization and operation of the control system and respective control bodies over set-up and implementation of budgets and extrabudgetary funds in Ukraine; highlight the mechanisms of interaction between control and law enforcement agencies to improve the efficiency of public financial control in general; prescribe the organizational and functional independence of the control and accounting bodies. Also, it is necessary to determine the powers of the control and account

bodies in carrying out audits and inspections of financial and economic activity of enterprises and organizations to detect financial violations and eliminate them effectively, as well as to return the funds to the national budget.

Consequently, effective financial control will ensure the appropriate and efficient use of budget funds and optimize the structure of budget expenditure, which is a prerequisite for restructuring the budget system and democratization of the society.

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