

QUESTION OF IMPROVEMENT OF BUDGET CONTROL AT THE LOCAL LEVEL

Oleg VATSLAVSKYI¹

Ternopil National Economic University, Ukraine

Abstract. The *aim* is to analyse the current practice of budgetary control to develop its areas of improvement at the local level. The *subject* of the research is theoretical and methodological principles of functioning of budgetary control at the local level. The *methodological basis* of the study comprises research approaches, general theoretical principles of scientific knowledge, system of methods and techniques. The paper clarifies the nature of budgetary control at the local level. The main bodies that implement budget control, namely the State Audit Office, the Accounting Chamber, the State Treasury, the State Fiscal Service, financial and management departments are singled out. It is found that the leading part among all of the special budgetary control bodies in the rational and efficient use of local financial resources is performed by the State Audit Office. Analysis of the State Audit Office in three regions of Ukraine for the period 2013-2015 has been carried out. We distinguish two main types of violations that the State Audit Service reveals during its work at the local level:

- 1) shortfall in the financial resources of public enterprises, institutions and organizations;
- 2) violations that lead to illegal, non-target costs and shortages.

It is proved that the efficiency of budgetary control is low. The paper states basic problems of budget control at the local level, namely, low income funds and reimbursements from violations revealed by regulatory agencies; insufficient work with the public to explain the problems of budget control and eliminate violations in the public sector; lack of a consolidated legal act, which would have regulated all the major components of budgetary control; insufficient use of controlling and auditing methods aimed at determining the effectiveness of budget funds; low preventive function on the part of budget control bodies. We offer ways to improve budget control at the local level through: standardization system of budgetary control in accordance with international standards in connection with the integration of Ukraine into the EU and the transition to international accounting standards and reporting system to form unified control procedures; create a system of unified procedures of developing a clear concept of budgetary control, which should be both scientific and political document to enforce, as determined by the law; creating for all budgetary control bodies an integrated database related to the certification of audit results; developing cooperation strategy with budgetary control bodies of foreign countries and specialized international organizations, including participation in joint training sessions and parallel control expert and analytical measures. As a result, the proposed measures will make it possible not only to eliminate these shortcomings but also to increase efficiency, effectiveness and efficacy of budgetary control at the local level.

Key words: budget control, local budgets, violations of budget legislation, budget control authorities, municipal budget control.

JEL Classification: G 28, H 83

1. Introduction

The economic crisis brings forth the issue of limited budget funds and its efficient use. Each year the number of disclosed budget violations increases, indicating the excessive loss of state material and financial resources. Reducing the risk of misuse can be achieved by increasing the efficiency of budgetary control. Measures in this area can also lead to the reduction of scopes of budget violations by state enterprises, budgetary institutions and

organizations that significantly increase the efficiency of budget funds. With this aim in mind, it is considered that the improvement of budgetary control itself should be ensured by coordinated activities of the bodies which are part of the relevant system at all branches of government, which generally meets its purpose to strengthen budgetary discipline, ensure the economy of material and financial resources, as well as full, timely and appropriate use of funds in the community to achieve effective results.

Corresponding author:

¹ Department of Finance named after S.I. Yuriy, Ternopil National Economic University.

E-mail: vatslavskiyi.oleh@gmail.com

2. Philosophy of budgetary control at the local level

Budget control at the local level is a combination of control measures, carried out by special state bodies, dealing with the verification of legality, appropriateness and effectiveness of the formation, distribution and use of funds of state and local governments.

The special budget control authorities in Ukraine include: the State Audit Service, the Accounting Chamber, the State Treasury, the state fiscal authorities, financial and management departments.

Activities of fiscal services are focused primarily on the proper execution of budget revenues, namely, monitoring the timeliness, accuracy and completeness of calculation and payment of taxes and other mandatory payments to local budgets; providing application and timely recovery of financial sanctions amounts to local budgets under existing legislation for tax laws violations, and collection of administrative fines; inspecting concealment of facts and understatement of taxes and other mandatory payments to local budgets.

Tasks include the Accounting Chamber to control: the financing of national programs in the part concerning the use of the state budget of Ukraine, legality and efficiency of financial resources allocated from the state budget of Ukraine for the implementation of national programs; spending of government agencies and organizations operating abroad and financed from the state budget of Ukraine quarterly distribution revenues and expenditures according to the parameters of the budget spending of earmarked funds (on behalf of the Verkhovna Rada of Ukraine); intended use of funds by the executive state trust funds (on behalf of the Verkhovna Rada of Ukraine); financing of national programs of economic, scientific, technical, social and cultural development, environmental protection and other programs approved by the Verkhovna Rada of Ukraine (on behalf of the Verkhovna Rada of Ukraine and its committees).

The State Audit Service, the Accounting Chamber, the State Treasury, financial and management departments are accountable for the efficient and responsible use of public funds. The tasks of the State Audit Service in budgetary control intersect with those of the Accounting Chamber, namely in terms of monitoring the use of the State Budget. The Accounting Chamber mainly controls the central state administration whereas the State Audit Service control area starts at budgetary institutions in villages and goes up to the ministries and departments. Financial management and departments monitor the targeted use of funds allocated from the local budget.

From the above it follows that the State Audit Service ranks top among all the special budget control bodies in the rational and efficient use of local financial resources.

The State Audit Service is authorized to audit, inspect and perform checkups both in local budgets and the

municipal sector. The main tasks of the State Audit Service in the area of local finance are:

- monitoring the legal, targeted and efficient use of local budgets and other financial and material resources of local governments;
- control over the preservation and use of public property;
- monitoring of the condition and reliability of accounting and reporting in local governments, public institutions as well as companies and organizations that receive funds from local budgets;
- developing proposals to eliminate shortcomings and violations;
- carrying out systematic analysis of the circumstances and reasons that contribute to budget violations and measures to prevent them (Malaieva, 2011).

Also, the State Audit Service controls, in particular, the following: performing the functions of state property management; targeted use of state and local budgets, loans received under the state guarantees and their timely return; drawing up the budget reporting, budget programs and reports on their performance, estimates and other documents used in the implementation of the budget; state and conditions of internal control and audit of budget funds administrators (Kopen', 2012).

3. The activities of the State Audit Service

During its work, the State Audit Service finds most violations concerning the shortfall in the financial resources of public enterprises, institutions and organizations, as well as violations that lead to illegal, non-target costs and shortages.

Thus, according to the analytical data of the State Audit Service in 2013 in Ternopil region it revealed violations that led to the shortfall in the financial resources of enterprises, institutions, organizations, amounting to 27.158 million UAH. The revenue level of these funds was only 31%. Similar violations were detected in Kirovohrad and Dnipropetrovsk regions amounted to 12.517 million UAH and 317.058 million UAH respectively. The level of income they made was 55% and 12% (Table 1). In 2014, rates of disclosed violations on shortfalls of financial resources in Ternopil, Kirovohrad and Dnipropetrovsk regions decreased as compared to 2013 and amounted to 8.016 million UAH, 11.331 million UAH and 35.552 million UAH respectively. The level of revenues from these breaches was 46%, 35% and 19%. This is primarily due to poor quality control measures and imposition of governmental bans on auditing and inspection activities of this service. In 2015, the amount of detected violations concerning the shortfalls in financial resources in Ternopil, Kirovohrad and Dnipropetrovsk regions kept on declining and amounted to 5.222 million UAH, 4.755 million UAH and 40.217 million UAH respectively. The level of revenues from these breaches was 62%, 50% and just

8%. This situation is explained by the fact that in 2015 the number of inspected enterprises, organizations and institutions declined several times over the previous years.

Another major indicator of the State Audit Service activities disclosed financial irregularities that led to the illegal, non-target costs and shortages. As for 2013, the amount of detected violations in the territories of Ternopil, Kirovohrad and Dnipropetrovsk regions was 23.378 million UAH, 59.411 million UAH, and 260.017 million UAH. The level of compensation was 80%, 51% and 20% respectively. In 2014, the State Audit Office in Ternopil, Kirovohrad and Dnipropetrovsk found violations amounted to 19.285 million UAH, 37.745 million UAH and 237.498 million UAH. The level of compensation was 67%, 57% and 48%. In comparison with 2013, the amount of violations decreased due to significant increase of checks, which in turn made them ineffective. In 2015, there was an increase in the amount of detected financial irregularities that led to the illegal, non-target costs and shortages in relation to 2014. These sums in Ternopil, Kirovohrad and Dnipropetrovsk regions totalled 33.991 million UAH, 46.771 million UAH and 177.877 million UAH respectively. But the level of compensation reduced to 48%, 41% and 14% (Tab. 2). This can be explained by employees' inefficient work towards reimbursement of revealed violations, as a control measure is not complete then when the breach is revealed, but when this offence is fully refunded.

4. Problems and ways to improve budgetary control at the local level

From the above it should be noted that the effectiveness of budgetary control is low. This is primarily due to several problems in the implementation of budgetary control at the local level, namely:

- low level of financial resources revenue and reimbursements of violations revealed by regulatory agencies;
- insufficient work with the public to explain the problems of budget control and eliminating violations in the public sector;
- numerous unsuccessful audits and inspections that, in turn, prevent the normal operation of inspected sites;
- lack of a single consolidated legal act, which would have regulated all the major components of budgetary control;
- low qualification of employees of budgetary control bodies;
- insufficient use of methods in control and auditing operations aimed at determining the effectiveness of using budget funds;
- low preventive function on the part of the budget control bodies;
- lack of a clear state policy in budget control sphere.

The main methodological drawback is the lack of methodological support of basic forms of budgetary control. One should also note the lack of use by the State Audit Office its powers to improve the efficiency of budgetary control, including the local level budget violations.

Table 1

Key indicators of work of the State Audit Service

	Ternopil			Kirovohrad			Dnipropetrovsk		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
Checked enterprises, institutions and organizations	208	658	160	186	665	90	307	1087	182
Found violations of the shortfall in financial resources (thousand UAH)	27158	8016	5222	12517	11331	4755	317058	35552	40217
Provided of financial resources (thousand UAH)	8500	3666	3256	6816	3946	2393	38467	6831	3051
The level of financial resources (%)	31	46	62	55	35	50	12	19	8

Compiled by the author based on the following sources (Annual report of the State audit office Ukraine, 2013, 2014, 2015)

Table 2

Key indicators of the work of the State Audit Service

	Ternopil			Kirovohrad			Dnipropetrovsk		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
Checked enterprises, institutions and organizations	208	658	160	186	665	90	307	1087	182
Revealed financial irregularities that led to the illegal, non-target costs and shortages (thousand UAH)	23378	19285	33991	59411	37745	46771	260017	237408	177877
Refunded illegal and inappropriate costs, shortage (thousand UAH)	18730	12821	16198	30086	21505	19372	52385	113091	24584
The level of financial resources (%)	80	67	48	51	57	41	20	48	14

Compiled by the author based on the following sources (Annual report of the State audit office Ukraine, 2013, 2014, 2015)

Another problem to consider is an insufficient organization of interaction of authorities exercising control in the public sector. Based on the functions, tasks and their respective powers, budget control authorities and law enforcement agencies have to operate in constant interaction to effectively coordinate their actions (Malaieva, 2011).

After analysing the problems in the system of legal, methodological and organizational support of budget control, we can offer the following directions of its reformation:

- develop a clear concept of a unified system of budgetary control, which should be both scientific and political document to enforce, as determined by law. As a scientific paper the concept should reflect the theoretical and methodological foundations of control, while as a political one it has to formulate the requirements for the legal framework to public policy in the budget control sphere (Kopen', 2012). Starting position of this concept should be a clear division of functions and powers of external and internal budgetary control and the creation of the supreme budgetary control with the assignment of its appropriate powers and its status independent of branches of power;
- it is necessary to standardize the system of budgetary control in accordance with international standards in connection with the integration of Ukraine into the EU and the transition to international accounting and reporting standards, and to form a unified procedure control system. Undoubtedly, every agency of budgetary control system has its specific goals and objectives, but it is reasonable to perform the inspection, testing and audit, following standardized programs and methodology;
- higher budgetary control authority should develop a system of external control standards taking into account INTOSAI auditing standards and International Standards on Auditing (ISA);
- develop and adopt a number of regulations (amendments to laws), clearly regulating cooperation of budgetary control bodies with those of the Interior Ministry, Security Service, Prosecutor General of Ukraine, etc., which in turn will reduce duplication of relevant authorities control functions, as well as the pressure on objects of control and minimize misunderstandings and obstacles that reduce efficiency;
- it is necessary to create for all budgetary control agencies an integrated database related to the certification of the results of control measures. This procedure is not simple and requires certain costs, but without it you cannot perform a deep and comprehensive analysis of the results of the control body to determine the quality of control measures and vectors of their improvement;
- design a strategy for cooperation with the budgetary control agencies of foreign countries and specialized international organizations, with participation in joint training sessions and parallel control expert and analytical activities;

- adopt the Law of Ukraine "On Budget Control", which would regulate all important components of this very important process for the life of the state, clearly distinguish between parliamentary and government budgetary control bodies, define range of budget control subjects, the hierarchy of agencies which carry it out, the form of their organization and interaction etc.;

- increase the professional attitude of employees of budgetary control agencies, namely, increase the high level of their knowledge and training through modernization of education and reforming the Civil Service institutions. Attention should also be paid to the fact that staffing of the state financial inspectors and auditors should be done not on political grounds but purely on the professional basis.

In order to build an effective system of budgetary control it is necessary to comply with the following requirements:

- activities of supervisory bodies should be based on the principles of legality, unity, independence, objectivity, planning, competence, efficiency, demonstrability, transparency and compliance with professional ethics;
- independence of supervisory authorities should be secured at the constitutional level by providing them special status;
- all public authorities, regardless of affiliation, should assist supervisory authorities in carrying out their activities;
- supervisory authorities should have the right to access all materials of inspections conducted by other government agencies, as well as during internal and external auditing of public financial resources and public property;
- based on the results of control measures to prevent and suppress violations, to eliminate them and bring perpetrators to justice, supervisory authorities should be legally endowed with a set of administrative and executive powers to implement their decisions taken as a result of control measures, and to appeal to any public authority and law enforcement agencies, including court and prosecutors (Malaieva, 2011).

5. Findings

Budget control is an important function of the state administration and budget system regulation. The system of budgetary control is facing serious problems of legal, organizational and methodological nature impeding the implementation of its functions, thus creating a need for its immediate reformation. Therefore, we believe that the proposed measures will make it possible not only to eliminate these shortcomings but also to increase efficiency, effectiveness and efficacy of budgetary control at the local level.

6. Conclusions

In recent years the role of budgetary control as one of the key elements of governance has not been fully used, and only the economic and political crisis of public finances forced the society to pay attention to the budgetary control practices. Special attitude to budgetary control and its underestimation is also due to the fact that it is carried in the area of interlocking state, local, corporate and personal interests.

It should be noted that with a significant decrease in the number of audits nationwide the amount of detected budget violations increased significantly, indicating both the professional level of budgetary control agencies employees and improvement of methodological work, and also problematic aspects of current budgetary control system, which did not create the right conditions for improving the budgetary discipline at national, regional and local levels.

Based on the priority of the state policy of Ukraine to join the EU, a key aspect in this process is the adaptation of budgetary control to European standards. It is about

Ukraine's compliance with the provisions of the Lima Declaration of Guidelines on control, namely, to change approaches to the concept of "control" and bring it closer to the European interpretations. Controls should aim to correct the violations and prevent them in the future. To build an effective system of budgetary control in Ukraine that provides steady state of fiscal discipline in the region is possible only in the presence of effective internal control systems in local authorities at all levels, which is the system of municipal budget control.

After a thorough analysis of the legal framework, it should be noted that in order to reform the budget control and increase its effectiveness, the main efforts should be focused on upgrading the base and the development and adoption of regulations that would discriminate functions of budgetary control agencies and subjects, set budgetary control issues and the range of its objects and subjects, fiscal discipline and budget violations, as well as the structure of budgetary control and the basic principles of its methodological support. After all budget control is an integral and important part of the state regulation of the economy.

References

- Annual report of the State audit office Ukraine in 2013. (2014). Retrieved from: <http://www.dkrs.gov.ua/kru/uk/publish/article/102409>
- Annual report of the State audit office Ukraine in 2014. (2015). Retrieved from: <http://www.dkrs.gov.ua/kru/uk/publish/article/115346>
- Annual report of the State audit office Ukraine in 2015. (2016). Retrieved from: <http://www.dkrs.gov.ua/kru/uk/publish/article/122325>
- Malaieva, T. (2011). Problems in the areas of budgetary control and overcome them. Journal of economic reform. Scientific production journal, vol. 1.
- Kopen', N. (2012). Conceptual bases of formation of system of financial control in terms of economic reform. The formation of market relations in Ukraine. The scientific journal, vol. 8.

Олег ВАЦЛАВСКИЙ

ВОПРОСЫ СОВЕРШЕНСТВОВАНИЯ БЮДЖЕТНОГО КОНТРОЛЯ НА МЕСТНОМ УРОВНЕ

Аннотация. Целью работы является осуществление анализа действующей практики бюджетного контроля для разработки направлений совершенствования его на местном уровне. Предметом исследования выступают теоретико-методологические основы функционирования бюджетного контроля на местном уровне. Методологической основой исследования является исследовательские подходы, общие теоретические принципы научного познания, система методов, способов. В работе выяснено сущность бюджетного контроля на местном уровне. Выделены основные органы осуществления бюджетного контроля, а именно: Государственная аудиторская служба, Счетная палата, Государственная казначейская служба, государство фискальная служба, финансовые управления и отделы. Выяснено, что ведущее место среди всех специальных органов бюджетного контроля в сфере рационального и эффективного использования местных финансовых ресурсов принадлежит Государственной аудиторские службе. Проведен анализ деятельности Государственной аудиторской службы в трех областях Украины за период 2013-2015 гг. Выделены два основных вида нарушений, которые в ходе своей работы обнаруживает Государственная аудиторская служба на местном уровне: 1) недополучением финансовых ресурсов государственными предприятиями, учреждениями, организациями; 2) нарушения, приводящие к незаконным, нецелевым расходов и недостач. Доказано, что эффективность бюджетного контроля находится на низком уровне. Определены основные проблемы функционирования бюджетного контроля на местном уровне, а именно: низкий уровень поступлений финансовых ресурсов и возмещение от выявленных контрольными органами нарушений; недостаточная работа с общественностью по разъяснению задач бюджетного контроля и

обеспечения устранения нарушений в бюджетной сфере; отсутствие консолидированного нормативно-правового акта который бы нормировал все важнейшие составляющие бюджетного контроля; недостаточное использование в контрольно-ревизионной работе методик, направленных на определение эффективности использования бюджетных средств; низкий уровень превентивной функции со стороны органов бюджетного контроля. Предложено усовершенствовать бюджетный контроль на местном уровне путем: стандартизации системы бюджетного контроля в соответствии с международными стандартами в связи с интеграцией Украины в ЕС и переходом на международные стандарты учета и отчетности, сформировать систему единых процедур контроля; разработки четкой концепции единой системы бюджетного контроля, которая должна быть одновременно и научным, и политическим документом обязательного исполнения, определяется нормами права; создание для всех органов бюджетного контроля интегрированной базы данных, связанной с паспортизацией результатов контрольных мероприятий; спроектировать стратегии сотрудничества с органами бюджетного контроля зарубежных стран и профильными международными организациями, проведение с ними совместных обучающих тренингов и параллельных контрольных экспертно-аналитических мероприятий. *В результате*, предложенные меры позволят не только устранить указанные недостатки, но и повысить эффективность, действенность и результативность бюджетного контроля на местном уровне.