

FISCAL AUDIT DEVELOPMENT IN THE SYSTEM OF BUDGET PROCESS MANAGEMENT

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ABSTRACT

The peculiarities of financial audit structuring in accordance with the requirements of the International Standards of Supreme Audit Institutions (ISSAI) have been considered. Two main models of financial control have been analyzed: in the countries with the Anglo-Saxon system of law is monotheistic, in the countries of the continental system of law is collegial. It has been proved, on the basis of the analysis of the activities of the budget process management bodies, that the existing system of financial control in Ukraine has the features of a collegial model. It has been proposed a program of audit of financial and economic activity for the period, which allows involving a performance audit in the system of budget management and control.

Keywords: Financial Audit, Control, Budget Funds, Collegiate Model.

INTRODUCTION

Today, there is a rather pressing problem of massive violations in the field of public finances in Ukraine, which is caused by the imperfection of such an institutional structure as the state financial supervision. The effectiveness of the functioning of the state financial supervision depends on the correct form of its implementation. The most promising, for today, forms of control over public finances include the state audit.

The current state and prospects of Ukraine's economic development in terms of integration into the European community requires new directions in organization of the control over the use of state funds. The effectiveness of using budget funds will depend primarily on the organization of state audit, which determines the level of trust of citizens to the state, enterprises, institutions and organizations and improves the investment climate of the country.

In order to construct a methodological research platform and the conceptual framework of the research hypothesis, a content analysis of scientific sources was conducted. The literature review was conducted in accordance with the systematic review process defined by Pittaway (2005) and Centobelli et al. (2016), which are well known in the field of literature reviews to provide a conceptual framework for research in this field of knowledge.

MATERIAL AND METHODS

To achieve a defined goal, a complex of general scientific and special methods has been used: the method of system analysis and complex structures formalization; generalization and scientific abstraction; statistical method of data processing, grouping method. In addition to general methods of scientific knowledge, the work used specific methods of auditing, in

particular: continuous and non-continuous methods of audit, synthesis and implementation of audit results. The scientific works of scientists, representatives of the modified Gordon model of the relationship between the level of audit risk and materiality of information were used as a methodological platform for the research (Tetiana et al., 2018a; Gil'orme & Drobyazko, 2018a: 2018b; Hilorme et al., 2018).

RESULTS AND DISCUSSION

The state audit is the most recent form of supervision and allows us to determine the extent to which social and economic outcomes are achieved, as well as to justify the directions of optimization of public funds. The system of state supervision reveals possible directions of structural transformations of the economy in terms of making sound and effective management decisions that would ensure the rational use of the state's financial resources. The state Audit of Public Finances is a fairly new concept for the Ukrainian economy. The state financial audit is a kind of state financial supervision and consists in inspection and analyzing the actual situation regarding the legal and effective use of state and municipal funds, and property, other state assets, correctness of accounting and financial statements, and the functioning of the internal control system (Kalinkin, 2017).

International organizations of bodies of the higher state financial audit (for example, International Organization of Supreme Audit Institutions) (Maximova, 2014) are showing increasing interest in corruption. Auditors constantly improve methods of disclosure of corruption and reveal various forms of corruption.

According to the Lima Declaration of Guidelines on Auditing Precepts, the tasks of the supreme financial control bodies are not only checking the legality and compliance of the allocation of financial resources and accounts maintenance but also monitoring the effectiveness and economy of their use. This type of audit is an important tool through which all interested parties can from within oversee the implementation of the Government's functions and the effectiveness of this activity.

During the performance of audits in international practice, the supreme financial control bodies use the guidelines developed by the International Organization of Supreme Audit Institutions (INTOSAI), within the framework of the International Standards of Supreme Audit Institutions (ISSAI) (The Lima Declaration, 1977):

1. ISSAI 3000 "*Standards and guidelines for the performance of audit based on practical experience and INTOSAI standards*";
2. ISSAI 3100 "*Guidelines for the performance of audits*".

INTOSAI standards divide an audit into two main types based on the purpose of an audit: financial audit; audit of efficiency. The International Standard of Supreme Audit Institutions (ISSAI) 100, "*Fundamental principles for auditing in the public sector*", states that financial audits are one of the three main types of audit. It focuses on determination whether financial information of an entity is presented in accordance with the applicable conceptual framework for financial statements and regulatory framework. This is achieved by obtaining sufficient and adequate audit evidence that will enable the auditor to conclude that there is no material misstatement related to fraud or errors in the financial statements.

It is impossible to describe all approaches, methods and models that use the supreme financial control bodies of foreign countries for the performance of audits. However, it is necessary to highlight a number of methodological documents that are as accessible as possible,

responding to international best practices, present the process and the specifics of auditing the effectiveness, in particular:

1. Guidelines for auditing the effectiveness of the Swedish National Audit Office.
2. Guidelines for auditing the effectiveness of the Office of the Auditor General of Norway.

International audit standards and experience in international control point out two principal provisions.

First, the issue of financial resources is the competence of financial audit, for auditing the effectiveness the main is how much the services cost, to which these funds are allocated (Khomumenko et al., 2016).

Secondly, according to ISSAI 100, each effectiveness audit should have the task of examining one or more of these three aspects: economic efficiency in accordance with the principles, practices and management strategies based on rational decisions:

1. The effectiveness of the use of human, financial and other resources, including the study of information systems, performance indicators and organization of monitoring and procedures, which are followed by an audit object with a view to correcting certain deficiencies.
2. The effectiveness of activities in relation to the achievement of objectives set at the level of the object of the audit, and the actual impact from the activities compared with the planned impact.

The researchers who studied the issue determine the two leading models of control organization: in countries with the Anglo-Saxon system of law the monocratical model, and in the countries of the continental system of law the collegial structure of the control system. There is also a third model the French one, the feature of which is the assignment of judicial functions to the state supervision bodies, and the author tends to think that "*in developed countries, the system of financial supervision is in general of the same type*" due to the building in accordance with the "*almost identical principles of supervision*" and tasks facing the control system (Bondarenko, 2017).

The Napoleonic, or Latin model, is characterized by a system of determination of the conformity of decisions taken by the executive and responsible organizations in relation to laws and regulations. The organizational feature of such a model is the emphasis on the number of officials with a high degree of independence at the level of judges. The judicial system of public audit is typical for this model. Parliament receives reports and statements from the state audit bodies only upon request. This model is common in France, Belgium, Portugal, Latin American countries, and African countries, which were French and Portuguese colonies.

The Westminster model gives priority to publicity, and therefore the general auditor has the power to report to parliament, using a large staff of professional auditors to prepare reports. The emphasis in the results of work is on the financial condition and financial operations of officials, less attention is paid to the observance of norms and finding deviations. The reports focus on efficiency, relevance and rationality.

The collegiate model is close to the Westminster one and is distributed in Asia countries, such as Indonesia, Japan, South Korea, China, India, and Pakistan. Such control systems are presented by small-scale committees headed by the chairman, who is also the general supervisor.

The most acceptable conclusion, based on the assessment of the tendencies of economic and political development of states in their historical aspect, is the conclusion about the similarities of the features of the three largest models of organization of state supervision: Napoleonic, Westminster and Collegiate. Such a division is the most successful, and, therefore, requires a more detailed study (Kuznetsova & Hetman, 2018). Analyzing the organizational

structures of the state financial audit of countries, it is possible to distinguish three types of their organization. So, the higher state financial supervision bodies can be classified as "*courts with a legal function*" in Belgium, Greece, Spain, Italy, Luxembourg, Portugal and France. So, the Court of Accounts of the Italian Republic is an independent body (does not depend either on the government or on Parliament). While performing legal functions, it also partly performs court functions. For example, these bodies are part of the judiciary system and constitutionally exist on an equal footing with other courts in Greece and Portugal. In the Netherlands and Germany, these bodies belong to the type "*collegiate structure without a legal function*".

The UK, Ireland and Denmark have a model of supervisory control that does not perform judicial functions. The Chief Supervisor is a head of supervision bodies in these countries, and the model of state supervision organization resembles the Westminster system (Great Britain, Ireland, Denmark, USA, Austria, and Canada). For example, the Office of the General Auditor of Canada is the main partner of the Parliament in the process of control of public resources and organizes inspections in all government areas, in particular it checks about 70 federal agencies, 40 state corporations, 60 other large enterprises, governments of the three northern territories of Canada, and international organizations located in Canada.

The State Control and Revision Office of the People's Republic of China acts as a ministry and has about 30 units accredited at various state institutions of the country, such as the Main Customs Office of the People's Republic of China, Main State Tax Administration of the People's Republic of China, Central State Treasury of the People's Republic of China, etc. Countries such as Finland and Sweden have two public financial control bodies: one of them is subordinated to the government and is engaged in the implementation of detailed surveys, and the second one is governed by the parliament and is subordinated to it.

There are other types of organizations that should be considered as an exception. For example, the Accounting Chamber of Austria is a clear model of a higher financial audit body headed by the president and that performs audits at the central and local levels (Gritsenko & Kachula, 2016).

Concerning the existence of the state financial control in Ukraine, the principles of the activity of the State Audit Office are the model of supervisory control. Let's consider the features of functioning of this model in Ukraine and the results of activities.

In total during the reporting year, the bodies of the State Audit Service of Ukraine conducted almost 2,700 control activities at more than 2,400 enterprises, institutions and organizations. With a view to 1 checked object, the volume of financial and material resources covered by the control in 2016 amounted to UAH 193 300 000. According to the results of audits and inspections more than 2.6 billion UAH losses of financial material resources revealed. In particular, budgets of all levels, budget institutions and organizations, enterprises lost the opportunity to receive revenues that they owe, in the amount of almost 1.3 billion UAH, including budgets of all levels more than 440.2 million UAH. At more than 1900 enterprises, institutions and organizations were found more than 1.3 million UAH of illegal expenses and shortages of material financial resources, not spent for their intended purpose, including almost 780.4 million UAH for operations with budgetary funds (Bardash & Baranyuk, 2016).

In the course of preparation for revision, a program of audit is compile in duplicate in which the name of the object of control by the specialists of the State Auditing Services of Ukraine; the subject, period and issues subject to audit in accordance with the competence of the service are determined.

Table 1				
PROGRAM OF AUDIT OF FINANCIAL AND ECONOMIC ACTIVITY FOR THE PERIOD FROM				
TO				
№	Auditing objectives		Lead time	Executor
1	2		3	5
...

Also, before the beginning of each audit, involving more than two persons (auditors, specialists involved), a working plan of the audit is drawn up (Table 1).

The work plan is drawn up and signed by the head of the audit team and approved by the head of the relevant independent structural unit of the State Auditing Services of Ukraine or by the head or specialists substituting him (Mnih et al., 2015).

The supervision in the budget organization serves as feedback, assessing the ability of the state to implement the financial policy planned by it. The ability to execute the budget becomes an increasingly complex task, which necessitates the use of special functional elements and standards associated with the implementation of modern state supervision technologies. Given the high level of situational unpredictability of the implementation of the budget process, it is expedient to analyse the dynamics of the factors affecting it, as well as the group of factors of external and internal influence.

The Budget Code of Ukraine declared "*the principles of targeting and targeted nature of budget funds*", as well as "*the principle of efficiency and economy of use of budget funds*". That is, the main approaches to the effective use of budget resources are legally established. However, there is a difference between "target use of funds" and "*effective use of funds*". Accordingly, recipients of budget funds should proceed from the necessity to achieve the given results using the least amount of funds or to achieve the best result using the amount of funds determined by the budget.

The disadvantage of the budget supervision process is that the budget is planned and approved with the prevalence of functional approaches, but is spent mainly on a departmental basis. The strategy for assurance of transparency of budget development includes a number of measures:

1. Standards should be developed for the drawing up of cost estimates of public funds in the process of preparation of the budget.
2. The internal priorities of the budget process should be clearly defined.
3. The scheme of preparation of reports with an estimation of cost effectiveness should be implemented.

An attempt of implementation and theoretical substantiation of the organization idea is made today.

Under all conditions, the implementation of the budget process is carried out not only for the purpose of allocation of costs, but the task of solving a problem and obtaining a certain result is also set. Without this, the management of the budget, and any process, is meaningless, and therefore, it is impossible to represent "*management of results*" in the budget process. A certain result is always achieved, when spending budget resources.

CONCLUSIONS

An independent assessment of the effectiveness of spending money on solving specific problems becomes of fundamental importance in a transition to a result-based budgeting. In

practice, the focus is on budget targeting, not just on the result, but on getting an effective result. And in this case, the modern budget process has a greater degree of completeness and a target focus on the "*effective and economical result*". One of the key elements of a new budget process management system should be an efficiency audit.

The organic and systematic involvement of an efficiency audit in the system of budget management and control is possible only if the paths and mechanisms of the budget process are oriented not only to obtain a certain result, but also to the efficiency of budget expenditures (Hilorme et al., 2018). The implementation of this will enable us to withdraw from cost methods in implementation of the budget process at all its stages. This is especially important given that the rules of the current Budget Code, which are related to the drawing up and implementation of the budget process, weakly link state expenditures to obtaining of not only certain results but also the effective use of public resources.

To date, in Ukraine, the following types of state financial control of budgetary institutions are used: financial and economic audit, state purchases and inspections inspection. The introduction of these types of financial control, taking into account the Standards for State Audit of Public Finances, contributed to increasing the efficiency of using budget funds. The modern system of state financial control should be designed in such a way that it can be quickly and efficiently adjusted to meet new issues and challenges. Thus, only a comprehensive implementation of the above activities will ensure the best effect from their implementation.

The conducted research revealed a number of existing problems that should be solved in the near future with the involvement of scientists from different fields of knowledge, otherwise the effectiveness of public financial policy will be reduced. Thus, it is necessary to develop a methodology for the audit of efficiency, taking into account the information requests of stakeholders of different levels, which allows determining the criteria for the importance of information. Also, create a system of public control over the activities of the state audit service in order to avoid unlawful actions and assess the business reputation of the relevant civil service.

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