

Audit of the use of budget funds and state property: theoretical-organizational principles and results

Iryna Lukanowska¹, Olga Nipialidi², Olga Bernas³

¹ West Ukrainian National University, Ukraine

² West Ukrainian National University, Ukraine

³ West Ukrainian National University, Ukraine

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Abstract

The article contains a critical analysis of state audit activities and is aimed at developing recommendations for its improvement.

Based on the comparison, the authors identified the versatility of the approach to the definition of the concept of state audit, its purpose and tasks, justified the expediency of their coordination and bringing it into line with modern legislative and practical requirements. The structural analysis made it possible to evaluate the constituent elements of the State Audit Service of Ukraine and point out the possibilities of their optimization in the post-war period.

The analysis, including graphic, was used to assess the effectiveness, quality and other parameters of the activity of this controlling state institution. As a result, it was found that for January–August 2023: the largest share in the general list of control procedures is the monitoring of state procurement (both in terms of amounts and the number of entities subject to control); the most violations were found in budgetary institutions. The most common violation in the analyzed period was lack of financial resources.

The quality and effectiveness of the activities of the State Audit Service is indicated by the state of taking measures to eliminate the detected violations and the amount of compensations made. In 2023, reimbursements amounted to almost 7 times more than in 2022. The role of the State Audit Service in this process is that it and its bodies made 137 proposals for the application of financial sanctions to violators.

Analytical research, grouping and generalization contributed to the identification and differentiation of four groups of shortcomings that have a negative impact on the implementation of state audit: the absence of proper legal regulation of the periodicity and procedure of conducting control measures; insufficient coordination of activities of control bodies; absence of unified methodological foundations of state audit; imperfect settlement of the issue of taking into account the results of internal control when conducting a state audit.

Keywords: control; state audit; analysis; efficiency; activity; control bodies; budget funds; financial resources; state property.

Corresponding author:

¹ E-mail: lukanovskair@gmail.com

ORCID: <https://orcid.org/0000-0001-5591-6487>

² E-mail: nipialidi@ukr.net

ORCID: <https://orcid.org/0000-0002-9962-2939>

³ E-mail: ods-111@ukr.net

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1. Introduction

Formulation of the problem. Market transformations in Ukraine significantly affected the work of public sector institutions. This required changes in the information provision of the process of managing financial and economic activities and affected the organization of the accounting process, financial reporting and ensuring proper state control.

Economic changes in the development of the state sector of the economy and the need for rational use of material and financial resources in accordance with world analogues prompted the state bodies of executive power to introduce a state financial audit in Ukraine. This is since the system of state financial control also had to change in order to properly perform its modern functions.

As a result of the uncoordinated transformation of the economic mechanism, the system of state financial control turned out to be ineffective, with its inherent episodic, unsystematic, situational, fragmented coverage of subjects of the national economy. The presence of a number of new systemic changes requires appropriate research to identify and substantiate optimization solutions aimed at improving the activities of controlling institutions and increasing their efficiency. One of such institutions is the State Audit Service of Ukraine and its bodies.

2. Literature review

The weakening of state financial control against the background of transformational changes occurred simultaneously with the loss of its potential at the regional level. This significantly affected the institutional imbalance of the state financial control system.

According to Ermoshenko M.M. : "the state of financial and budgetary discipline has significantly deteriorated, and these processes have a steady trend that threatens the national security of Ukraine in the financial sphere. The main reasons for this situation are the low level of executive discipline and significant deficiencies budget process" [3, p. 33].

In this regard, the state financial audit is one of the most important functions of state administration, which is aimed at identifying deviations from the accepted standards of legality, intended use, expediency and efficiency of management and use of budget funds and other state property. When detecting the mentioned deviations and other negative phenomena, it is necessary to take appropriate preventive measures.

The state audit is designed to monitor the activities of persons who have the right to manage public finances. Includes heads of state enterprises, budget institutions, organizations, etc.

When conducting an audit, it is necessary to determine its purpose, the vision of which, as evidenced by our research, differs among different scientists and practitioners:

- determining the reliability of accounting and reporting, completeness, legality (Butynets F.F.) [1, p. 26];
- ensuring stability and economic security (VF Maksimova) [4, p. 98];
- establishing the legality and efficiency of the use of funds and property (E.V. Mnih) [5, p. 47].;
- prevention of financial violations, establishing the legality and efficiency of the use of funds and property (V.P. Khomutenko, A.V. Khomutenko) [12, p. 1302];
- identification of vulnerabilities in the company's activities, development of recommendations for improving efficiency (Shevchuk O.D., Mukoid I.L.) [13, p. 231–232].

In general, as we can see, most of the views on the goal are related to the efficiency of the use of public funds and property and its improvement.

Such a diverse vision of the purpose of state audit is not only related to the variety of its objects. It is also important to understand its content, to identify existing needs and gaps in the organization. In this context, the evaluation of the directions and structure of the activity of the relevant supervisory institution will enable the solution of many problematic issues related to the state audit.

The purpose of the research and writing of the article is a critical analysis of State Audit Service of Ukraine activities and development of recommendations for its improvement.

3. Methodology research

The article analyzes the structure and activities of the State Audit Service of Ukraine using traditional and graphic approaches. To identify the level of quality and effectiveness of control over the use of budget funds and property, as well as to identify shortcomings, the method of empirical assessment, generalization and grouping was used. Using the method of critical analysis and comparison, the results of the activities of the State Audit Service were evaluated and opportunities for their improvement were identified. In particular, taking into account the obtained results and using objective logic, the expediency of optimizing the structure of the State Audit Service in the post-war period was substantiated, a position was developed regarding the need for better coordination of relationships between controlling institutions.

The article uses the method of generalization, assessment and grouping to identify and position shortcomings that have a negative impact on the implementation of state audit. Considering the results of research by various methods and their generalization, it is possible to organize the state audit more qualitatively, optimize the organizational structure and activities of the State Audit Service of Ukraine, and improve their legislative regulation.

4. Results

Presentation of the main research material. The essence of the state audit is revealed in the regulatory and legal acts of Ukraine, which, as our research shows, differ minimally in the definition of this important economic phenomenon (Table 1).

Table 1
The essence of state audit

Source	Keywords	Definition Need for coordination
[2, article 363; 8, article 2]	a type of state financial control; verification and analysis; effective use; state and communal funds and property; correctness; driving; accounting and financial reporting; functioning of internal control	Minimal
[6]	verification and analysis; effective use; state and communal funds and property; other state assets*; correctness; accounting and financial reporting; functioning of internal control	Minimal

Note: the author's generalization based on the analysis of current definitions; * – italics highlight the difference in meaning

As we can see from Table 1, there is practically no significant difference in definitions between the Laws of Ukraine. The only thing that should be corrected is to remove the phrase "other assets of the state" from the definition of Law No. 3202 [6], since the first two concepts used in the definition are sufficiently comprehensive and cover all assets.

Another issue is the definition of the state financial audit of local budgets, which is provided in the Resolution of the Cabinet of Ministers No. 252 [7]. It certainly has well-established keywords (type, analysis, verification, efficiency, accounting, financial reporting, internal control), but additionally contains a number of other important keywords that reflect the specificity of the object of control – local budgets.

Therefore, the reviewed definition additionally includes such keywords as budget reporting, implementation of local budgets, internal audit, movable and immovable property, funds, land, natural resources, territorial communities, joint property. We believe that such clarifications correspond to a specific object of control and provide a detailed understanding of it, but at the same time unnecessarily complicate the meaning itself. For example, the word "property" already includes both movable and immovable property. Therefore, such clarification seems superfluous. Also, in this case, the use of the words land and natural resources in the meaning (after all, we are talking about state and communal property, not private property).

Despite this, the definition given in the above-mentioned Resolution generally corresponds to those attributes that are given in secondary legal acts of higher legal force, i.e. in the Laws of Ukraine.

We have also researched that in many cases the concept of "state financial audit" and the concept of "state audit" are used as synonyms, which, in our opinion, is quite acceptable (as a full and abbreviated version).

Due to that, all the above-mentioned normative documents are aimed at the state (and communal) sector, the definitions are given taking into account its specifics. In practice, this sector is closely related to the activities of independent audit services. For example, in this way, the requirement to conduct an audit of the financial statements of, say, communal enterprises – hospitals is implemented.

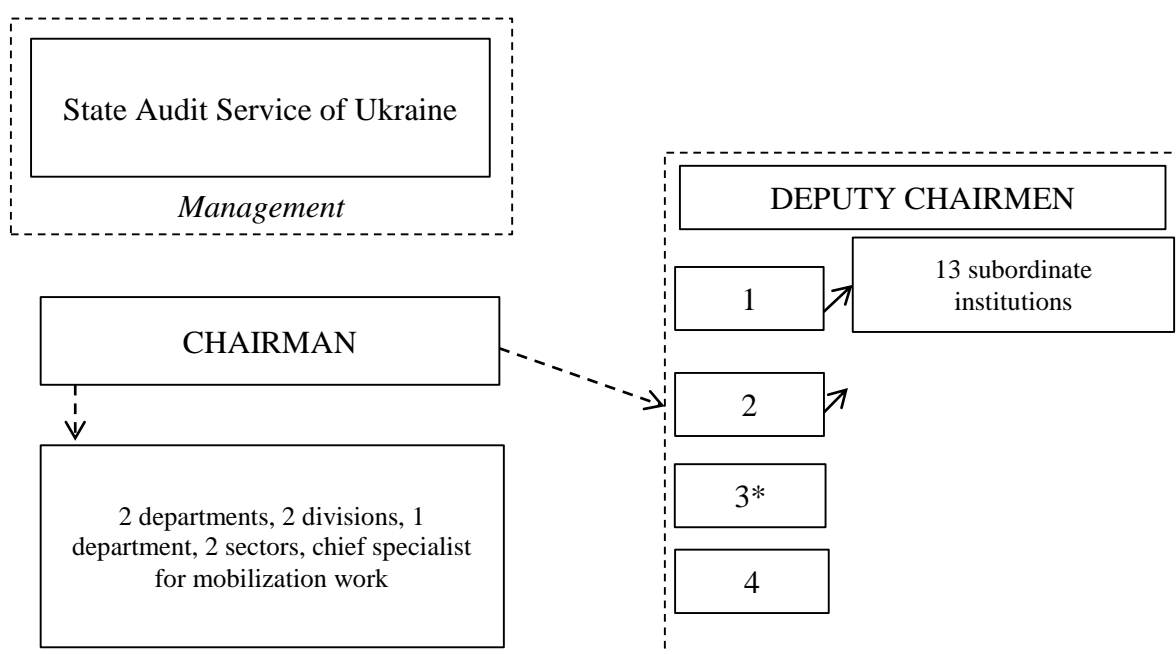
Instead, it should be noted that the definition of the term "state financial audit (state audit)" is given only in the four above-mentioned legislative and regulatory acts. The concept of "state audit" is not used in other normative documents. In our opinion, this is an omission in the current legislative framework, since in the current law No. 2258-VIII [9] it would be appropriate to give such a definition, since the mentioned standard regulates all auditing activities in Ukraine. It is advisable to duplicate the content of the definition from the Economic Code.

In accordance with the current legislation, standards and other legal acts, at least 5 types of state audit are distinguished, namely regarding: implementation of budget programs; implementation of local budgets; public sector entities; budgetary institutions; efficiency of use of public funds. At the same time, control over compliance with budget legislation at all stages of the budget process should also be carried out in accordance with the established requirements of Article 19 of the Budget Code of Ukraine.

From our research, we can summarize that there are different views on the content of the goal set before the state audit. According to the content of the state audit, its main goal, in our opinion, is to establish the reliability of accounting data and their compliance in financial reporting in accordance with established standards and current legislation, to assess the level of economy, efficiency and effectiveness use of state funds and property. State audits and audits, unlike independent audits, are aimed at checking exclusively budget funds and property. Returning to the activities of the State Audit Service, we note that it is directed

to the performance of at least 3 main tasks. First, it implements the task of ensuring the implementation of state policy in matters of control (in particular, financial). Secondly, it implements state financial control (SFC) for targeted, effective, legal use of state material and financial resources, promoting the efficient and economical use of budget funds. Thirdly, this institution has the task of providing administrative services. Accordingly, to these tasks, the structure of the State Audit Service was formed. This institution has several structural subdivisions that are fully capable of implementing all the tasks and functions assigned to this service.

The management is represented by the head and his four deputies, including the deputy for digital development, digital transformation and digitalization (hereinafter the deputy for digitalization), who oversee the relevant structural divisions. For example, the deputy for digitization is responsible for 4 departments (in the field of construction, international cooperation, IT support and IT audit). The head of the researched institution, in addition to having under him the relevant deputies, as well as departments, divisions, sectors and the chief specialist for mobilization work. Specialist for mobilization work appeared in connection with the war, due to objective necessity. But in peacetime, this position is not too typical for the State Audit Service, it will not be necessary, because such issues should be subordinated to the relevant services and institutions. It should be noted that in connection with the war, certain corrective adjustments affected the body we are investigating, or at least the powers, functions, and procedure of functioning of the structural divisions of the State Audit Service were regulated in a certain way. In the most simplified version, the structure of the State Audit Service is represented in fig. 1.

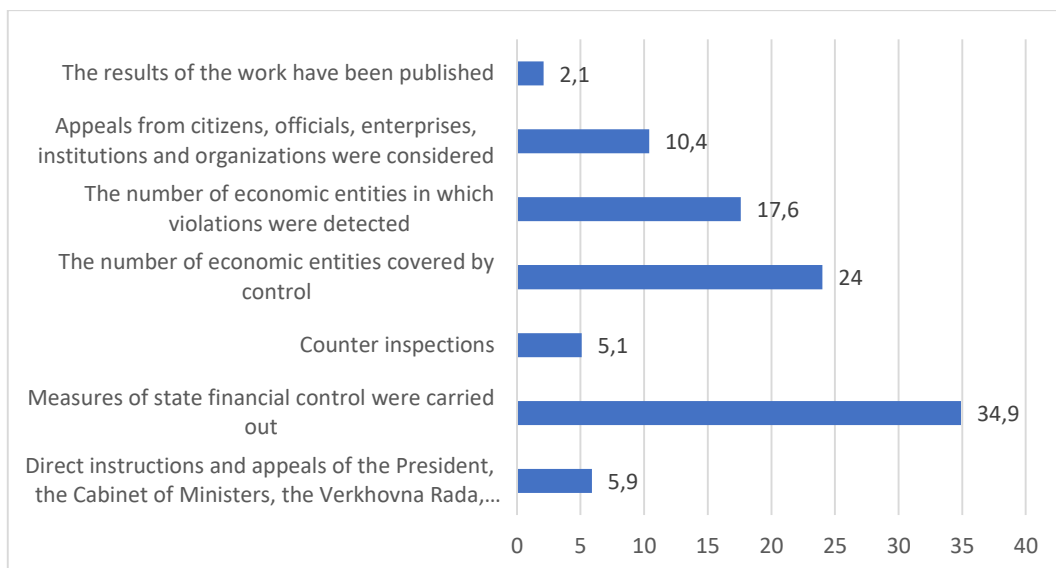


Source: based on [11]

Fig. 1. Simplified structure of the State Audit Service of Ukraine

Each of the units of the researched institution has its own functions and powers. In addition, they differ among themselves both in the number of specialists and in their competencies. As for controlled institutions (subjects of control), 3 large groups can be conventionally distinguished in their composition. The first is the bodies of state power and management, as well as ministries, official state funds (including social insurance, etc.) and state institutions (state sector entities). The second is organizational units that receive budget funds, funds from state funds, or use state or communal property for their activities. The third group is other subjects (of various forms of ownership), which according to the law must be controlled by the State Audit Service (including by court or other decisions). The specificity of the performance of its functions by the researched control body is not only in the list of such special subjects of control. Characteristic features are also manifested in those tools that are used for such control. They include preliminary and subsequent (post fact) control. The first is implemented in the form of an audit of economic operations and monitoring of state procurement. The second is also an audit (of budget programs, execution of local level budgets, activities) and procurement review. In both cases, it is identified as state financial control in several guises: state financial audit, inspection and monitoring of purchases and inspection (in the form of an audit).

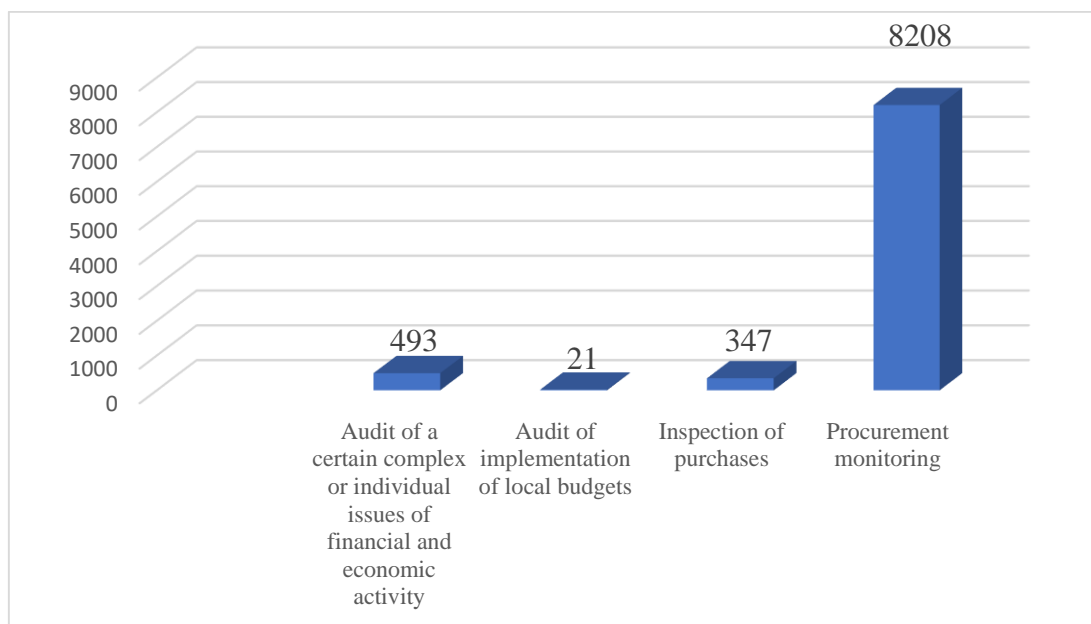
The performance of its powers by the State Audit Service has certain appropriate results. They are manifested in the performance of various types of checks, the provision of information to the relevant authorities, etc. The effectiveness, quality and other parameters of its activity can be traced from the official reporting data published on the website of this control body. In particular, the Report on the performance of this institution for January-August 2023 enables the analysis of the structure of inspections carried out by it and other areas of activity. The results of our analysis to determine the share of different types of work of the State Audit Service are presented in Fig. 2.



Note: based on [10]

Fig. 2. The structure of the results of the State Audit Service for January–August 2023

From the figure, we can see that the largest share is taken by the state financial control measures. It is about 35 percent (34.9%). Control in 6,220 enterprises, which is 24 percent, also has a significant share of the total number of conducted measures. On the other hand, the share of work that resulted in the detection of violations in 4,558 controlled subjects is smaller, which is 17.7 percent. An even smaller share is occupied by completed works related to the appeal of citizens, officials, etc. In total, they made up 10.4 percent. Incidentally, it is worth noting that more than 9,000 different types of inspections were performed in January-August of this year (to be more precise, 9,048). They include at least 4 elements (groups) of questions (Fig. 3).



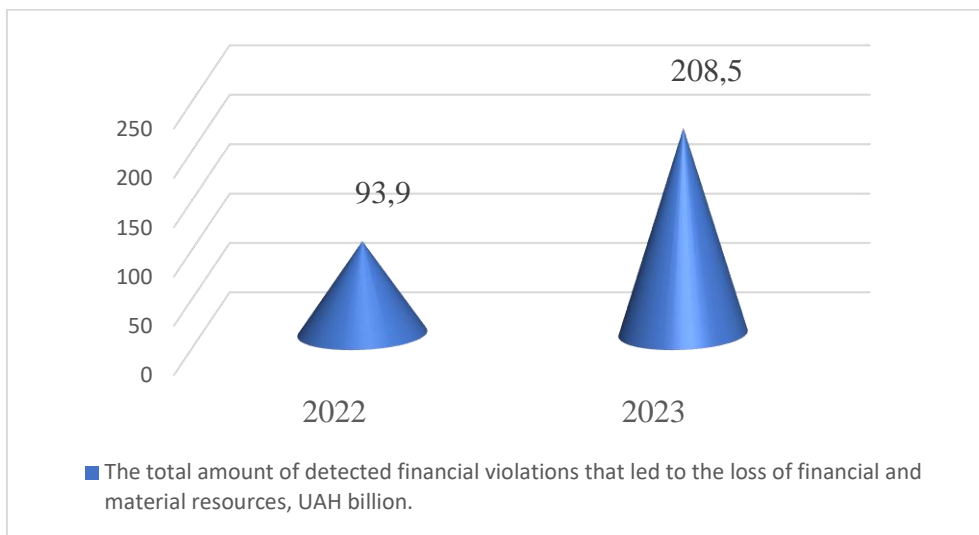
Note: based on [10]

Fig. 3. The structure of control work carried out by the State Audit Service for January–August 2023

As shown in fig. 2.5 procurement was checked for budget funds 8,208 times. Monitoring of purchases, thus, in the activities of the State Audit Service takes the first place. Revisions were made in number of 493 and his occupy the second place in the structure of all performed works. 347 procurement inspections were carried out, which brought this type of control procedures to the third place. Local budgets were audited the least. This is an objective situation in the conditions of war, but we believe that the State Audit Service should pay more attention to this issue, so that abuses and corrupt practices in the activities of local authorities are less allowed.

Regarding the structure and number of subjects that were subjected to various types of control actions, the first place is again those in which procurement monitoring was carried out – 5477. The second place is subjects in which audits were carried out, the number was 487. The third place in terms of number is the subjects in which procurement inspections were carried out – 312. Instead, the State Audit Service did not conduct any inspection, and accordingly, the number of controlled subjects in this way is equal to 0. If we talk about the structure of entities under control, in which violations were detected as a result of inspections,

then 56.5 % (4556 entities) are budget institutions, and 45.4 % (1920) are entities of the state-communal sector. As you can see, the structure of audits is quite diverse and is distinguished by the fact that it concerns the public sector and budget funds. Probably, the best evidence of the quality of audits is the number of detected violations and the results provided by control measures. According to official data, violations were detected in 73.2 % of controlled subjects by specialists of the State Audit Service (a total of 6,220 subjects were controlled, and violations were detected in 4,556) [10]. In general, it is worth admitting that this is a rather high percentage. At the same time, instability and the state of war significantly worsen the situation with the rationality of the use of budget funds. The total amount of detected violations for January–August 2023 is more than twice the amount of violations committed during the same period in 2022 (Fig. 4).



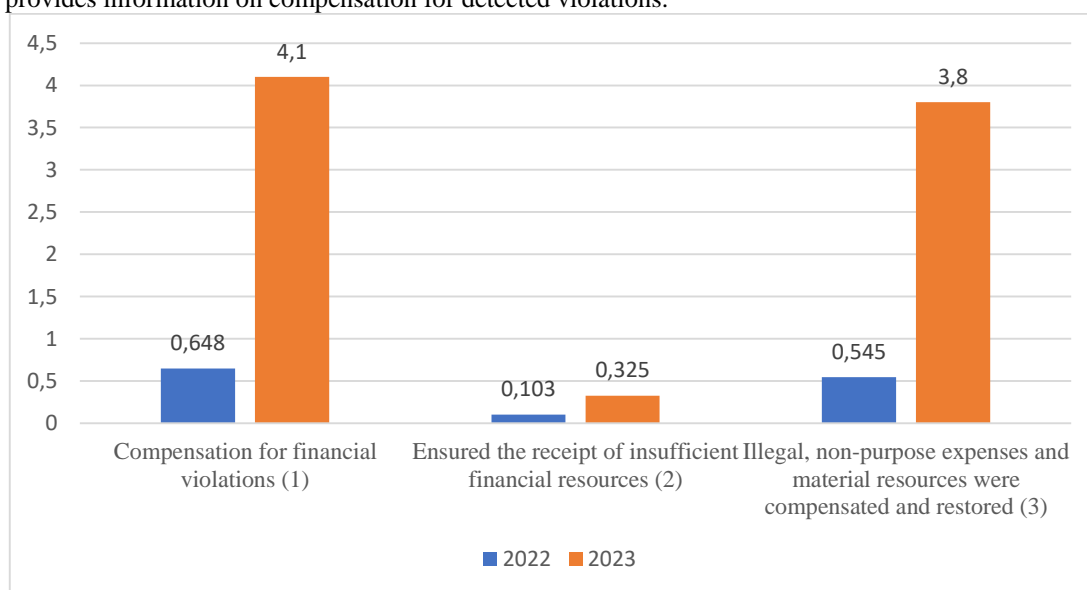
Note: based on [10]

Fig. 4. Volume of detected violations by the State Audit Service for January–August of the respective years

Of the total amount of detected violations, 20 % are violations at the expense of budgets and budget institutions, amounting to approximately UAH 41.7 billion. In 2022, this percentage was 5.8, which indicates a more than threefold increase in the number and amount of violations (to be more precise, 3.45).

Among the violations, the most common in the analyzed period was the lack of financial resources - more than UAH 133.6 billion, which is more than several times compared to the same period in 2022. Such violations were found in 238 controlled subjects. Also, significant amounts were discovered as a result of control over illegal and inappropriate use of resources and incurring costs. These violations were detected at 637 entities that were controlled, in the amount of UAH 74.8 billion, which is more than twice as compared to 2022. Violations in the amount of UAH 4.9 billion were found in the use of budget funds. For comparison, the similar amount in 2022 was UAH 0.847 billion. That is, it was smaller, about 5 times.

In fig. 5 provides information on compensation for detected violations.



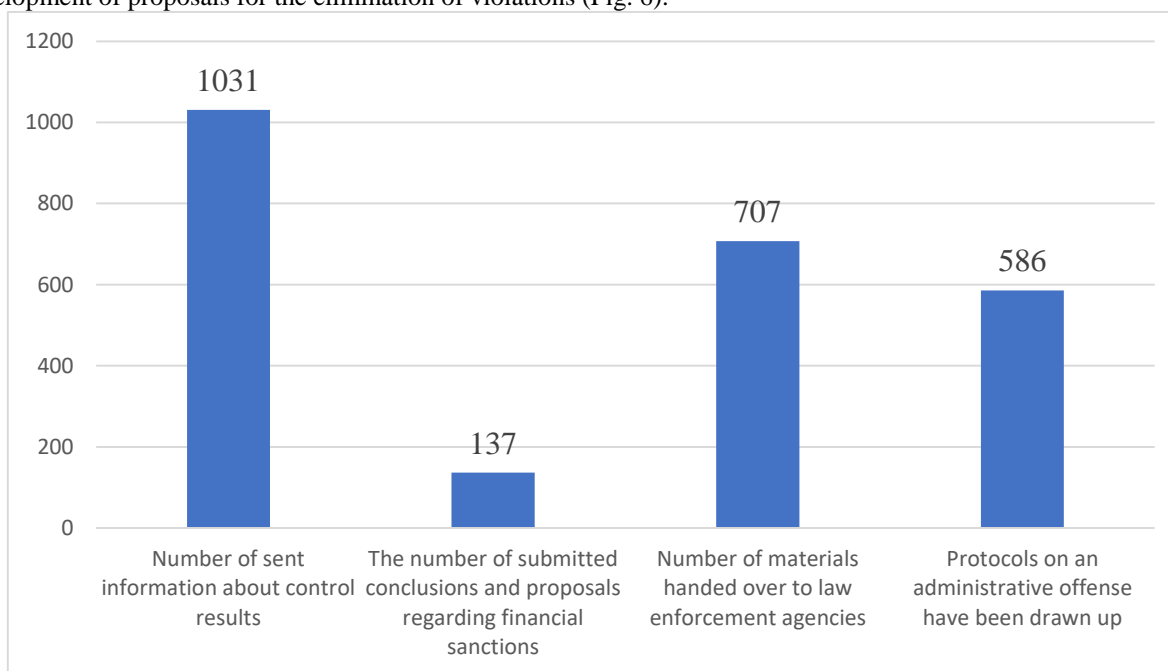
Note: based on [10]

Fig. 5. Results of the activities of the State Audit Service, which indicate the quality of the control work carried out and the measures taken

As we can see from fig. 5, based on the results of the inspections, measures were taken to compensate for the detected violations. For example, according to position (1), in the total amount shown in the figure and the relevant violations detected in January-August 2023, more than UAH 0.359 billion was compensated. And in 2023, there were almost three times more receipts from under-received financial resources than in 2022. This is equal to 0.2 % of the total volume of discovered abuses. And if we talk about budgets, then in this total amount, more than 61.2 million hryvnias were returned to different budgets. It is worth admitting that in 2022 this amount was higher and amounted to more than UAH 67.7 million.

An equally important result of the activities and powers of the State Audit Service for January-August 2023 was the reimbursement (renewal) of illegal/untargeted expenses and lack of resources (financial and material) for a total amount of more than UAH 3.8 billion. (against UAH 0.545 billion, i.e. almost 7 times more than in 2022), which is 5.1% of the corresponding detected violations. The activity of the investigated institution should be positively evaluated from the point of view of its participation in the development and implementation of proposals aimed at applying appropriate penalties to violators. In particular, the State Audit Service and its bodies made 137 proposals for the application of financial sanctions to violators. Currently, 89 of them have been implemented. For example, among them, suspended: budget allocations (2); transactions with budget funds (17). Also, budget allocations for 16 controlled entities were reduced by UAH 23.2 million [10].

Among other results of the activities of the State Audit Service – the preparation of relevant materials for various institutions, the development of proposals for the elimination of violations (Fig. 6).



Note: based on [10]

Fig. 6. Measures of the State Audit Service based on the results of the control work for January–August 2023

It should be noted that the measures of the controlling institution are quite effective and efficient. The result of their activity is significant amounts of refunds, suspension of allocations, etc. But if we talk about the accrued sanctions and administrative fines, their amount is quite small - UAH 1191.77.

5. Conclusion

Conclusions from the conducted research. The analysis the State Audit Service activities allows us to draw conclusions about its effectiveness and quality. In addition, our research shows the existence of four groups of shortcomings that have a negative impact on the implementation of state audit. In their composition, we can note:

- not proper legal regulation of the periodicity and procedure of conducting control measures;
- not proper coordination of activities of control bodies;
- absence unified methodical bases of state audit;
- not proper regulation of internal control and taking into account its results during the state audit.

Proper implementation of the latest forms of state financial control, which should include state financial audit, will make it possible to create the prerequisites for implementing effective economic policy and ensuring the implementation of budget programs. It is impossible to build a highly developed, democratic state without introducing an effective control system into the state administration system. In the future, it is expedient to carry out further research on ways to improve the organizational structure, areas of activity of the State Audit Service, opportunities for the development of audit tools and methods, as well as foreign experience on these issues.

To generalize, in general, the quality and structure of control actions carried out by the State Audit Service are quite optimal, and the results are positive. Identified violations are, of course, a negative phenomenon, but their elimination and the measures proposed by the investigated institution are quite effective. In the future, in order to improve the structure and quality of control actions, it is necessary to study and disseminate positive experience, analyze the results of countermeasures and produce appropriate methodological recommendations to prevent deficiencies and violations, conduct appropriate training for personnel, in particular, employees of controlled entities.

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