

EUROPEAN MODEL FOR REFORMING PUBLIC FINANCIAL CONTROL

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INTRODUCTION

Ukraine's signing an Association Agreement with the EU caused the necessity to accelerate the process of reforming the components of public financial management system. These components include public internal financial control and independent (external) financial control. In order to implement the provisions of this Agreement as a whole and determine a specific action plan to build reliable systems of internal control and external audit in particular, the Cabinet of Ministers of Ukraine approved the Action Plan for the implementation of the Association Agreement between Ukraine, on the one hand, and the European Union, the European Atomic Energy Community and their Member States, on the other hand.

By taking in consideration the provisions of Association Agreement with the EU and Action Plan, the question arises: what is the place of inspection in the system of public financial control?

The most noticeable consequence of introducing the standards is improving the standardized activity process which arises from the introduction of systematization, rationalization, and optimization of control procedures and processes. Standards are aimed at a close supervision providing the achievement of clearly preset parameter set of procedures. This is important especially in applying them to the control function of state administration to which the observance of the set procedures presents the main and inviolable requirement.

The standards also help spreading common language and common approaches and help to avoid differences in the interpretation of the same facts, which has the first importance for the presentation and interpretation of financial statements, for internal use within an institution and for interested external users with the account that in case of the public sector, the parties concerned are all citizens of the country. Standards provide for management transparency and accessibility of information. No wonder the criteria of informative exchange standardization play a large role in our

“informative society”. The enormous volumes of information and the multiplicity of its sources must be balanced by the measures of providing reliability and integrity of data, and also the existence of the appropriate communication environment, which corresponds to the need of information and, simultaneously, guarantees its control and accountability.

These tendencies are confirmed by the circumstance that the parties of economic activity in the reports pay more special attention to such questions as conscientious management and corporate social responsibility, namely the factors that determine the input of an organization into providing for its workers’ prosperity, natural and social environment.

Nowadays in Ukraine under the current conditions of market economy development, accompanied by the processes of distribution of forms, values and consequences of fraud in the sphere of budget funds and public property, the crucial need is to provide efficient public financial control (hereinafter – the PFC), which will contribute to legal and effective expenditures of public funds and property. At the same time, according to the results of public financial control practice during last years it has lost its effectiveness. Most of all this happened due to the fact that public financial control wasn’t in time to adjust itself to the changing market environment.

Besides, its performance was effective only within the command and administrative economy and had later lost its topicality. For improving the current public financial control system the specialists have taken a series of normative documents and have implemented the new concept of «internal control» into their practice. The aim of this concept is to become a priority form of public financial control and to combine the most important achievements of international practice in this area. Despite the numerous scientific articles and research on this issue the analysis of them doesn’t give sufficient knowledge about the essence of public financial control system and its components. Besides, the applied aspect of internal control implementation as a part of public financial control, is hardly represented. Thus, according to the current research we have attempted to offer a complex concept of the PFC system, carry out its critical analysis and ground the place of internal control with theoretical and practical recommendations on its implementation.

1. Management system, in particular public internal financial control and external independent financial control as its major elements

Chapter 3 «Management of public finances: budgeting, internal control and external audit» of the Association Agreement between Ukraine and the EU (Article 347) specifies that the urgent need is the implementation of the standards and procedures of the International Organization of Supreme Audit Institutions (INTOSAI), and the exchange of best practices in the field of the EU external control and audit of public finances, with the special emphasis on the independence of the relevant authorities and further development of the system of public internal financial control through the harmonization with internationally recognized standards and methodologies as well as with the best EU practice on internal control and internal audit in public bodies. As for inspection, there are no guidelines concerning its further development¹.

Therefore, the question arises: what should we do with this kind of control? According to the EU officials' opinion (the members of the project SIGMA) the answer is simple: inspection as a form of control, must be reformed. SIGMA is the program supporting efforts to improve governance and management which is a joint initiative of the Organization for Economic Cooperation and Development (OECD) and the EU.

The background information of the SIGMA project which concerns the sections of the Action Plan for the realization of the Strategy of development public financial management system states that in the context of the development of internal audit it is necessary to modernize the approaches to financial inspection by the creation of a new Agency on financial investigations. However, in the current difficult economic and political situation in Ukraine the presence of both functions is crucial².

According to the experience of the USA, UK, Italy, France, Sweden, Austria, Belarus, Georgia, Kyrgyzstan, Kazakhstan, the formation of the Agency for financial investigations is possible in case of the availability of reliable systems of internal and external financial controls. However, in

¹ Про Стратегію розвитку системи управління державними фінансами: Розпорядження Кабінету Міністрів України від 01.08.2013 №774-р // zakon.rada.gov.ua.

² План заходів з імплементації Угоди про асоціацію між Україною, з однієї сторони, та Європейським Союзом, Європейським Співтовариством з атомної енергії і їхніми державами-членами, з іншої сторони, на 2014–2017 роки: Розпорядження Кабінету Міністрів України від 17.09.2014 № 847-р. zakon.rada.gov.ua.

some CIS countries, such as Moldova, Uzbekistan and Russia there are such bodies as the State Financial Inspection. In Ukraine it still exists, which can be explained by the implementation of reforms in external and internal public financial control systems.

Since in Ukraine, similarly to on Moldova, Uzbekistan and Russia the reforming of these systems is in process, so the question of formation of the Agency for financial investigations loses its relevance. After all, the system of internal financial control as well as independent (external) audit has many problems and does not function properly³. Such problems can be defined as follows:

1) in the field of public internal financial control:

– the imperfection of methodology for internal control and internal audit in the public sector;

– the functioning of the Central Harmonization Unit against the best practices of the EU member states, in the structure of the State financial inspection of Ukraine;

– the lack of interaction between the heads of ministries and other central bodies of executive power with internal audit units which operate in the institutions headed by them;

– insufficient staffing of internal audit units due to the lack of qualified specialists.

2) in the field of independent (external) audit:

– the narrow range of powers of the Accounting Chamber, in particular, the lack of power to control the revenue side of the state budget;

– the imperfect standards of the Accounting Chamber to audit the public finances;

– the imperfect mechanism for the analysis of the implementation results of the Accounting Chamber's audit.

In addition to the abovementioned areas in the development of public financial control in Ukraine, in the Association Agreement of Ukraine and the EU (Article 347) it is also stipulated that the improvement of the methods is aimed at eliminating fraud. Under the imperfect systems of internal and independent (external) financial control inspection plays an important role in reducing the disturbances in the budget sector. After all,

³ Андреев П.П. Еволюція внутрішнього державного фінансового контролю в Україні. Вісник Київського національного університету імені Тараса Шевченка. 2018. Вип. 8. bulletineconom.univ.kiev.ua.

the main objective of inspection is to ensure the detection of law violations and identifying officers and materially responsible persons guilty of such violations.

Unlike the internal financial control, financial inspection activities are not regulated by international standards and are not included into the model of public internal financial control of the EU. However, one of the main advantages of financial inspection is the accountability of budgetary institutions on the use of available budgetary funds.

Therefore, in order to strengthen the accountability in the public sector until the time when the reliable system of internal financial control in budgetary institutions starts to function the modified function of inspection should exist there. Under the conditions of cut spending on the maintenance of the central executive power bodies activity of and the critical state of the state budget, a modified version of this function should focus on the use of minimum labor and material resources.

That is why planning of control and revision work of the State Financial Inspection of Ukraine should be carried out by using the risk-oriented approach. The first steps in this direction have been done in 2012 by the adoption by the protocol meeting of the Methodological Council of State financial inspection of Ukraine as of 23 April 2012 #7 concerning the Concept of the risk-based selection of control objects to the Plan Control and Auditing work of the State financial inspection of Ukraine and its territorial bodies. In addition, as a part of the World Bank project there was drafted a plan and methodology for storage and use of information for risk assessment and planning of work of the State Financial Inspection bodies in Ukraine⁴.

An electronic database was later formed which collects information on the activity of control objects obtained from various sources. However, in practice the use of this database is facing obstacles such as the collection of necessary information to assess the risks of budgetary institutions – in fact, the collection of information is carried out manually! As a result, a significant amount of time and human resources is lost.

Therefore, the urgent need is to improve the process of information collection by connecting to the existing database all major spending units and modernization of the procedures on risk assessment of financial irregularities by the controlled institutions. Nevertheless, modification of

⁴ Результати діяльності підрозділів внутрішнього аудиту. Державна фінансова інспекція України. www.dkrs.gov.ua.

inspection function requires the revision of its methodology. This is due to the need to reduce spending of human resources, to conduct the inspections and reduce the time conducting of such inspections. One of the areas in the methodology improvement is the need to do inspection based on risk assessment. As the basis for developing a formula for determining the risk inspection can be taken the formula for determining the audit risk as proposed by the American Institute of Certified Public Accountants (AICPA) in its Statements on Auditing Standards – SAS 47 «Audit Risk and Materiality in Conducting an Audit» (Statements on Auditing Standards...)⁵.

2. Standards of financial control

In the field of state finance and accounting, standardization is a prominent condition of achieving the accountability of government and ministries. Only a strict application of standards can provide for the adequate interpretation and estimation of information about the work of the state economy sector. The work of government would not be possible without standardization.

In the recent years, market economy continues causing big a pressure on the state sector as a result of going on internationalization and globalization of economy. The financial crisis gave a new impetus to the introduction of standards as the necessary condition of mutual understanding and dialog on the intrastate and international level. In the conditions when authorities should prove to the market that the financial condition is stable, the function control becomes the determining factor. There are numerous documents, new mechanisms of reflection and deficit and national debt coverage which are developed in the current documentation; the strict mechanisms of monitoring and control of the administrative vehicle are set unprecedentedly for this purpose. All these measures require the application of a common approach to all financial institutes for the estimation of financing⁶.

The today's crisis attracted general attention to financial statements' transparency both of private enterprises and state institutes. In terms of national debt, the crisis has showed that transparency should be examined

⁵ Стефанюк І.Б. Об'єктивні засади проведення зовнішнього аудиту місцевих бюджетів. *Фінанси України*. 2017. № 6. С. 88–96.

⁶ Ansel, M. Sharp. (1998). *Economics of social issues* by Ansel M. Sharp, Charles A. Register. Eighth edition. Irwin. 1998. 413 p.

as a substantial important precondition without which the trust to the given information and, accordingly, to the extraordinary measures which are accepted by the states will be shattered.

The increased transparency of public finances in the recent years made a positive impact on the crisis. In October 2012, coming forward on the General Assembly of the United Nations with the lecture “Initiative from advancement of transparency and accountability by strengthening of audit of state finances” the Secretary General of INTOSAI Dr. Josef Moser has noted that in a crisis situation citizens show more strict requirements to the government finance control, which would be impossible to apply without using the professional standards that define the appropriate work of the INTOSAI. The themes of the XXI Congress of the INTOSAI, which took place in autumn 2013 in Beijing, confirm the interest all over the world to the issues of the financial crisis which were: “State audit and conscientious management” and “Role of INTOSAI in supporting the long-term firmness of financial policy of the state”⁷.

As part of international standards development of accounting in the state sector (IPSAS), the Committee on State Sector of the International Federation of Accountants (IFAC) released a set of recommendations to the measures providing for the long-term viability of state finances.

With the transformation of national debt to the major ingredient of the international financial system, the problem of the control of state finances became more urgent. The audit of the financial reporting uses the external rating of such information turned into instruments which determine and forecast the future condition of a state finance and the ability of the state to be in charge of its liabilities. The problem of state debt has become very important because of the high pressure in the EU. There is a threat of failing attempt to put under control the federal deficit because of the sharp increase in financial charges from covering. It requires such government spending cuts which in number of cases may be characterized even as the violation of rights important for the state wealth⁸.

Performing the prioritized task of cutting off the state charges and thus maintaining the general wealth which reflects the condition of the

⁷ Biluha, M.T. (2016). *Finansovij kontrol: teorija, revizija, audyt*: Pidručnyk. Kyiv: Ukrainian Academy of Original Ideas, p. 328.

⁸ Bloem, Adrian M. (2017). *Manual for quarterly national accounts: concepts, data sources and complication*. International Monetary Fund. Washington. 2001. 549 p.

state finances and requires more transparency, an effective management of the state sector is possible only in the presence of the appropriate state financial control based on general standards and a system of economic criteria.

If the necessity of such adjusting and control were clear before, in the years of the economic growth the state finances and economy on the whole would not be in such a difficult situation. A close interdependence between the state finance and private banks causes a mess and interlace of interests, which are very hard to overcome. The role of the state bank, which is today executed by the Government treasury service of Ukraine, does not solve the problems of budget implementation, especially in the conditions of financial resources deficit.

This is the reason why in the conditions of crisis first there was a necessity to introduce international standards of record-keeping and corporate sector audit. In the state sector it was the application of national standards of accounting, compiled on the basis of international ones. As a result, control procedures based on the formed accounting of budget establishments, the use of money on the budgetary programs must be regulated also according to the standardized approach to provide for their transparency. Today, it is one of the main requirements to the state which applies the measures of a strict economy of costs and national debt and allows to give a more clear and reliable information about the state finance, which is necessary for recovering the global trust to the existing economic system and state administration.

The process of record-keeping and auditing standardization in the state and private sectors confirms the importance of these procedures and their close interrelation, as well as the necessity of searching for new directions and spheres of activity, which correspond to the evolution of the economic systems.

In this relation, the South African declaration dedicated to the international standards of the INTOSAI, accepted on the XX Congress of the INTOSAI in Johannesburg, became the background for the development of state financial control standards. According to the provisions of Lima and Mexican declarations, this new declaration of the INTOSAI acknowledges the right independently to determine the policy of standardization as part of national legislation and the plenary powers of each body. The declaration calls to use the INTOSAI as the general

concept of the state financial control and audit. Standards help to plan and conduct audits, and their usage provides for the professionalism and high quality of control results, sequence in presenting these results to society. At the same time, standards not only set the correct procedure of state financial control and audit, but also strengthen these functions in the system of democratic institutes of state administration⁹.

Standards help all government bodies to achieve common aims of transparency and reporting. Achievement of these aims requires independence, objectivity, high qualification and keeping ethic norms. The results of state financial control and audit must be based on the application of common procedures and methods, and also on sufficient evidences which enable a state inspector or a public accountant to express logical and competent opinions in the report.

Society has the right to get current information about the quality of state administration. The top government of financial control is responsible for giving this right which must provide for the high quality of the information.

It should be noted that in Ukraine certain steps are taken to introduce the international standards of control of the INTOSAI, internal standards of state auditing, and the conceptions of the COSO in relation to the construction of the internal control and risk management system in enterprises of state the sector. According to the law adopted by the Ukrainian Ministry of Finance, all enterprises report according to the international standards of financial accounting, and from the decisions of the Accountant Chamber of Ukraine there are used the last 9 years as international standards of audit. However, the question of the state financial control system standardization remains open. Especially it concerns the standards of external state financial control.

Up to now, the problem of national standards of financial control codification remains unsolved. They were already accepted and used in practice by the Chamber of Account in Ukraine and State Financial Inspection of Ukraine, which negatively affects the efficiency of management in the state. Moreover, the underestimation of systemic approach to the development of domestic standards of financial control maximally take into account the features of the domestic system of state

⁹ Gucalenko, L.V. (2017). *Derzhavnyj finansovyj kontrol: navch. posib.* Kyiv: Center of Educational Literature. 424 p.

finances, influences its effectiveness and results in unproductive financial and labor charges.

The fact that operating standards are not systematized negatively affects their usage, limits the application of these or other standards only by the scopes of certain types of control and supervisory subjects, and, moreover, results in an ambiguous interpretation of separate situations which arise during control activity.

To form an integral system of national standards' state financial control, from the point of avoiding duplication and parallelism, it would be justified to set up (on the public issues) a committee, group or advisory body which on the Ukrainian scale would engage in coordinating the development of standards' state financial control.

The process of unifying the state financial control standards and audit is directly related to the changes in the world economy, which take place as a result of its globalization, and is best observed in the sphere of international intercommunications in relation to state audit. Globalization means the identicalness and transparency of application in different countries of principles and record-keeping, which the financial reporting being formed in accordance with substantive provisions and procedures during the realization of control activity.

In the book-keeping and budget accounting, the control function is mostly used; this is why the indexes of accounting and financial reporting, made on their basis, are the informative source of financial control and in an aggregate form a high-quality informative base necessary for the taking of administrative decisions.

The financial reporting statements are usually done annually and are used to satisfy informative needs for a great number of users. Many users, as far as they are not provided with plenary power to get additional information which helps them to concretize the informative queries, depend only upon the financial reporting as on a basic information generator. If the financial reporting comes forward as the basic information generator, then there must be confidence in it, authenticity and plenitude for a user¹⁰. This is why financial reporting audit is needed if the financial reporting is made according to the set requirements in all substantial attitudes toward the preparation and forming of accounting indexes.

¹⁰ International Journal of Government. (2013). Auditing. July. Available at: <http://www.intosai.org/uploads/3200207e2.pdf>.

There is a growing demand for financial information on a wide circle of current indexes from the bodies which make these decisions. Every year the need for the corporate and public sectors in services, confirming the accuracy of this information, leads to the fact that they achieve the required transparency and integrity of financial statements. Moreover, the necessity of creating unified international standards is dictated by the state activity of international economic cooperation, which showed excellent results. The standards of record-keeping in the state sector and state audit are used to highly reduce the risks of users of budgetary accounting indexes and also remove these differences in national standards, which affect the openness of information. In other words, the purpose of record-keeping standards in the state sector of economy is important for making decisive information about the property and financial state of managers of budgetary facilities. Such information must be clear, comparable, substantial and reliable, characterized by plenitude and be based on economic approach. The purpose of the international standards of state financial control of the INTOSAI is providing standardization of control activity and increases the trust in its results. So, the international standards of control, determining the fundamental methods of financial control, help to increase its quality according to changing requirements of control activity, and also set the directive pointing orders on special questions of control and state audit¹¹.

At the same time, international standards come forward only as a basis for the development of our own national standards. None of the developed countries in the world uses them fully as national standards. The international standards of state financial control and state audit should be considered only as a starting point for the preparation of a clear system of national standards which correspond to the requirements.

There are no doubt that for accounting services it is necessary to make generally accepted norms for regulating the activity of independent auditors, their relations with the objects of audit on the closest to international standards level.

Regulation of the state financial control activity means the establishment of norms, provisions, rules and procedures executed properly in the form of standards, and their observance is obligatory for all public servants of the national bodies.

¹¹ Lima Declaration. (2015). Available at: http://www.issai.org/media/12901/issai_1_e.pdf.

Standards of state financial control are the basis for the auditing and expert-analytical activity of supervisory bodies, their quality and reliability. In many developed countries, the activity of state financial control government is also standardized, as is also the public accountant activity. Thus, the standards of state financial control are quite similar to the standards of audit carried out in the private sector, but the latter are more detailed.

In the US and European countries, the national standards of state financial control, the procedure of their realization are developed by higher supervisory bodies. For example, the USA Government Accountability Office has worked out standards for the audit of state organizations and government programs. However, according to requirements of the current American legislation, these standards must follow not only federal inspectors but also public accountants – people who carry out the corporate control. The importance of the standardization of state financial control is substantial, because the INTOSAI has accepted a number of standards of control activity, which were recommended for the application of control in different countries¹².

The INTOSAI standards primarily aim at the unification of state financial control bodies in different countries in order to increase the effectiveness of international cooperation in the fight against corruption, financial fraud, misappropriation of public funds.

The international standards have a recommendation character, and countries independently make a decision about their use. But as international standards are the generalized result of functioning in the most developed registration and control systems of the world (American and European), it is quite obvious that a blind printing-down can negatively affect the national practice.

The international standards of state financial control are worked out from public interests and on the condition of their correct application provide for responsibility at presenting financial reporting, its transparency, clearness, and comparableness. They conquered the deepest approval among professional organizations and specialists. The international standards of state financial control comprise the basis for its

¹² Mackay, K. How to Build M&E Systems to Support Better Government. Ed. by the World Bank's Independent Evaluation Group. Available at: http://www.worldbank.org/ieg/ecd/docs/How_to_build_ME_gov.pdf.

organization and methodology on which a national financial control system must be based.

The national system of financial control of any country is a complex of norms and rules which regulate the mutual relations of a supervisory body and a controlled object, the features of which are determined by the legislation and culture of a corresponding state. The standards of financial control open the essence of this system: they determine the methods of realization of control actions rising from the principles of legality, objectivity, and responsibility. Only the open system of control standards can clearly show how effective is the state financial control system¹³.

3. Prospects for the development of the state financial control system

The current research, based on the existing works of various scholars, is essentially a rather new study. Its aims are:

- to carry out a critical analysis of the current system of public financial control in Ukraine and to justify the place of internal control in it;
- to offer the ways of the public internal financial control system development in Ukraine.

Thus, each element of public financial control has its own drawbacks and is far from being perfect. The existing list of shortcomings should be supplemented by common drawbacks that can not be attributed to a specific element¹⁴:

1. PFC system exists as a combination of separated units and does not operate as a united system.
2. PFC system does not meet European requirements for a number of reasons, such as the prevalence of follow-up control over the previous and current.
3. PFC system is not based on thorough theoretical foundation. Most of the key concepts are even enshrined in law that hinders the development of PFC and create difficulties for further reforms.

The current direction of Ukraine's development is aimed at strengthening the state's role in public finance management and reducing the overuse in the public sector. The system of public financial control, obviously, has a very strong structure, but the leading role is held by the

¹³ Materiality in Planning and Performing an Audit. Available at: http://www.issai.org/media/13028/issai_1320_e_.pdf.

¹⁴ Концепція розвитку державного внутрішнього фінансового контролю: Розпорядження Кабінету Міністрів України від 24.05.2005 №158. zakon.rada.gov.ua.

State Financial Inspection of Ukraine, which controls the legitimacy, effectiveness and proper use of public resources, and accuracy of accounting records and the reliability of financial reporting spending units. Analysis of SFI activities as the main subject of PFC led to the conclusion that there is an annual increase in the number and extent of violations, the most common of which are¹⁵:

- the violation of the Budget Code requirements about the misuse of budget funds, paying liabilities of taking over approved appropriations;
- overexpenditure of budget funds because of excessive payments and overpaid of work etc.;
- budget spending for the purchase of property in over limit standards;
- illegal transfer of state and municipal property to non-state subjects;
- non-mandatory procurement procedures;
- undervaluation of assets as a result of not using indexations and as a result of not posting the purchased assets and surplus inventory.

The awareness of outlined drawbacks and existing dynamics had led to the beginning of a radical reform of PFC according to European experience. The basis for this reform was the Concept of PIFC – a concept model of public internal financial control.

PIFC Concept was developed by the European Commission in the late 1990s for the candidates for the EU membership. This concept is used by the countries trying to develop their own system of public internal financial control and build a proper system of national government and financial control and audit. PIFC is a model based on the responsibility of a department head and includes internal control, internal audit and the harmonization of these two components at the central level. France has proposed to add to this model one component – financial security. Great attention is paid to the model of PIFC procedures of previous and current control, which aims to determine the causes of violations, and follow-up by the supreme control authority (Accounting Chamber) and government bodies in the form of audit procedures to assess the quality of internal control. In Ukraine, it presumes the follow-up, which is a clear disadvantage because it is aimed to identify the already committed economic crimes, rather than to prevent them. According to the official

¹⁵ Бугасенко В.Г. Діяльність бюджетної установи як об'єкта державного фінансового аудиту. Актуальні проблеми економіки. 2019. № 7. С. 230–236.

statistics in Ukraine following control is dominating, accounting for more than 70% and it takes the form of revision (inspection). It is also fiscal in nature and is not a really PIFC, because it does not fit into the basic concept of manager responsibility. The following control is aimed primarily at detecting crime and bringing perpetrators to justice, and not to assess the results of public finance management. Therefore, inspection, conducted a few years after the administrative decision or event is unable to eliminate financial irregularities and their effects through state and society. This fact becomes the reason for losing a lot of resources. Realizing the need for a radical transformation of the national system of public control, the government of Ukraine has developed a Concept for the development of public internal financial control and approval of a plan for its implementation until 2017¹⁶.

The main objective of this Concept is to adapt the national legislation to European standards, and to improve the efficiency of public and municipal sector by moving away from administrative to management culture, in which the heads of these bodies carry out financial management to achieve the appropriate level of economy, efficiency and effectiveness by defined goals and objectives. One of the major steps towards European system of public financial control is the development and entry into force of the new Budget Code of Ukraine and especially the new wording of Article 26 according to which: compulsory introduction should take place for the basic components of the European model of PIFC – internal control and internal audit.

Thus, given the changes that are taking place in recent years, the system of financial control acquires new features and there is a sharp change in its overall construction. In such a system the key position belongs to internal control as its integral element. Internal control is an activity of a leader who controls the object aimed at risk assessment and monitoring, which is within the control environment through the implementation of specific control procedures and sharing information to ensure sustainable and legal operations of business.

Ensuring internal financial control system development should include the following measures¹⁷:

¹⁶ Бутинець Т.А. Внутрішній контроль: сутність та зміст. Вісник ЖДТУ. Серія: Економічні науки. 2018. № 2. С. 31–42.

¹⁷ Винниченко Н.В., Шевченко Н.В. Сучасний стан розвитку державного внутрішнього фінансового контролю в Україні. Проблеми підвищення ефективності інфраструктури: Збірник наукових праць. Вип. 28. К.: НАУ, 2016. С. 26–29.

1. Development of a model of internal control for individual departments in management structure, institution or organization (hereinafter – the object of control). This provision reflects the hierarchical structure of the object of control.

2. Development of organizational chart of internal control, which should include the implementation of control functions at all levels – from administration to individual employees. Each higher level of control system has new features not found in any of its components.

3. Development of specific forms of control, taking into consideration the particular structure of an object. According to the arrangement form, we should distinguish centralized and decentralized forms of internal control. In the centralized form of internal control internal controllers are in the accounting department and are subordinated to their chief administratively and methodologically. The best option is monitoring the decentralized forms. The head of the internal control department administratively should be subordinated directly to the head of the enterprise, because he/she is responsible according to the Concept of public internal financial control.

4. Development of direct control procedures aimed at specific tasks faced by internal control.

5. Development and support of specific stages of the implementation of internal control in budget-funded agency.

CONCLUSIONS

The process of building reliable systems of internal and external control, based on international standards and complying with the fundamental principles of accountability, transparency, economy, efficiency and effectiveness, requires further implementation of inspection function by the State financial inspection of Ukraine, but in a modified form. The latter implies the use of an approach based on risk assessment for selection of controlled objects and directly during the inspection in order to determine the most risky areas of activity of controlled object and conducting a more detailed inspection of these areas. Only after ensuring the effectiveness of the public internal financial control system, transferring a part of functions to the Accounting Chamber of Ukraine and also transferring the Central Harmonization Unit to the Ministry of Finance

of Ukraine, it will be possible to consider the establishment of the Agency of financial investigations.

Thus, requirements to the realization of audits of budget establishment must be identical, clear for users and public. Also, these requirements must be executed as the corresponding standards, grouped after characteristics by the system signs in the common codification field.

In our opinion, it would be clever and justified to set up a committee (advice) which on the public issues would engage in the development of financial control standards on a national scale. To work in this commission it is possible to attract research workers, members of public advisory at supervisory bodies, members of professional public organizations.

A commission or council of standardization of financial control must enable to: create full-time or temporary groups for developing standards; to attract to this work educational institutions; to coordinate the work on standardization of the state financial control, internal control, and audit; to observe if all standards are clear and understandable, and accessible for the controlling bodies; to observe if they are concerted and have a clear hierarchical structure.

As this process of standardization of the financial control is permanent, standards must be regularly analyzed for their accordance with the terms which were changed, to the requirements, tasks and, if necessary, revised in the operative order. Moreover, for the developers of standards there must be a close and adjusted intercommunication with the direct contractors of audit and analytical measures to have the possibility to react quickly enough to a situation which requires standardization.

Introduction of internal control in the public sector is a permanent process, taking into account the necessity for the realization of the concept of development of public internal financial control. But such process is multilevel and requires consciousness from all participants. Thus, as a subject of the following research in this field it is necessary to specify the expedience of constructing a universal model of internal control organization in public institutions.

SUMMARY

As a result of consideration of conceptual principles of public internal financial control, we have defined two basic approaches to public internal financial control with the leading role of centralised control and monitoring of prevalence based on the responsibility of the managing

director. It has been determined that in Ukraine the course of bringing the existing system of public financial control into compliance with the second approach to public internal financial control is approved. The analysis of the application of public internal financial control revealed the slow pace of implementation, which is caused by a lack of understanding of the components of the declared approach to public internal financial control and the mismatch of the regulatory framework that prevents gradual introduction of new models and prevalence of post-control in control procedures. The guidelines for the application of public internal financial control in the modern system of public financial control in Ukraine have been proposed as a relevant scheme which involves the successive phases of application of public internal financial control at three independent levels. The scheme corresponds to the leading modern developments of international organisations with expertise in matters of internal control. It is necessary to remember that the European Commission emphasises that coordination and harmonisation of the PIFC organisation processes offer multiple paths. More than half of the countries have established special units for this purpose. The material used in the study has only the analysis of information resources.

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