

Iryna I. Chumakova (*Academy of Financial Management, Kyiv, Ukraine*)

INNOVATIONS IN INTERNAL CONTROL AND MANAGERIAL ACCOUNTABILITY PERSPECTIVES IN THE PUBLIC SECTOR OF UKRAINE

Economic reforms in Ukraine require the development of an innovative public finance management model, which seems impossible without the systemic upgrade of public internal financial control system. This paper analyzes the reorganization of public internal financial control mechanisms and challenges while implementing managerial accountability in the public sector of Ukraine's economy in compliance with European standards.

Keywords: public internal financial control; financial management and control; managerial accountability; internal control system; internal audit.

Ірина Ю. Чумакова (*Академія фінансового управління, м. Київ, Україна*)

ІННОВАЦІЇ У ВНУТРІШНІЙ КОНТРОЛЬ ТА УПРАВЛІНСЬКІ ПЕРСПЕКТИВИ ПІДЗВІТНОСТІ В ДЕРЖАВНОМУ СЕКТОРІ УКРАЇНИ

У статті обґрунтовано, що проведення економічних реформ в Україні має передбачати побудову інноваційної моделі управління державними фінансами, що виявляється неможливим без системної модернізації державного внутрішнього фінансового контролю. З цією метою проаналізовано інновації у перебудові системи державного внутрішнього фінансового контролю та проблеми запровадження управлінської підзвітності у державному секторі економіки України відповідно до вимог європейських стандартів.

Ключові слова: державний внутрішній фінансовий контроль; фінансове управління і контроль; управлінська підзвітність; система внутрішнього контролю; внутрішній аудит.

Літ. 15.

Ірина Ю. Чумакова (*Академія фінансового управління, г. Киев, Украина*)

ИННОВАЦИИ ВО ВНУТРЕННИЙ КОНТРОЛЬ И УПРАВЛЕНЧЕСКИЕ ПЕРСПЕКТИВЫ ПОДОТЧЕТНОСТИ В ГОСУДАРСТВЕННОМ СЕКТОРЕ УКРАИНЫ

В статье обосновано, что проведение экономических реформ в Украине должно предполагать построение инновационной модели управления государственными финансами, что представляется невозможным без системной модернизации государственного внутреннего финансового контроля. С этой целью проанализированы инновации в перестройке системы государственного внутреннего финансового контроля и проблемы внедрения управленческой подотчетности в государственном секторе экономики Украины в соответствии с требованиями европейских стандартов.

Ключевые слова: государственный внутренний финансовый контроль; финансовое управление и контроль; управленческая подотчетность; система внутреннего контроля; внутренний аудит.

Problem statement. Formation of democratization processes in Ukraine under conditions of Ukrainian economy harmonization with global economic practice, and therefore development of the national legislation require creating a transparent sys-

tem of the country's financial resources. Solving these problems does not seem possible without reforming the financial control system in the public sector of Ukraine's economy and strengthening managerial accountability and responsibility for the use of public resources. The assumed modernisation policy of Ukrainian economy laid the basis for changes in public administration, due to which internal control and internal audit became the most important instruments of public sector social and economic policies.

However, despite those changes and reforms, the current state of public finance management cannot be satisfactory for the Ukrainian society. As a result of increase in number of violations, the country's economy continues to incur substantial losses and the joint efforts of government management and control authorities do not provide the appropriate level of legal, support, efficiency and effectiveness of public finance management. The main reason for this state of affairs could be the lack of effective internal control mechanisms as a management tool at the level of public sector agencies. This affects the development of managerial accountability in the executive branch and bringing internal audit in compliance with the EU standards.

Latest research and publications analysis. In recent years, Ukrainian academicians and practitioners have been increasingly addressing the issues of PIFC advancement and generalization of the related problems. Among the subject matter publications we would like to mention the works of M.V. Barynina (2008), I.B. Stefanyuk (2011), E.A. Chechulina (2011) etc. The authors specifically analyzed the changes in control ideology in the public sector of Ukraine's economy and their impact on the development of managerial accountability in compliance with the standards adopted in the EU.

Research objectives. Objective of this article is the research on internal control innovations and their impact on the development of public sector managerial accountability in line with the EU standards.

Key research findings. Dynamic changes in the global economy and socio-economic relationships trigger higher risks of making misleading and inefficient management decisions at all levels of governance. In such circumstances, the role of internal control and audit as means to secure some public confidence in the fact that the accountability elements (transparency, responsibility, subject to control) are adequately implemented in the course of the Government's actions. It can be stated that currently in Ukraine the public attention is getting increasingly attracted to such funds not so much because of the possible non-compliance of executive authorities with the legislation standards in use of public funds, but to reveal whether the authorities achieve priority objectives, perform functions and assigned tasks in public finance management.

The objective need for Ukraine in reforming public finance management and introducing accountability of managers in the area of finance management and control has been officially adopted in a number of strategic government documents (Concept of Development..., 2005; Strategy of modernize..., 2007). The approved documents were aimed at harmonizing the regulatory and legal support to public internal financial control (hereinafter – PIFC), in compliance with standards and rules adopted in the EU member states. The key areas of reforming the national system of internal financial control were formulated as implementation in the public

sector of core components of a European PIFC model, namely the system of internal control in each activity segment, formation of internal audit services and harmonization of internal control and internal audit at the central level.

In 2010, the policy of further socioeconomic reforms in public finance management was confirmed by the Program of Economic Reforms of the President of Ukraine (Program of economic reforms..., 2010). Adoption of this document set out the selected steps of the authorities aimed, in particular, at bringing internal audit in line with the EU standards.

Afterwards, the adoption in 2010 of a new Budget Code revision became an 'anchoring point' for innovation in control over budget funds usage as well as in public finance management. The Budget Code Article 26 clearly stipulates the mandatory implementation of internal control and internal audit in public sector agencies and also responsibility for their implementation and the efficient functioning of PIFC for all level managers – from the main budgetary spending units (minister, chairperson etc.) to lower-level spending units and managers of individual departments in budget-funded agencies (Budget Code..., 2010).

The basic framework for implementation of the internal audit patterned after the European model were fixed in the Cabinet of Ministers of Ukraine Resolution (hereinafter – Resolution 1001) under which since January 1, 2012 the central executive authorities (hereinafter – CEA) had to establish internal audit units within their agencies and conduct such audit (Some aspects of formation, 2011).

Secondary legislation adopted over 2011–2012 (Internal Audit Standards..., 2011; Code of Ethics..., 2011; Methodological Guidelines..., 2012) has regulated the procedure for internal audit organization and conduct, principles and rules of internal auditor conduct, and also determined its role in building the system of public sector internal control.

Although Ukraine is sufficiently advanced in terms of regulatory support to internal audit function in the agencies of state power, the proper development of other components of European PIFC model has not been successful.

Thus, for example, the quality of internal financial control executed in public sector agencies requires improvement. Currently Ukraine has two central authorities carrying out external financial control on behalf of the Government: State Treasury Service of Ukraine (hereinafter – STSU) and State Financial Inspection of Ukraine (hereinafter – SFIU).

STSU executes preliminary and current control over cash payments that does not guarantee duly financial discipline in public finance management. Control carried out by SFIU is ex-post while this institution performs as an observer over compliance with budget legislation rules and initiator of administrative sanctions or criminal cases for violations of those rules.

Although the PIFC system in Ukraine has certain functionality, its performance shows traces of a number of problems, in particular the ones of control agencies as repression apparatus. A lot of work by the PIFC system is performed through manual steering and conclusions by control agencies, which are ambiguous due to imperfect legislation.

Insufficient progress has been achieved in the development of managerial accountability. Selected provisions on managers' accountability for PIFC system

implementation and operation have been reflected in a number of Budget Code articles and Ministry of Finance orders. However, those articles read only about internal financial control and internal audit and not about managerial accountability.

In addition, the results of centralized external audit conducted by STSU and SFIU show the growing dynamics of violations and low level of financial discipline in managing budget resources. Certain violations were revealed at 96 out of 100 audited entities. For comparison, during the similar period of the last year, violations of financial and economic discipline were detected at 90 entities out of 100 audited. Therefore, today we can state that only 4% of public sector managers and chief accountants have been operating within legal boundaries ensuring the reliability of accounting records and financial statements (Reports on the results..., 2013; Previous and current control..., 2013).

That indicates the unsatisfactory quality of internal control and irresponsible attitude of budgetary spending units to fulfilling their mandate. Growing amount of violations in budget funds management does allow confidence that spending units, who under the new Budget Code had received more flexibility and fiscal responsibility, used efficiently the budgets provided to them for management and achieved definite results in the performance of their duties.

Focus needs to be moved to internal control as a management tool, strengthening therefore managerial accountability on the basis of balanced powers and responsibilities for their effective decentralization in executive authorities.

By definition of the European Commission (Welcome to the World..., 2006: 6), managerial accountability includes financial management and internal control system (hereinafter – ICS). Financial control is just one of the elements of financial management. Financial management and control, in turn, depend on the responsibility and accountability of managers. The responsibility and accountability of managers constitute the basis for the development of financial management, internal control and internal audit. Managerial accountability imposes a clear responsibility for the performance of relevant functions on the management (not accountant, internal auditor, STSU or SFIU), i.e. for achieving objectives of the organization (taking into account possible risks and their mitigation).

Such responsibility, in turn, will create the conditions enabling full development of internal audit. As such, internal audit cannot ensure the implementation of all these functions. Its role is to inform managers whether the financial management and control provide sufficient confidence in performance of relevant powers (in terms of efficient and effective achievement of objectives, application of and compliance with internal control standards, ensuring full compliance of all transactions with the requirements of relevant laws and regulations etc.) And if such confidence is insufficient, the internal auditor makes recommendations for the improvement of financial management and control.

In line with the approach adopted in the EU countries, internal control has been integrated into public funds management and therefore makes a part of the delegation of manager's authority and responsibility. A manager is responsible for own (financial) decisions and management results and therefore is in charge for the ICS development and improvement. In order to provide him or her with this responsibility, the manager needs the support of an internal auditor (De Koning, Robert, 2007: 35, 38).

To exercise control at the level of spending units in Ukraine, the newly formed internal audit units evaluate and ensure the efficiency of ICS at a public sector agency. At the same time, there are practical cases when newly formed internal audit units identify themselves with departmental control and audit units or, even more, merge functions of internal audit with the control and audit functions.

The concept of 'internal control' in the European sense is virtually non-existent in the public sector of Ukraine. Control is exclusively perceived as 'revealing' fiscal measures, i.e. apart from management, not as part of manager's duties and responsibilities for the efficient management of public resources in activities carried out by his or her agency.

Internal control however is not a one-time event but an ongoing management process that covers transactions of each structural unit and the agency as a whole. Internal control should provide for the identification and analysis of public sector agency risks to prevent or forestall them in future. In fact, internal control and internal audit being based on the responsibility and accountability of a manager form a PIFC system patterned after European standard and adopted in Ukraine as basis for reform.

PIFC reform should be carried out simultaneously with the development and advancement of accounting in general government sector and reforms in implementing program-based budgeting and medium-term planning. The detailed layout of these reforms makes influence on the managers' responsibility for operation of ICS and introduction of internal audit function in their agencies. Moreover, sealing management responsibility at each stage of the budget process will facilitate identifying risks that arise due to the implementation of government management functions, creating conditions to respond to these risks and achieving, in this regard, the assigned goals, objectives and specific performance results of an agency to ensure effective, efficient and targeted use of budget funds.

Conclusions. Described innovations that have been introduced into the national system of PIFC following adoption of the new Budget Code did not bring the expected results in the direction of improving the quality of internal financial control exercised in public sector agencies and managerial accountability in line with the EU standards. In this regard, given the best European experience (De Koning and Robert, 2007: 73) a significant role in the implementation of these innovations can play the Ministry of Finance as a CEA regulator and the main authority in forming and ensuring the implementation of the government policy in the area of government financial control. The Ministry of Finance could take a lead in the development of financial management and control, strengthening responsibility of a manager for undertaken managerial decisions, methodologies and reporting procedures for spending units, as well as for coordination of public administration reforms in the budget and treasury areas. The active stand of the Ministry of Finance will influence the future success in the introduction of the European PIFC model and efficiency of its operation in Ukraine.

References:

Бюджетний Кодекс України від 08.07.2010 №2456-VI // zakon.rada.gov.ua.

Деякі питання утворення структурних підрозділів внутрішнього аудиту та проведення такого аудиту в міністерствах, інших центральних органах виконавчої влади, їх територіальних органах та

бюджетних установах, які належать до сфери управління міністерств, інших центральних органів виконавчої влади: Постанова Кабінету Міністрів України від 28.09.2011 №1001 // zakon.rada.gov.ua.

Заможне суспільство, конкурентоспроможна економіка, ефективна держава: Програма Президента України економічних реформ на 2010–2014 роки від 02.06.2010 // www.president.gov.ua.

Про затвердження Кодексу етики працівника підрозділу внутрішнього аудиту: Наказ Міністерства фінансів України від 29.09.2011 №1217 // zakon.rada.gov.ua.

Про затвердження Методичних рекомендацій з організації внутрішнього контролю розпорядниками бюджетних коштів у своїх закладах та у підвідомчих бюджетних установах: Наказ Міністерства фінансів України від 29.09.2012 №995 // www.dkrs.gov.ua.

Про затвердження Стандартів внутрішнього аудиту: Наказ Міністерства фінансів України від 04.10.2011 №1247 // zakon.rada.gov.ua.

Про схвалення Концепції розвитку державного внутрішнього фінансового контролю на період до 2017 року: Розпорядження Кабінету Міністрів України від 24.05.2005 №158-р (із змінами, внесеними згідно з Розпорядженнями Кабінету Міністрів України №1347-р від 22.10.2008, №1601-р від 23.12.2009, №968-р від 07.09.2011) // zakon.rada.gov.ua.

Про схвалення Стратегії модернізації системи управління державними фінансами: Розпорядження Кабінету Міністрів України від 17.10.2007 №888-р (із змінами, внесеними згідно з Постановою Кабінету Міністрів України №968 від 07.09.2011) // zakon.rada.gov.ua.

Бариніна М. Уроки шведської, або Тривалий шлях від «елементів аудиту» до повноцінного аудиту державних фінансів за міжнародними стандартами // Фінансовий контроль. – 2008. – №4. – С. 19–23.

Де Конинг Р.П.Дж. Государственный внутренний финансовый контроль / Пер. с англ. Р. Рудницкой. – Словения, 2007. – 336 с.

Звіти про результати діяльності Держфінінспекції та її територіальних органів // www.dkrs.gov.ua.

Здійснення попереднього та поточного контролю працівниками Державної казначейської служби України // treasury.gov.ua.

Стефанюк І.Б. Методологічні засади функціонування системи державного внутрішнього фінансового контролю в Україні // Фінанси України. – 2011. – №6. – С. 84–102.

Чечуліна О.О. Методичні засади формування ефективної системи державного фінансового контролю // Наукові праці НДФІ. – 2011. – №4. – С. 122–130.

European Commission (2006) Welcome to the World of PIFC. European Commission. Introducing PIFC into Candidate, Western Balkan and European Neighbourhood Policy countries PIFC // ec.europa.eu.

Стаття надійшла до редакції 18.11.2013.