

UDC 334.012.74+336.14

Kosova T.

*Doctor of Economics, Professor,
Professor of Accounting and Audit Department
of National Aviation University, Kyiv, Ukraine;
e-mail: kosovatd@meta.ua; ORCID ID: 0000-0002-1859-0542*

Voronkova O.

*Doctor of Economics, Professor,
Professor of Financial Markets Department
of University of the State Fiscal Service of Ukraine, Irpin, Ukraine;
e-mail: Voronkova303@gmail.com; ORCID ID: 0000-0002-7956-7768*

Kliuchka O.

*Ph. D. in Economics, Associate Professor,
Associate Professor of Financial Markets Department
of University of the State Fiscal Service of Ukraine, Irpin, Ukraine;
e-mail: Olya_lelik@ukr.net; ORCID ID: 0000-0003-3903-7487*

Kostynets Iu.

*Ph. D. in Economics, Associate Professor,
Acting Head of Department of Marketing and Communication Design
of the Kyiv National University of Technology and Design, Ukraine;
e-mail: yulia.kostynets@gmail.com; ORCID ID: 0000-0001-6427-675X*

FINANCIAL CONTROL IN THE SYSTEM OF BUDGETARY SECURITY OF THE STATE AND REGIONS UNDER DECENTRALIZATION CONDITIONS IN UKRAINE

Abstract. The relevance of the topic of the study is determined by the processes of reforming financial control system under conditions of the budgetary decentralization and euro integration processes in Ukraine. The theoretical and methodological principles of researching budgetary security and decentralization were determined. Based on the data within a twenty-five-year period the dynamics of profits, costs and surplus of the Consolidated budget of Ukraine were analyzed. The influence of the economic development cyclicity on budgetary security in the part of occurrence of budgetary deficit was identified. The quantitative assessment of budget decentralization in Ukraine was made based on the share of revenue of local budget in the revenues of Consolidated budget as well as transfers in the revenue and expenditure of the State budget of Ukraine.

The scientific outcome of the study is the refinement of the definition of budget security for the state and the regions and substantiation of the conceptual model of financial control under decentralization conditions.

Unlike the existing definitions the proposed definition is grounded on the change of the ideology of the budget process participants under conditions of its democratization and decentralization as well as the risk-oriented and strategic approach.

The proposed conceptual model of financial control under decentralization conditions is grounded on the unified network of the state and municipal control authorities, delegation of control functions according to the budget powers, transition from the inspection of inter-budgetary transfers to the audit of budget security under conditions of accepted socio-economic living standards of the local population, unification and standardization of the approaches to conducting audits of legality and effectiveness of the formation and using the local budgets.

Keywords: financial, control, budgetary, system, security, state, regions, decentralization.

JEL Classifications E44, E60, E62, E69, H60, H61, H72, G28, R50, R58

Formulas: 0; fig.: 3; tabl.: 0; bibl.: 22.

Косова Т. Д.

доктор економічних наук, професор, професор кафедри обліку та аудиту
Національного авіаційного університету, Київ, Україна;
e-mail: kosovatd@meta.ua; ORCID ID: 0000-0002-1859-0542

Воронкова О. М.

доктор економічних наук, професор, професор кафедри фінансових ринків
Університету Державної фіскальної служби України, Ірпінь, Україна;
e-mail: Voronkova303@gmail.com; ORCID ID: 0000-0002-7956-7768

Ключка О. В.

кандидат економічних наук, доцент, доцент кафедри фінансових ринків
Університету Державної фіскальної служби України, Ірпінь, Україна;
e-mail: Olya_lelik@ukr.net; ORCID ID: 0000-0003-3903-7487

Костинець Ю. В.

кандидат економічних наук, доцент,
в. о. завідувача кафедри маркетингу та комунікаційного дизайну
Київського національного університету технологій та дизайну, Україна;
e-mail: yulia.kostinets@gmail.com; ORCID ID: 0000-0001-6427-675X

ФІНАНСОВИЙ КОНТРОЛЬ У СИСТЕМІ БЮДЖЕТНОЇ БЕЗПЕКИ ДЕРЖАВИ І РЕГІОНІВ В УМОВАХ ДЕЦЕНТРАЛІЗАЦІЇ В УКРАЇНІ

Анотація. Актуальність теми статті визначається процесами реформування системи фінансового контролю в умовах децентралізації бюджетної системи України та євроінтеграційних процесів. Визначено теоретичні та методологічні засади дослідження бюджетної безпеки і децентралізації. На основі даних 25-річного періоду було проаналізовано динаміку доходів, витрат і профіциту Зведеного бюджету України. Виявлено вплив циклічності економічного розвитку на бюджетну безпеку в частині виникнення бюджетного дефіциту. Кількісну оцінку бюджетної децентралізації України проведено на основі частки доходів місцевого бюджету в доходах Зведеного бюджету, а також трансфертів у доходах і видатках Державного бюджету України.

Науковим результатом є вдосконалення визначення бюджетної безпеки держави і регіонів та обґрунтування концептуальної моделі фінансового контролю в умовах децентралізації. На відміну від наявних дефініцій, запропонована базується на зміні ідеології учасників бюджетного процесу в умовах його демократизації та децентралізації, а також на орієнтованому на ризик і стратегічному підході.

Запропонована концептуальна модель фінансового контролю в умовах децентралізації базується на єдиній мережі органів державного і муніципального контролю, делегуванні контрольних функцій відповідно до обсягу бюджетних повноважень, переході від перевірки міжбюджетних трансфертів до аудиту бюджетної безпеки в умовах прийнятого соціально-економічного рівня життя населення територій, уніфікації та стандартизації підходів до проведення аудитів законності та ефективності формування і використання коштів місцевих бюджетів.

Ключові слова: фінансовий, контроль, бюджет, система, безпека, держава, регіони, децентралізація.

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Introduction. Financial control is a complex multi-level dynamic system, the functioning conditions of which are determined by the condition of national financial system, the chosen vector of its development and the specific features of the interaction of its particular spheres and sections. The main factors that cause the necessity of changes in the financial control system in Ukraine are the performance of closely related social and economic transformations: the reform of administrative and territorial arrangement, the reform of local self-government, budgetary decentralization, budgetary and tax reforms, etc. [1]. However, the dynamism of changes in the

financial control system, unfortunately, does not meet the demands of today, which is manifested in its drawbacks: imperfect institutional provision, lack of integrity, the unified information space, indistinct separation of responsibilities between control entities, etc. The specified drawbacks negatively influence the efficiency of the industrial mechanism, the level of financial security of the state and its administrative and territorial formations. The financial and industrial economy, which is characterized by a constantly excessive amount of financial resources, determines the constant turbulence of its financial flows and the formation of the danger of their movement [2]. Constitutional rules that require balanced budgets are robustly associated with fiscal discipline [3]. The requirements for the organization of financial control as a security category increase under conditions of financial liberalization, which is the way followed by developed countries including European ones. By lifting restrictions on incoming and outgoing international capital movements, financial liberalization improves the sharing of risk, the effectiveness of an international allocation of capital and the promotion of financial development [4]. However, the necessary condition of obtaining advantages from financial integration and liberalization by countries is economic security in the currency, taxation, budgetary and investment areas, etc. The financial security of Ukraine demonstrates threatening status: there are excessively large share of cash outside banks in the total amount of money supply, imbalance of incomes and expenditures of the state and local budgets and inefficient use of public funds (Reznik O., Getmanets O., Kovalchuk A., Nastyuk V., Andriichenko N., 2020) [5].

Literature Review. The synthesis of the issues of financial control, taxation and budgetary security, decentralization and liberalization cause the complexity of the problem and ambiguity the scientists' opinions as for the ways of solving it. The financial security variables are associated with life satisfaction in the expected direction, conditional on observed characteristics and worker fixed effects [6]. It is well established in the literature that financial development (FD) is conducive to growth, and yet the channels through which FD affects growth are not well understood [7]. Budgetary decentralization of local self-governing bodies must be the main catalyst of the economic growth of a country because it implies the encouragement of the local power to fiscal autonomy [8].

The conceptions of financial security cover monetary, economic, social, political, and national defense aspects, which in turn can be divided into two groups — political or practical — depending on the viewpoint they reflect [9]. The financial security level includes: formation of bodies of coordination and management; the introduction of a single procedure for reporting on the state of their operations; introduction of centralized and independent control of the state and dynamics of operations in an automated mode, with periodic communication of its results to each of the participants in financial relations; formation of tactics of actions in case of unfair behavior of participants [10]. The issues of budgetary security are closely related with financial ambiguity, which is why financial risks become the object of financial control. In the contest of the above mentioned, the aim of the article is to refine the definition of budgetary security of the state and the regions and to substantiate the conceptual model of financial control under decentralization conditions.

The aim of the article is a development of recommendations for improvement of financial control in the system of budgetary security of the state and regions under decentralization conditions in Ukraine.

Methodology and research methods. The theory of public finances starts with the tax and budget concepts. Budgetary security is an inseparable part of economic security. Under condition of increasing effectiveness of market economy functioning, decentralization of the budgetary system of Ukraine must become a guarantee of quality, strategic direction and pragmatism of the state management [11]. Timely solution of the problems and meeting the needs of the society by budgetary institutions, on the one hand, will improve financial efficiency of the economic system of a country, strengthen the budgetary security, and on the other hand, will widen the range of problems to be solved using the mechanism of financial control.

Ukrainian legislation determines budgetary security as the state of ensuring paying capacity and financial stability of state finance, which enables the state government bodies to perform their

functions more effectively [12]. The prerequisites of budgetary security of the regions include: balanced local budgets in terms of revenues and expenses; risks and threats assessment; sufficient financial provision for local government bodies to perform their functions and responsibilities [13]. The necessity of achieving the high effectiveness of using budgetary funds to optimize the expenditures of local budgets is emphasized [14]. Budgetary security is based on a close dialectic relation of budgetary security of the state and budgetary security of territorial communities.

Results. Dynamics of revenue of Consolidated budget is described by an exponential function with a high value of multiple determination coefficient ($R^2 = 0,986$) and demonstrates a steady growth trend (Fig. 1).

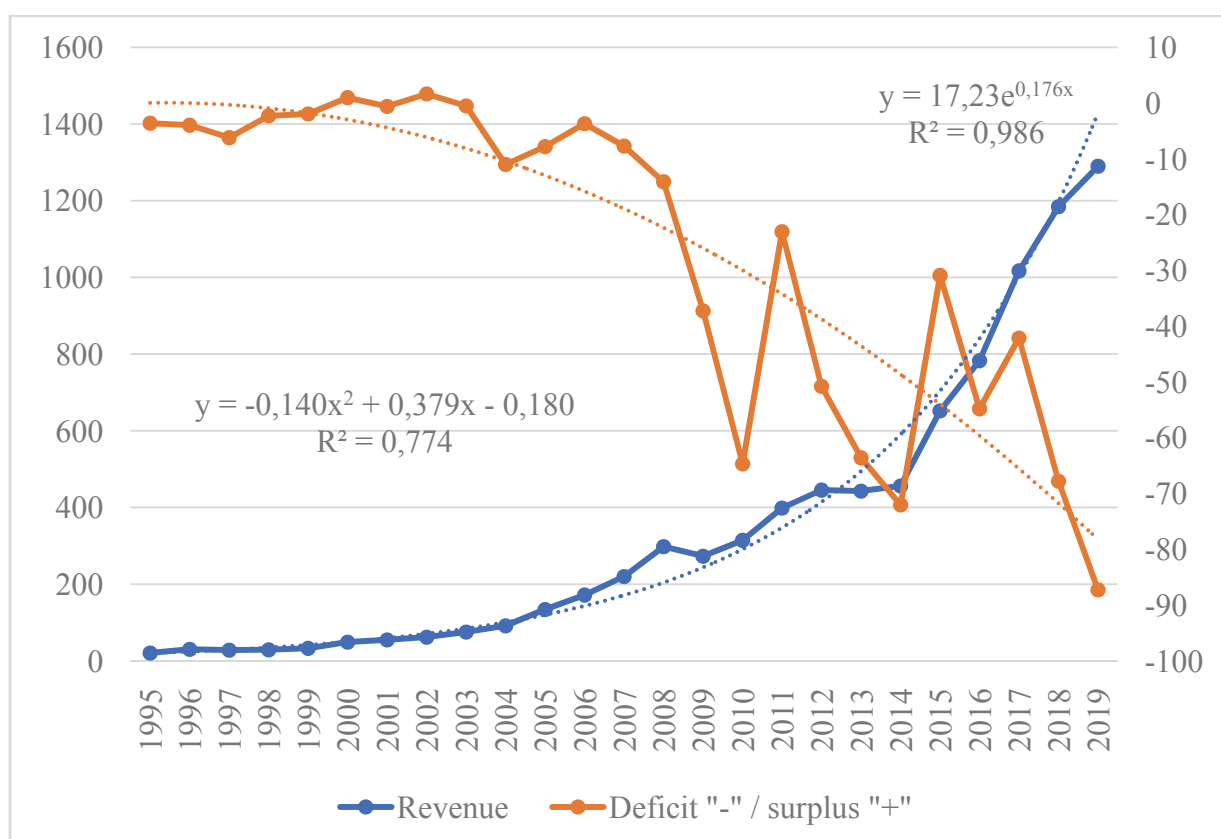


Fig. 1. Consolidated budget of Ukraine, billion UAH

Source: own calculations [15].

Beginning from 2003, Consolidated budget of Ukraine is chronically deficient. Rapid deterioration was observed within 2009—2010 (from (-37,3) billion UAH to (-64,7) billion UAH), 2013—2014 (from (-63,6) billion UAH to (-72,0) billion UAH), 2018—2019 (from (-67,8) billion UAH to (-87,3) billion UAH). 2019 saw the record amount of deficit of Consolidated budget.

The budget deficit has become increasingly countercyclical in most OECD countries. An increase in financial development, a decrease in openness to trade, and the adoption of an inflation-targeting regime move countries toward a more countercyclical budget deficit; a more countercyclical budget deficit has a positive and significant effect on economic growth, and this effect is larger when financial development is lower [16].

In Ukraine, it is also possible to speak about a certain cyclicity: at the first (ten-year) stage (1995—2002), the budget deficit gradually decreased from (-3,6) billion UAH to its profit of 1.6 billion UAH and deficit sharply increased up to (-11,0) billion UAH; at the second (six-year) stage to 2006, it reduced to (-3,7) billion UAH, while within 2007—2010, the deficit increased steadily up to (-64,7) billion UAH; at the third (four-year) stage after the decrease of deficit to (-23,1) billion UAH in 2011, it increased to (-72,0) billion UAH in 2014; at the fourth (five-year) stage after deficit decreased to (-30,9) billion UAH, it increased up (-87,3) billion UAH in 2019. Thus, the first

(ten-year) wave can be defined as long, the three following waves that on average lasted for five years, are short. Within the long wave, the lengthy decrease in deficit was followed by a sharp growth, within the short waves; there was a one- or two-year decrease with a subsequent sharp descending dynamics, in this case, with an increase in a deficit level from one wave to another. Under the specified conditions, the role of the countercyclical regulation as a budgetary security factor with the help of a change in the composition of the taxation system, taxation base and tax rates is growing. With flexible taxes, government can change the timing of taxes as needed to balance its budget every period and look to the private sector to do whatever external borrowing is needed to finance the first-best allocation of consumption [17].

The share of transfers in revenue of State budget is insufficient and increased within 1995—2019 from 1.6% to 43.46%. It is considerably larger in expenditure of State budget and increased within 1995—2014 from 7.5% to 30.36%. By the end of 2019, the indicator decreased up to 24.21%. Dynamics of the share of transfers in the revenue to the State budget is described by descending exponential function, in the expenditures — by a parabola with downward branches and multiple determination factor, close to unity ($R^2 = 0.9458$), and maximum value of 32.47% in 2017 (Fig. 2).

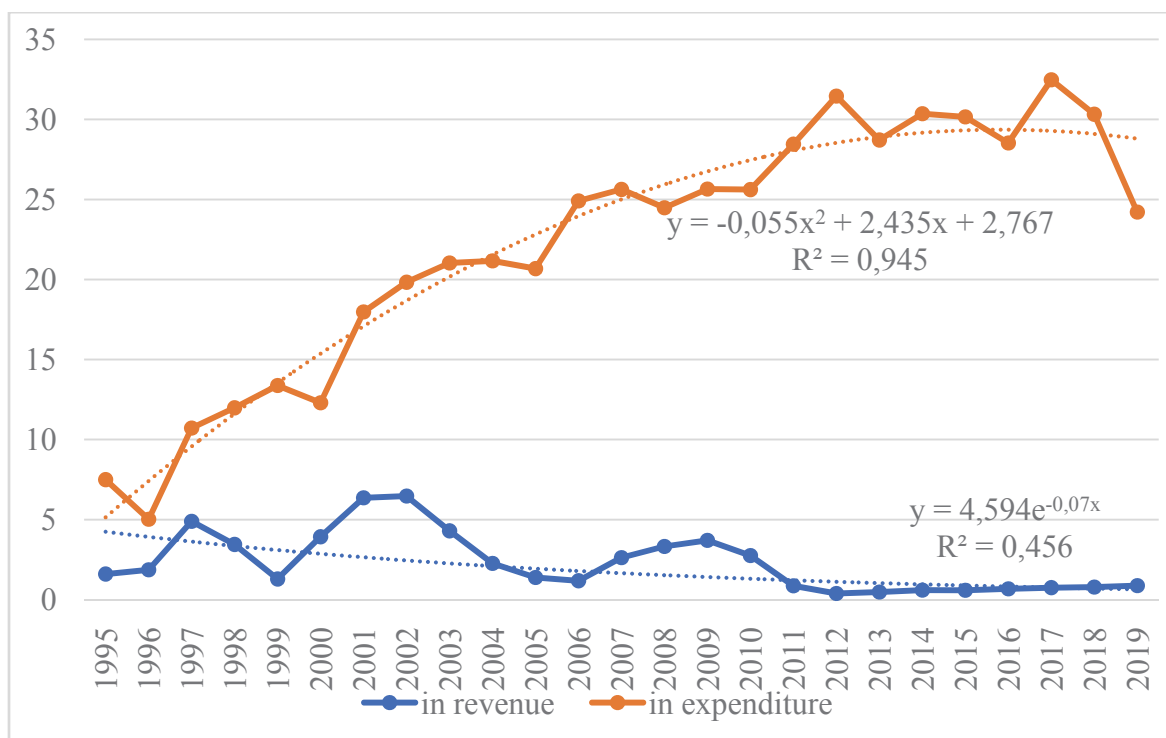


Fig. 2. Share of transfers, percent to State budget, %

Source: own calculations [15].

The process of decentralization in Ukraine started in 2014 with the adoption of the Concept of Local Government Reform and Territorial Organization of Government and a number of normative legal acts, namely the Law on Cooperation of Territorial Communities, the Law on Voluntary Association of Territorial Communities, etc., as well as with amendments to the Budget and Tax Codes on financial decentralization [18]. On the boundary intervals of the studied period of 1995—2019, the share of local budgets in the Consolidated budget of Ukraine changed insignificantly and made up, respectively, 47.8% and 43.46%. The maximal and minimal shares made up, respectively, 53.3% (1998) and 38.1% (2000).

Dynamics of the share of revenue of local budgets in the revenue of the Consolidated budget of Ukraine is not subject to distinct formalization (Fig. 3) and fluctuates within the interval of 40—51%%, beginning with 2001.

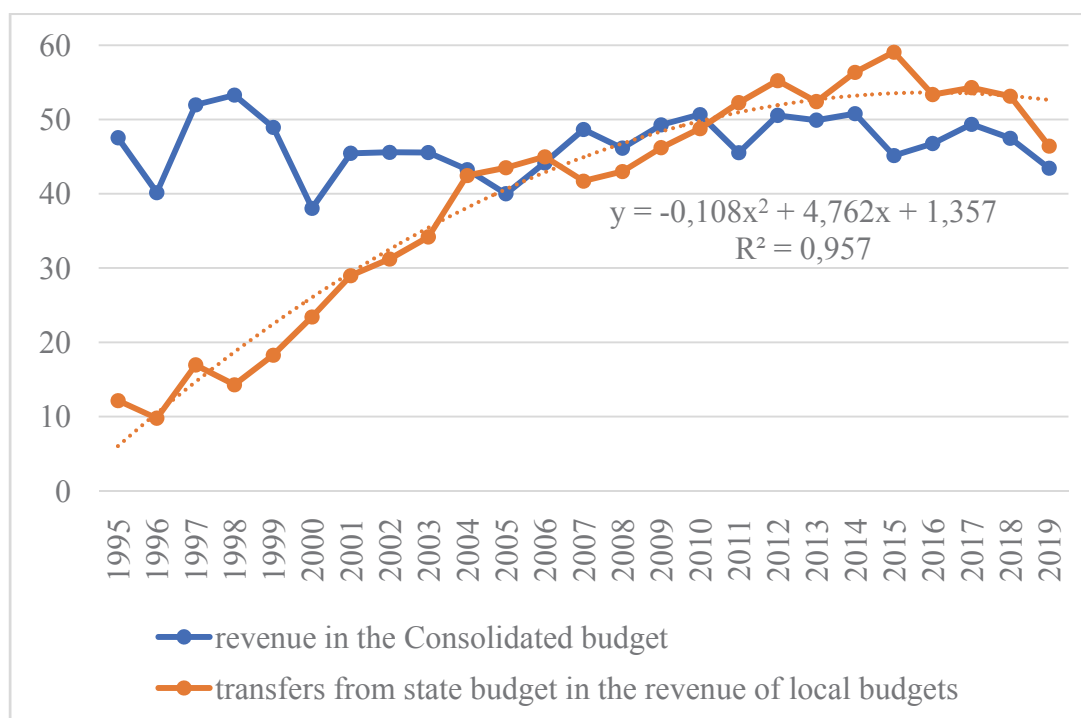


Fig. 3. The share of Local budgets, percent

Source: own calculations [15].

However, the share of transfers from the State budget of Ukraine in the revenue of local budgets within 1995—2019 increased sharply and is described by a parabola with downward branches and multiple determination factor that is close to unity ($R^2 = 0.9577$) and maximal value of 59.08% in 2015. The tendency of an increase in the share of transfer lasted within a twenty-year period (with the basic level of 12.2%). The decentralization processes were marked by a decrease in its level up to 46.44% in 2019. Despite the relative dynamics, the absolute level of the indicator of redistribution of the funds for socio-economic development of the regions through the State budget of Ukraine remains high.

Based on the analysis of the advanced world experience, the effectiveness of fiscal decentralization reforms is largely due to the interdependence of spending on social protection and the reduction of poverty in the country. The countries that use a relatively small share of GDP expenditure while having low poverty rates after social transfers are the Czech Republic and Ireland, while such countries as Italy and Greece track high share of GDP expenditure as social transfers and high poverty rates. The countries that spend much less on social protection in terms of GDP and have high levels of poverty are Estonia, Bulgaria, Latvia, Romania and Lithuania. Some European countries still have high centralization of social protection expenditures [19]. (The optimal level of budgetary decentralization is considerably influenced by tax capacity of regions, the list of fixed taxes and charges, as well as the proportion of distribution of the general state taxes and charges.

The system of financial control has to ensure budgetary security of the state and the regions by the directions determined by the Strategy of reformation of the state finance management system for 2017—2020 [20]: ensuring rendering of high quality services of social use, effective accumulation and distribution of budgetary resources to satisfy medium- or long-term priorities of the government and local communities; an increase in the transparency and reporting level in the State and municipal finance management. Thus, modernization of financial control as a criterion of ensuring budgetary security must be provided by the achievement of institutional symmetry, following the principles of fiscal justice and responsibility, which will contribute to balancing the budget flows, creation of the stimuli to restore the positive socio-economic dynamics of development of the State and regions [21]. According to the European practice, the general features of the model of the financial control system at the local level in Ukraine can include:

- 1) external independent financial control of the Accounts Chamber of Ukraine and its regional representing office;
- 2) external financial control from the empowered executive bodies (Ministry of Finance of Ukraine; the State Audit Service of Ukraine; the State Treasury Service of Ukraine; the State Tax Service of Ukraine, the State Customs Service of Ukraine);
- 3) internal fiscal control, performed by the internal control and audit services as a part of local authorities (municipal controlling bodies) and budgetary institutions.

The international experience proves that the State fiscal control bodies can exist and function effectively based on mutually exclusive approaches from the positions of centralization and decentralization [22]. However, the existence of unified tasks and general principles in the organization of work in controlling bodies, taking into account the national specifics, economic conditions and historical development, acts as the basis ensuring effective management of the State financial resources.

The important role in strengthening the budget security is played by the implementation of new forms of financial control, namely, ensuring the transition from inspection to preliminary and specialized audit. Inspection is the form of purely financial control, and its main task is to detect financial violations and abuse, finding the people who are guilty of them and making them answerable. Audit is the way of preventive influence on committing budget offences and abuse. While there exist verified procedures of carrying out the State audit of legality and effectiveness at the central level, the mechanism of control of local budgets requires further modernization, specifically, unification and standardization of approaches to carrying out the audit of local budgets.

Conclusions. The main scientific outcome of the article is the refinement of the definition of budget security of the State and the regions and substantiation of the conceptual model of financial control under decentralization conditions. By the budget security of the State and regions, we imply the status, which ensures the balance between the State and the regional budgets in terms of revenue and expenditures in the current and strategic dimensions at the level of inter-budgetary transfers and population well-being, accepted as the target reference point, which enables the State governing and local self-governing bodies to perform their functions and responsibilities, neutralizing existing risks, threats and hazards. Unlike the existing definitions, the proposed definition is grounded on the change of the ideology of the budget process participants under conditions of its democratization and decentralization, as well as the risk-oriented and strategic approach. The proposed conceptual model of financial control under decentralization conditions is grounded on the unified network of the State and municipal control authorities, delegation of control functions according to the Vol. of budget powers, transition from the inspection of inter-budgetary transfers to the audit of budget security under conditions of accepted socio-economic living standards of the population of territories, unification and standardization of the approaches to conducting audits of legality and effectiveness of the formation and using the funds of local budgets

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Статтю рекомендовано до друку 17.01.2021 © Косова Т. Д., Воронкова О. М., Ключка О. В., Костинець Ю. В.

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The article is recommended for printing 17.01.2021

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