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GOVERNMENT CONTROL OVER PUBLIC FINANCES: THEORY AND PRACTICE, ISSUES AND OPPORTUNITIES

The theoretical and methodological analysis of effectiveness of government public finance in Ukraine has been developed in the paper. Peculiarities of public finances versus state finances have been distinguished and the author's interpretation of the term "public finances" has been given. In the article the components of effective governance of public finance in Ukraine have been defined. It has been noted that a significant role in development of the institute of public administration of public finances is given to the Treasury of Ukraine, which has rather successfully implemented a number of reforms for its own performance improvement that meets international trends of financial accounting. The example of a detailed internal monitoring of the Treasury has been given.

Key words: treasury, public finances, public administration.

The Public Finance of Ukraine has been at risk since 2008. Moreover, every year the crisis of public finance transparency worsens. The government apparatus, that has been implementing reforms for more than a decade, has formed a complicated hierarchical and difficult for understanding public finance management system. At present the matters of current interest for top public administrators are the transparency of public funds usage, public procurement system, methods of tendering process and its documentary support, adequate salaries in public sector administration and economy (the priority is given to the first part), the procedure of treasury budget and non-budget clients accounts service, accounting policies that meet international standards of accounting and analysis and others. For every issue the legislative branch has passed a legally enforceable enactment. However, the problem has not been solved yet: there is an absence of access to the efficiency of public finances usage by state administration, there is an acute shortage of socially centralized funds financing, the increase of the informal sector of national economy. Furthermore, although the efficiency is highlighted as specific figures, their subsequent usage towards improving social and economic welfare of population is ignored; accordingly, this information does not reach a wider audience.

It ought to be noted that the problem of public finance efficiency is not new. It has existed for more than two hundred years (B.Khmelnitsky, P.Orlik, J. Kozelskii, etc). Ukrainian scientists have been working on the solution to this issue. Scientists of the nineteenth and early twentieth century were both officials (or worked in public institutions) and financiers. It is due to the policy of government intervention in the form of regulation, promotion, coordination or control is always carried out by means of financial instruments and financial law. The main endeavor was to optimize the government control of the country and strengthen the state. These figures include scholars such as M. Alekseenko, M.Baludyanskyy, M. Bunge, I. Vernadsky, K. Hattenberh, E. Hlovynskyy, M. Hrushevsky, D.Zhuravsky, S. Ilovajskij, B. Karasin, I. Kulisher, O. Myklashevsky, P. Mihulin, W. Nawrocki, V. Nezabytovskyy, I. Patlayevskyy, D. Pihno, M. Ptukha, I. Sidorenko, T. Stepanov, M. Tugan-Baranowski, I.Franko, M. Tsytovich, I. Yanzhul, M. Yasnopolskyy.

The article defines the aim to foreground the issues in terms of the stated topic and outlines the author's view of its solution.

First of all, it is worth mentioning that in the paper under the public finances the funds of society or local communities that are stock recorded in the State Budget, the budget of the Autonomous Republic of Crimea and local budgets, loans granted under the state and local guarantee funds of the National Bank of Ukraine, state banks, state funds, the Pension fund of Ukraine, funds of obligatory state social insurance, incorporated and unincorporated businesses funds of the state and municipal property, received from their economic activities, are meant. This approach to the definition of public finances clearly defines the difference between them and the public finances, which belong to the state apparatus and implement the functions that have been delegated by the people of Ukraine.

Accordingly, the public finances must meet the main requirement and be transparent that allows

citizens to monitor government agencies regarding the efficient usage of central funds of financial resources. Being the material basis for the state functioning and the main leverage on the economy, public finances are a source of public needs financing in accordance with the social and economic development of the nation. This postulate is the ground for the study.

The process of public funds state management has the peculiarities, systematization of which is shown in Fig. 1.

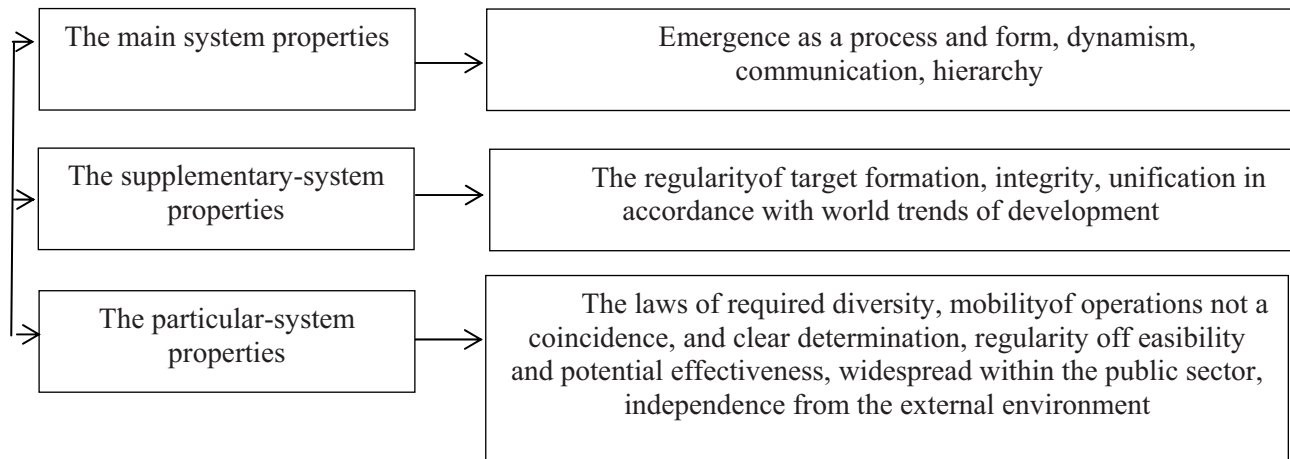


Fig.1. The characteristic properties of public funds state management in Ukraine

It ought to be noted that until present the processes of governance of public finances cannot be characterized as efficient. Ukrainian economy over the past decade has been creating a budget deficit.

Modern scholars as V. Oparin, V. Fedosov and P. Yukhimenko believe that the term "public finances" is more specific and allows revealing more intrinsic, internal quality characteristics and economic nature of outlined social phenomenon, its purpose and role, principles and mechanisms of functioning and the forms and methods of financial management. This is important because the classical model of a full public finance in Ukraine has not existed for the last 100 years. After all, there is no exact model until now. Currently, it is on its renewal, formation and development as an important structural component of the financial system of Ukraine and methodological basis of practice of the Government in the context of social and economic forecasting, public regulation, coordination of public and private sectors¹. The effective state governance of public finances can be seen in the following system of effective operation of each component (Fig. 2).

Accordingly, within the limits of the theory and practice of a new paradigm of public finance –the fiscal decentralization and its accompanying components – the value of financial accounting of public finances is significant. In particular, the Financial Accounting is a subject of special attention due to the intense and rather successful innovation dynamics that have been taken place in the last two decades in the State Treasury Service of Ukraine (hereinafter - the Treasury of Ukraine). Therefore, in terms of the survey the special attention is paid to it and initially the modern approaches to the treatment of treasury and treasury activity have been studied (Table 1).

As it can be seen from the presented definitions “treasury”, as a form of the government system, is not stable and perfect. Therefore, among others the problem of state governance of public finances is long-term and urgent at present. Within the public administration system of monitoring, coordination and control of public finances in Ukraine, these functions are performed by the accompanying body that is the Treasury of Ukraine. According to the assignments conferred in the Presidential Decree the Treasury²:

– carries out through the electronic payment system of the National Bank of Ukraine payments and cash management of recipients of budget funds and other clients, operations with the budget, together with international financial institution projects;

¹ Опарін, В.М., Федосов, В.М., Юхименко, П.І. (2015). Українська класична школа публічних фінансів. *Фінанси України*, 10, 7-31.

² Указ про Положення про Державну казначейську службу України 2011 (Президент України). <<http://zakon4.rada.gov.ua/laws/show/460/2011>>

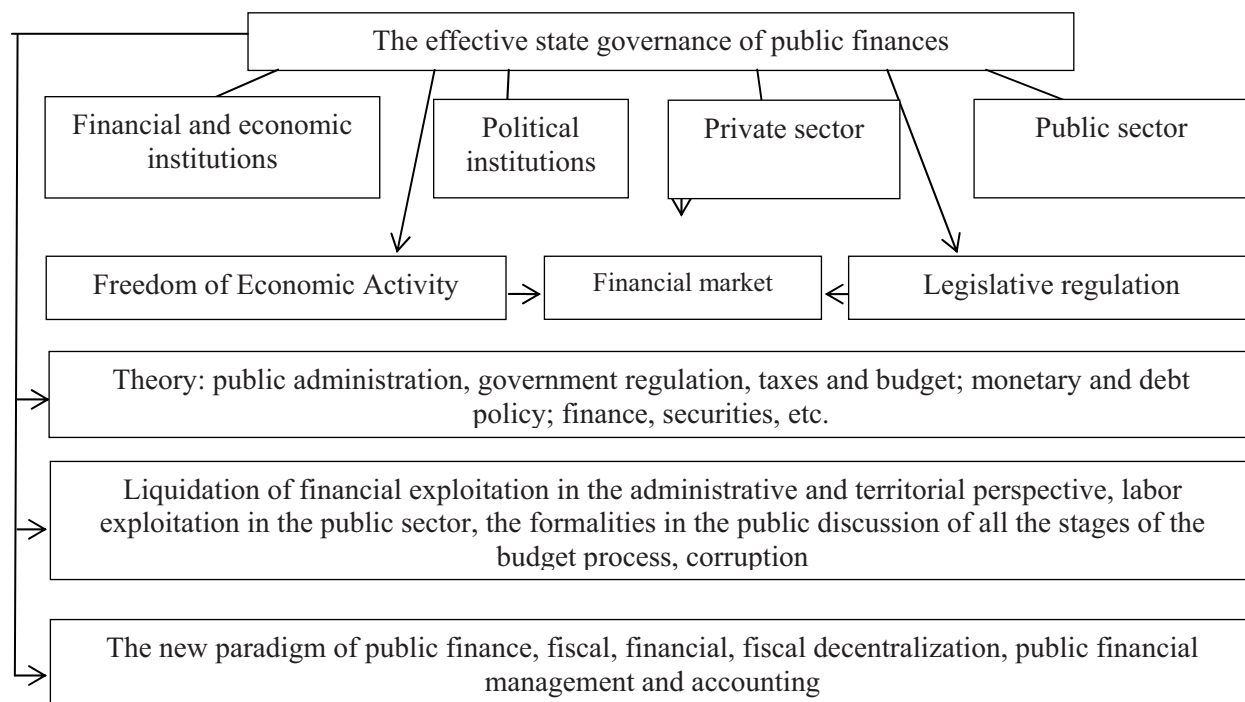


Fig. 2. Elements of effective state governance of public finances

Table 1

The contemporary interpretation of "treasury" and "treasury activity" categories

Term	Author	Interpretation
Treasury	S.Yurii, V.Stoian, A.Danevych ¹	derived from the term "treasury", which is translated from Turkish as the combination of financial resources of the state. "Treasury" if translated from English, means "treasure", "value".
Treasury	Ukrainian weekly Accounting Journal ²	a financial authority which has functions of cash execution of the State Budget of Ukraine.
Treasury	Z.Kurnosenko ³	the development and evolution of the Treasury as a financial institution that is a part of the heritage, traditions and departmental cultures of different countries.
Treasury	The Regulation of the State Treasury Service of Ukraine ⁴	is a central executive body, whose activities are directed and coordinated by the Cabinet of Ministers of Ukraine through the Minister of Finance of Ukraine.
Treasury activity	L.Popova, S.Popova, V.Uspalenko ⁵	is rather complicated discipline that is based on the numerous laws and regulations which constantly change, making it difficult to understand and study the theoretical and practical aspects of the State Treasury.
Treasury activity	M.Matselyk ⁶	is related to the implementation of financial control over the formation and usage of the state funds for the process of social production.

- manages liquidity of sub-accounts of Single Treasury Account;
- in consultation and coordination with the Ministry of Finance of Ukraine attracts on repayable ground the funds of single treasury account to cover temporary cash gaps of local budgets and the Pension

¹ Юрій, С.І., Стоян, В.І., Даневич, О.С. (2006). Казначейська система. *Карт-блани*.

² Курносенко, З. (2015). Казначейська справа: з давніх-давен і дотепер. *Український бухгалтерський тиждень*. <<http://treasury.gov.ua/main/uk/publish/article/267918>>

³ *Державна Казначейська служба України: офіційний веб-сайт*. <<http://treasury.gov.ua/main/uk/publish/article/267918>>

⁴ *Положення про Державну казначейську службу України*. <<http://treasury.gov.ua/main/uk/publish/article/267918>>

⁵ Попова, Л.М., Попова, С.М., Успенко, В.І. (2011). Казначейська справа. *Центр учбової літератури*.

⁶ Мацелик, М.О., Мацелик, Т.О., Пригоцький, В.А. (2011). *Фінансове право*. Знання.

Fund of Ukraine to provide medium-term loans to local budgets;

- carries out the opening and closing of the accounts of the current budget period, and the opening of accounts of the next budget period;

- provides indisputable write-off of state and local budgets on the basis of a court decision;

- provides indisputable withdrawal of funds from the local budgets according to the Budget Code of Ukraine;

- carries out the mistaken or unduly credited to the budget refunds presented by the bodies that control with drawal of budget revenues;

- carries out the distribution of funds between the state budget, the budgets of the Autonomous Republic of Crimea, Kyiv and Sevastopol, and between local governments in accordance with the norms of deductions specified by the budget legislation, and the fund transfer distributed to relevant bodies;

- conducts mutual settlements between the state budget and the budgets of the Autonomous Republic of Crimea, Kyiv and Sevastopol, as well as between local budgets in the order prescribed by the law;

- maintains a database of network administrators and recipients of budgetary funds; compiles and controls the only registry of disposers and recipients of budget funds;

- keeps a record of budgetary allocations, gives notice to disposers and recipients of budget funds statements from the State Budget and changes to it;

- registers and accounts the budgetary commitments of disposers and recipients of budget funds and displays them in budget compliance report;

- provides the organization and coordination of the chief accountants of budgetary institutions and control the accomplishment of the duties by evaluating their activities;

- leads all accounting transactions to implement state and local budgets;

- keeps accounts and prepares financial statements on the state, local and consolidated budgets and submits legislative and executive power in terms determined by the budget legislation; prepares and submits financial reports on the execution of local budgets to the relevant local authorities;

- carries out on behalf of the Ministry of Finance of Ukraine repayments and services of public debt in local and foreign currencies;

- posts on the official website of the Treasury of Ukraine quarterly and annual reports about the execution of the State Budget of Ukraine;

- within the limits of the authority controls: accounting of all revenues and expenditures of the state budget and local budgets, preparation and presentation of financial statements and budget; budgetary powers to recording receipts budget; compliance of estimates of the budgetary funds to indices of administrated budget; compliance of budget funds of budget commitments, undertaken by disposers, with the budget appropriations, the budget program passport (in case of program-target method in the budgetary process); accordance of payments taken to budgetary commitments and the corresponding budgetary allocation; compliance with the rules of exchange controls on transactions with budget funds in foreign currency; the running procedures of lotteries while using electronic payment acceptance systems at Raffles in real time; procurement of goods, works and services for public funds in the implementation of cash management services of disposers and recipients of budget funds and other clients in accordance with the law;

- carries out a notification to the budget process parties on improper implementation of the budget legislation;

- stops operations with budgetary funds and initiates suspension of budgetary allocations in the case if a member of the budget process violates the budget legislation;

- summarizes the practice of legislation on matters within its competence, develops proposals to legislation improvements, acts of the President of Ukraine, the Cabinet of Ministers of Ukraine, legal acts of ministries and submits them in accordance with the established procedure to the Minister;

- provides consulting assistance to participants of the budget process on matters within the competence of the Treasury of Ukraine;

- ensures the functioning of multilevel information and accounting systems, internal payment system and takes measures to protect the information processed by the Treasury of Ukraine; implements in accordance with the legislation of Ukraine administrations of state property that belong to its jurisdiction;

- performs other powers determined by the laws of Ukraine and the Treasury assigned to the President of Ukraine.

The scope of the financial interests of the Treasury of Ukraine as the main regulator and coordinator of budgetary expenditures is as follows (Fig.3):



Fig. 3. The field of financial interests of the Treasury of Ukraine as the primary government regulator and coordinator of public finances

Accordingly, the Treasury is a member of the national payment system that provides settlements in electronic form between banking institutions on behalf of clients like banks and the obligations of banks to each other in Ukraine. In addition, the Treasury provides maintenance of the budget based on maintaining the single Treasury account opened at the National Bank of Ukraine¹.

As it can be seen from the data in the Figure above, there are much more money disposers than recipients of budget funds. It is commonly known that to money disposers the budgetary institutions represented by their leaders, who are empowered to receive budgetary allocations, taking budget commitments and expenditures of the budget, are included. The recipients of budget funds are self-supporting enterprises and organizations, public and other organizations that have no status of budgetary institutions and receive funds from the budget as financial assistance or State authorities that implement national programs to provide services directly through disposers.

The transparent use of public funds is provided by the electronic system *Prozorro*, which in 2016 received the International Award *World Procurement Award* (WPA) in the category of *Public Sector*. However, the system in late 2016 found wanting. An additional new tool for monitoring procurement *Prozorro* became *Dozorro*. It has been stated that on 1st August the budget savings through the use of electronic public procurement *Prozorro*, which was distributed to all government customers, was 5 billion USD. It is known that the system is mandatory for use and application for all contracting authorities in the procurement of 200 thousand USD for goods and 1.5 million USD- for jobs. The savings owing to strong international support has strengthened the position of a market economy in Ukraine. However, until now the trend has not been functioning effectively and the reason for this is ineffective governance of public finances. This statement is explained as following.

¹ Сушко, Н.І. (2015). Управління витратами Державного сектору в контексті запровадження національних стандартів бухгалтерського обліку. *Фінанси України*, 12, 94-108.

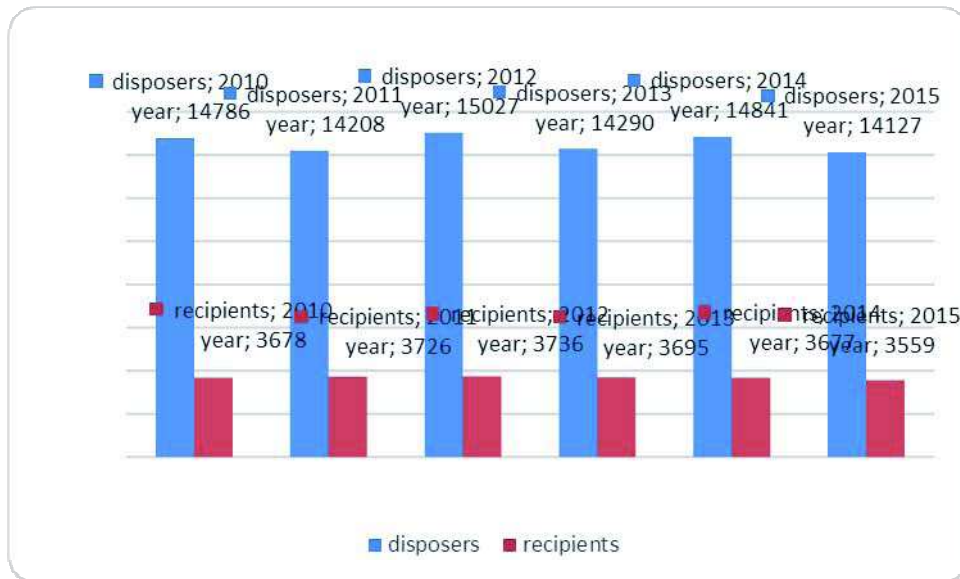


Fig. 4. The number of disposers and recipients of budget funds, who served in the bodies of the Treasury in 2010-2015.

It is primarily due to the complexity of the forms, methods and tools for monitoring, controlling, analyzing and reporting the apparatus of government; duplication of regulations, in some cases, lack of logic compiling and consistency in them and between them. This leads to employees working errors in reporting agencies that work in the system of document control. Accordingly, state employees demand that each new document needs clarification, which sometimes comes late (within the existing rules of responding to public demands and simply owing to expecting the explanation from higher institutions, including from those who formed or formulated new "rules of the game").

In addition, the Treasury Ukraine, exercising regularly (twice a year) the controlling function in the public sector, conducts internal audits¹. The object of the internal control is risks that are classified depending on the extent and materiality. These include:

- 1st risk - the results of audits by supervisory authorities;
- 2nd risk - the results of activities of Public Prosecutions;
- 3rd risk - the information of the State Financial Inspection of Ukraine as for improper performance of supervisory authority by the Treasury;
- 4th risk – the information from the independent structural subdivisions as for the risks or improper performance of functions that coordinate these units in the audited entity;
- 5th risk - the results of previous audits;
- 6th risk - the frequency of audits;
- 7th risk - the change of the management of the controlled entity or a significant turnover of ordinary workers;
- 8th risk – information about the sanctions for violation of budget legislation that are applied by the Treasury to the participants of the budget process;
- 9th risk - information about the sanctions for violation of budget legislation that applied by the Treasury (suspension of operations with budgetary funds) to the participants of the budget process;
- 10th risk - the number of institutions served by the Treasury;
- 11th risk - overdue debt in the directions stipulated in Article 51 of the Budget Code of Ukraine and overdue receivables;
- 12th risk - the number of open accounts;
- 13th risk - changes in legislation affecting the functions of the executive service;
- 14th risk - restructuring of institutions or technology of the documents;

¹ *Наказ про порядок проведення внутрішнього аудиту в органах Державної Казначейської служби України 2013 (Державна Казначейська служба України).*
<http://treasury.gov.ua/main/uk/publish/article/267918>.

15th risk - budget allocation (quantitative and qualitative) for Codes of economic classification of expenditures (CECE) 2210 "items, materials, equipment and inventory" and CECE 3000 "Capital expenditures";

16th risk - the procurement of goods, works and services for public funds;

17th risk - payables and receivables;

18th risk - reducing the value of fixed assets (sold, donated, written off);

19th risk - own revenues (using funds received as payment for services and other sources);

20th risk - information from other sources regarding misconduct of officials, authorities and improper performance of their functions.

The employees of the Treasury of Ukraine such methodology, stated in the Order №210, tractate as a set of risks, as a foundation for planning internal audits, which prioritizes inclusion of controlled objects to a six-month work plan of audit departments. However, in our opinion, the process is not perfect; it is too subjective and cumbersome. Some risk factors can be attributed to the work of the Treasury, the other - to the actual risks. Therefore, in the case of signing duty regulations by the officials from the Treasury, the incompetence risks are solved in a classic way: two reprimands and dismissal of the employee who has made the mistake. The procedure of internal audit in greater degree increases the number of nonproductive jobs that, on the one hand, affects the quality of implementation of direct substantive work, on the other hand, forms the basis for hiring "ballast" employees in the treasury. The latter is very negative in terms of the budget deficit and irrationality use and management of public funds.

Based on the above-mentioned problem of efficiency of government public finance, the author suggests measures through a system of passive-measuring instruments based on the principles of economic freedom and state intervention in the economy in terms of the legal protection of establishments' freedom and the creation and implementation of sophisticated institutional environment and sustainable financial and economic development of the country in terms of the openness of the state apparatus and its regional institutions. In Ukraine there are only a few isolated examples of opening taxpayer service centers, counseling centers, etc. can be found, but the presence of rapidly changing legislation, "grey" schemes of solving current problems of citizens, the importance of their functioning has been significantly reduced. However, the efforts towards the development of a specific state policy of public finance management ought to be intensified.

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