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Problems and Prospects of State Financial Control and Analysis of Local Budget Execution

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Abstract. In the conditions of the constant increase of global challenges and socio-economic instability, the problem of the effectiveness of state financial control is one of the central ones for modern Ukraine. The purpose of the research was to identify key problems of government financial control and to assess the implementation of local budgets. The main methods for the study of the subject matter were theoretical approaches (analysis of Ukrainian and international theoretical positions), analysis and synthesis, statistical analysis, systematic analysis, terminological analysis, method of graphical representation of statistical data, and analysis of legislative and programme documents. As a result, it was confirmed that necessity to develop the state financial control system and to create a basis for improving the effectiveness of local budget execution had increased. The statistical data for the last three years (in some cases for 10 years) were analysed, which made it possible to describe the current situation in the field of public financial control and execution of local budgets in Ukraine. Shortcomings, problems, obstacles, limitations, and perspectives for public financial control development and the execution of local budgets are identified. The results obtained have theoretical and practical significance. The application of theoretical approaches in the study complements the theoretical provisions financial control of government. The results are of practical importance, especially in the implementation of national policy in the field of state financial control in the context of the crisis caused by the pandemic and its socio-economic consequences

Keywords: mechanisms of state financial control, national financial system, local budget, financial security of the state, analysis of performance indicators

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INTRODUCTION

Timely identification and prevention of problems in the public financial control system are necessary to overcome the current crisis situation and develop the overall Ukrainian financial system efficiency (Cheberyako & Ryabokon, 2016). The execution of local budgets in Ukraine has some problematic issues. The identification of such features, as well as tools and ways to eliminate them, is an urgent research vector under the current conditions of socio-economic uncertainty. In this regard, it is advisable to make a scientific assessment of the Ukrainian and international experience in the execution of local budgets, effective mechanisms, and practices used in budget regulation. In recent years, the attention of many Ukrainian and international researchers has been directed towards the investigation of control systems, public financial management, and municipal financial management. The main promising vector of development identified in the course of research is the creation of an integrated financial system. A system that would ensure the minimisation of the cost and maximisation of revenues to the municipal budget.

Modern theoretical approaches to the development of financial control of the state were studied by such researchers in the field of financial management as J. Keynes (2017), J. Koltaia *et al.* (2021), Gibbons *et al.* (2021), I. Schumpeter (2007). The problem of the improvement of financial control at the macro and micro levels, and the execution of local budgets, was investigated by I. Alekseev and N. Yaroshevich (2007), A. Goray (2018), E. Gutzeit (2008), V. Malyshko *et al.* (2017). The analysis of the papers (Roberts & Kwon, 2022; Kozarenko, 2015) showed that they were based on a fairly extensive existing theoretical and methodological base, but the need for systematic development of the issues under study in the context of new challenges and socio-economic instability was traced.

The novelty of the research is conditioned by the analysis of the object of the study in the context of modern global challenges and socio-economic instability in the world (Lavezzolo *et al.*, 2018). Difficult socio-economic conditions in 2020 were created by the significant impact of the COVID-19 pandemic. During this period, systemic changes took place in the entire global economy, and there was a need for mechanisms to develop the effectiveness of government financial control and the execution of local budgets (Seregin, 2016; Starostenko & Bulgakov, 2006). Therefore, new research, scientific refinement of mechanisms and tools to develop the efficiency of government financial control and the execution of local budgets are needed.

The aim of the research is to evaluate the effectiveness of local budget execution and calculate the main problems of financial control of the state. Disclosure of the goal implies the solution of several tasks:

– to investigate the national and successful international experience in the execution of local budgets and state financial control;

– to analyse scientific methods and approaches to the study of financial control of the government and budget execution;

– to examine statistical indicators that reflect the dynamics of development public state financial control system and execution of local budgets;

– to disclose issues and perspectives for improving the system of public financial control and execution of local budgets;

– To identify opportunities and areas to improve an effectiveness of the system of public financial control and execution of local budgets in terms of socio-economic uncertainty.

MATERIALS AND METHODS

The following methods were used to achieve the goal: dialectical, systematisation and generalisation, concretisation, and terminological, analysis, synthesis, statistical analysis, statistical comparisons, comparative law method (used in the adaptation of effective world practices to Ukrainian conditions). Empirical methods used in the study included observation and system monitoring. The study pays considerable attention to identifying gaps in theory and practice, due to the increase in acute crisis socio-economic conditions in the world. Using the methods of concretisation and generalisation, the main problems and gaps in research and theory of government financial control and execution of local budgets were identified.

The dynamics of the national experience in the execution of local budgets and state financial control has been studied over the past three years (over 10 years according to some indicators). The analysis of the revenue structure of local budgets of European countries and Ukraine (in comparison) is carried out.

During the research, the following data were studied: statistical data of the State Treasury Service of Ukraine (2022), the State Statistics Service of Ukraine (2022), the Ministry of Finance of Ukraine (2022), and the European Commission (2022). The research was done in several stages. At the first stage, the analysis of methodological approaches to the problem of state financial control and execution of local budgets was held. The purpose, tasks, and methods were defined, and the main hypothesis was put forward. The expediency of using a synergetic approach in improving financial control has been investigated. At the second stage, sources of information were selected and data reflecting the provision of state financial control and local budget implementation were analysed: the dynamics of incomes and costs of local budgets of Ukraine, the proportion of own incomes of regional budgets in incomes of Ukrainian consolidated budget,

the amount of budgets of regions of Ukraine, the volume of controlled fiscal and material resources, the structure of violations, the structure of incomes to local budgets of Ukraine and European countries. At the third stage the analysis was carried out and theoretical and applied conclusions were formed. The experience of Ukrainian financial control in Ukraine, features and efficiency of execution of local budgets in Ukraine and some European countries was systematized and generalized. The study results can be used by employees of state and financial management bodies, and specialists of local municipal self-government.

RESULTS AND DISCUSSION

Most of the government's fiscal resources are concentrated in the national and local budgets. System of Ukrainian budget is structured as follows: two blocks – the state budget and the local budget. Local budgets include regional budgets, district budgets, and district budgets of local self-government. Accordingly, local government budgets include: territorial community budgets, village budgets, city budgets, budgets of associations (villages and towns), and budgets of districts in cities. Ukrainian local budget structure: "General Fund", "Special Fund" and additional "Reserve Fund". To assess the dynamics of incomes of Ukrainian local budgets, we chose indices for a significant time series: from 2011 to 2020 (Fig. 1).

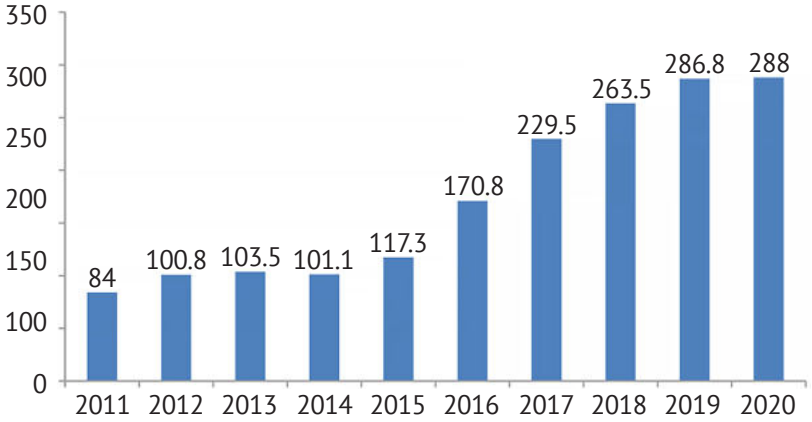

Figure 1. *Dynamics of incomes of local budgets of Ukraine, billion UAH for 2011-2020 (excluding inter-budget transfers)*
Source: *compiled by the authors*

An investigation of the dynamics of local budget incomes for the period from 2011 to 2020 showed a trend of slight growth from 2011 to 2020 and a trend of active growth since 2016 (Fig. 1). From 2011 to 2015, the amount of local budget revenues increased by UAH 33.3 billion, and for the period from 2016 to 2020 – by UAH 117.2 billion. In 2021, the trend of active growth of local budget revenues has continued. Moreover, for 9 months of 2021 (compared to the same period in 2020), local budget revenues increased by 20.1%. This amounts to 248 billion UAH. In 2021, the increase in the amount of personal tax income was 19.5%, the land fee was 14.9%, the real estate tax was 38.3%, and the single tax was 21.1%. Inter-budget transfers to local budgets for 9 months of 2021 – UAH 120 billion 872.8 million, which is 95.3% of the planned. Analysis of cost dynamics of local budgets of Ukraine for the period from 2011 to 2020 is presented in Figure 2.

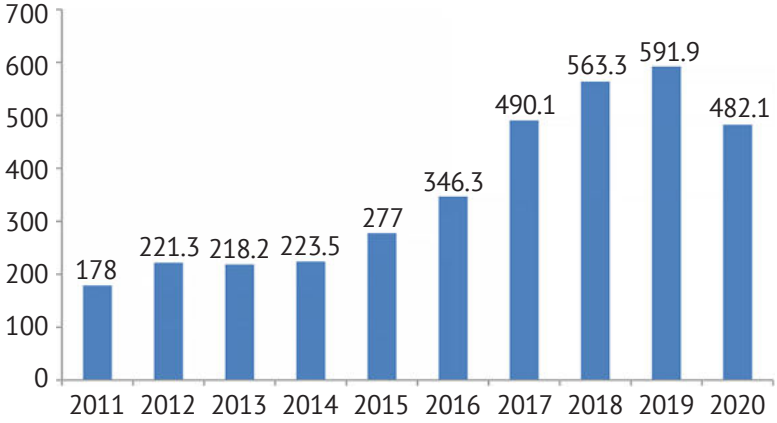

Figure 2. *Dynamics of expenditures of local budgets of Ukraine for 2011-2020, UAH billion (excluding inter-budget transfers)*
Source: *compiled by the authors*

In the dynamics of local budget costs there is a correlation with the dynamics of local budget incomes for the same period. A slight increase from 2011 to 2015 - from 178.3 billion UAH to 277 billion UAH. From 2016 to 2019 – from 346.3 billion UAH to 591.9 billion UAH. But in 2020 recorded a decrease in local budget expenditures, which amounted to 482.1 billion UAH. The dynamics of the proportion of own incomes of local budgets in consolidated budget revenues in Ukraine for the period from 2010 to 2020 is presented in Table 1.

***Table 1**. Proportion of own incomes of local budgets in revenues of the consolidated budget in Ukraine, %*

Year	Fraction, %
2010	27.3
2011	21.1
2012	22.6
2013	23.3
2014	22.2
2015	18
2016	21.8
2017	22.6
2018	22.2
2019	22.3
2020	23.4

***Source:** compiled by the authors*

As shown in Table 1, the highest rate was in 2010 – 27.3%, and the lowest in 2015 – 18%. In other years the share of own incomes of local budgets fluctuated between 21-23%. It is this indicator that reflects the self-sufficiency and the possibility of socio-economic growths of the territories of the country. Implementation of local budgets in the legal aspect is the responsibility of the state local administration, the executive bodies of the relevant local councils or village heads. General organization and management of local budget execution, coordination of activities of participants of the budget process on issues of budget execution are carried out by local financial bodies. A local financial authority is an institution that, in accordance with Ukrainian legislation, performs the functions of drafting and implementation of local budgets, control over the expenditure of funds by administrators of budgetary funds and other functions associated with the administration of local budget funds. In the execution of local budgets, the treasury service of budgetary funds is applied. The body empowered to keep records and prepare reports on the execution of local budgets in Ukraine is the treasury body (Table 2).

***Table 2**. The size of the budgets of the regions of Ukraine in 2020*

Area	Income (million UAH)	Expenses (mln UAH)
Dnipropetrovsk Oblast	9266.7	9266.6
Kharkiv Oblast	5881.9	5881.9
Lviv Oblast	5134.6	5134.6
Kyiv Oblast	4992.3	4995.3
Odesa Oblast	4824.6	4827.2
Donetsk Oblast	4566.2	4566.2
Zaporizhia Oblast	4439.1	4439.1
Vinnytsia Oblast	4309.6	4302.6
Poltava Oblast	4238.0	4297.2
Zhytomyr Oblast	3290.0	3287.2
Khmelnytskyi Oblast	2843.2	2842.9
Sumy Oblast	2821.6	2821.6
Cherkasy Oblast	2677.0	2673.6
Mykolaiv Oblast	2619.2	2611.2
Ivano-Frankivsk Oblast	2523.5	2515.4

Table 2, Continued

Area	Income (million UAH)	Expenses (mln UAH)
Kirovohrad Oblast	2523.2	2695.1
Chernihiv Oblast (project)	2520.4	2517.4
Volyn Oblast (project)	2410.9	2410.9
Rivne Oblast	2400.0	2400.0
Kherson Oblast	2193.4	2187.3
Zakarpattia Oblast	2084.0	2069.4
Ternopil Oblast	2086.2	2086.0
Luhansk Oblast	1925.0	1925.0
Chernivtsi Oblast	1682.3	1679.8

Source: *prepared by the authors on the basis of the source Ministry of Finance of Ukraine (2022)*

Analysis of the size of regional budgets of Ukraine in 2021 showed that the Dnipropetrovsk Oblast has the largest budget – revenues of UAH 9 billion 266.7 million, and expenditures of UAH 9 billion 266.6 million (Table 2). The Dnipropetrovsk Oblast has allocated UAH 2.4 billion from the state budget, which will be spent on road repairs (UAH 847 million) and education (UAH 767 million). In the region, –UAH 130 million has been allocated for measures to combat COVID-19. For various development projects – more than UAH 1.5 billion. The second largest budget region in Ukraine is the Kharkiv Oblast. Revenues and expenses at the beginning of 2021 were planned in the amount of UAH 6 billion 881.9 million. About UAH 2 billion has been allocated for education, almost UAH 485 million for healthcare, and UAH 548 million for social protection and welfare. In the Lviv Oblast, in the budget for 2021, revenues and expenses are planned in the range of UAH 5 billion 134.6 million. Of these, UAH 277 million has been allocated for state investment projects, and 1.4 billion UAH for the implementation of regional programmes. Regions with budget deficits: Poltava Oblast (59.2 million), Odesa Oblast (2.6 million), Kirovohrad Oblast (171.9 million), and Kyiv Oblast (3.0 million). The largest budget deficit, with a significant gap from other deficit regions, in the Kirovohrad Oblast is 171.9 million UAH (Ministry of Finance of Ukraine, 2022).

In 2021, the State Audit Service completed 10.9 thousand inspections. Including: 1.4 thousand – audits and inspections, procurement monitoring – 9.3 thousand events, and state financial audit – 151. Organisations, state-owned and municipal enterprises have estimated the loss of income owed to them to be almost 5.5 billion UAH. Of these, budgets – about 3.8 billion UAH, which is 40.1% of the total amount of violations related to the use of state and municipal resources (Ministry of Finance of Ukraine, 2022). The volume of financial and material resources covered by the control in January – December 2019-2020 is shown in Figure 3.

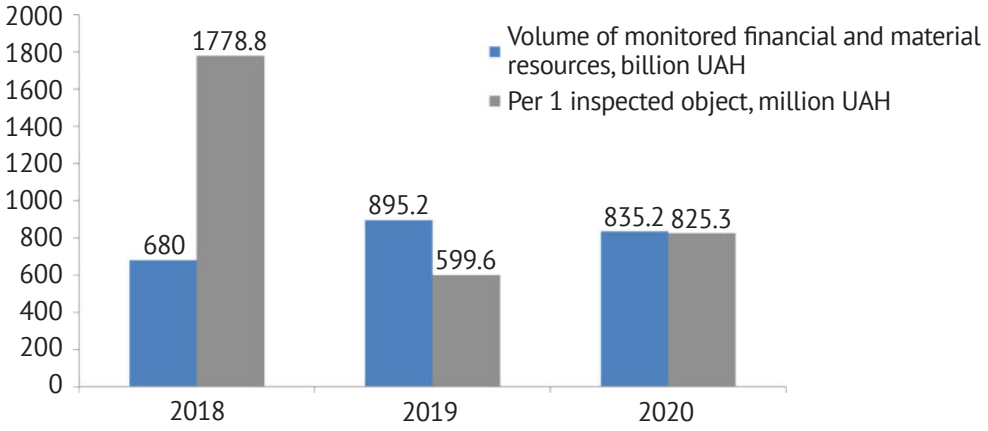

Figure 3*. The volume of financial and material resources covered by the control in January-December 2019-2020*
Source: *compiled by the authors based on the source The state of financial and budgetary discipline in the use of budget funds, state and municipal property for 2020, 2019 and 2018 (2022)*

The total volume of financial and material resources covered by the control in 2019, compared to 2018, increased from UAH 680 billion to UAH 895.2 billion. But in 2020, there was a slight decrease in this indicator: from UAH 895.2 billion to UAH 835.2 billion. And based on 1 verified object, the volume of resources for the same years decreased significantly (from UAH 1778.8 million to UAH 599.6 million), and

then increased slightly to UAH 825.3 in 2020 (Ministry of Finance of Ukraine, 2022). In general, the results of audits and inspections revealed losses of financial and material resources for more than UAH 154.4 billion. The structure of violations that led to resource losses for 2018, 2019, and 2020 is shown in Table 3.

***Table 3**. The structure of violations that caused the loss of financial and material resources identified by the State Audit Service of Ukraine in January-December 2018-2020, in %*

	2018	2019	2020
Lost financial resources	42.5	23.8	98.2
Inappropriate spending of resources	2.9	5.8	0.1
Illegal spending of resources	52.5	64.2	0.2
Lack of resources	2.1	6.2	1.5

***Source:** prepared by the authors on the basis of the source State of financial and budgetary discipline in the use of budgetary funds, state and municipal property for 2020, 2019 and 2018 (2022)*

The highest % of violations occurred in the group of illegal spending of resources: in 2018 – 52.5%, and in 2019 – 64.2%. But in 2020, the percentage ratio is changing dramatically – non-targeted expenses began to account for 0.1% of violations, and the lost financial resources increased to 98.2%. In 2018 and 2019, the share of lost financial resources was high, but not as much as in 2020. In 2018 – 42.5%, and in 2019 – 23.8%. Structure of incomes to Ukrainian local budgets for 2018, 2019, and 2020 is presented in Table 4.

***Table 4**. The structure of revenues to local budgets of Ukraine for 2018, 2019, 2020, million UAH*

	2018	2019	2020
Tax revenue	85385	94811	95970
Non-tax revenues	29129	26105	21752
Transfers	304672	260302	163846
Other	3308	3575	5136

***Source:** made by the authors on the basis of the source State of financial and budgetary discipline in the use of budgetary funds, state and municipal property for 2020, 2019 and 2018 (2022)*

Table 4 shows that the main source of revenues to local budgets are tax revenues, which have increased by approximately 10 million UAH over the analysed years. Non-tax revenues and transfers have been decreasing for three years. Moreover, the volume of transfers has almost halved by 2020. In this regard, a comparative analysis with a similar structure of incomes to the local budget of Ukraine and some European countries will be informative (Table 5).

***Table 5**. The structure of revenues to local budgets of Ukraine and European countries, in %*

Country	Tax revenues	Non-tax revenues	Transfers	Other
Ukraine	34	7	57	1
Sweden	74	20	3	1
France	45	33	18	4
United Kingdom	15	13	70	2
Switzerland	48	26	15	11
Norway	44	38	18	0
Netherlands	13	67	20	0
Italy	38	49	12	1
Germany	60	26	14	0
Denmark	53	38	7	2

***Source:** compiled by the authors based on data of European Commission (2022)*

As can be seen from Table 5, the structure of the sources of income of local states in Europe is dominated by tax and non-tax revenues, which approximately account for 81% to 95% of all sources of income. The United Kingdom is an exception in this situation – the share of transfers is 70% and these transfers are usually targeted grants for the performance of specific tasks by municipal authorities. The main sources of tax revenues of most countries are personal income tax and income tax. Another significant source of income are property taxes (Roberts & Kwon, 2022). Among all the analysed countries, with the exception of the UK, Ukraine leads in terms of attracted transfers – 57% (2020) and has the lowest non-tax revenue – 7% (2020).

The role of state financial control has significantly increased in the context of new global challenges and socio-economic uncertainty. Control in the sphere of public administration is of particular importance (Alekseev & Yaroshevich, 2007). This is conditioned by the fact that financial security and national economic development overall depend on the effectiveness of its functioning. Theoretically, the definition of control has many manifestations. But in economic theory, control is increasingly being studied from a systemic perspective, since this concept is a complex and multilevel system that develops according to the basic laws of the functioning of economic systems. The systematic approach allows considering the financial control system as an organic unity of its types: state, public, audit, and internal. The new theoretical substantiation of financial control focuses on the development of the concept of its systemic organisation (entrepreneurs) (Vygovskaya, 2013).

When solving the key issues in the financial control system development, some researchers suggest using synergetic mechanisms, the possession of which, in their opinion, helps to choose the optimal path of development (Vygovskaya, 2013). Synergetics is the doctrine of interaction, applicable in almost all spheres (Bogt ter & van Helden, 2021). In the context of control, this works as follows: for a more effective functioning of systemic financial control, it is advisable to develop a functional non-interference of state, public, audit, and internal control, which together form the national system of financial control. The synergistic effect can be not only positive, but also negative (in the case when the factors that combine contradict each other). Therefore, there is a difficulty in planning the effects and their implementation. In the financial control system, to achieve synergetic effects, it is advisable to have an agreed system of goals of its participants for the harmonisation of the control process (Financial System Soundness, 2021). Therefore, the problems of contradictions between state and internal financial control can be solved using approaches that are not mutually exclusive, that is, they can be applied in a complex (synergistically).

Approach 1. Development of the legislative financial control framework and development of a concept for the development of a balanced Ukrainian of financial control system in, standardisation of all types of control, considering the emergence of new conditions of socio-economic instability. Moreover, the concept of state financial control is the main one, that is, it is advisable to develop partial concepts in relation to it: public control, internal control, and audit.

Approach 2. Development of the public financial control system and improvement of interaction and coordination of its individual units. In modern Ukraine, there remains a situation of incompleteness in the formation of the regulatory framework of state control, which leads to the concentration of the efforts of the control bodies exclusively on their own departmental interests, and this, in turn, entails duplication of functions by the subjects of control. This disadvantage can be offset by ensuring systematic control. And to achieve a synergistic impact and improve the coordination of control bodies, it is advisable to finalise the concept of Ukrainian of financial control system and a law (Law of Ukraine…, 1993) with provisions (special section) on the procedure for the interaction of subjects of state financial control with other controlling organisations.

Approach 3. Improvement and modernisation of internal financial control systems of enterprises. That is, the development of internal control systems not only to undergo a further external audit, but also to improve the management of internal business processes. In economically developed countries, in state financial control systems, control units that have a higher status focus precisely on the results of audits and evaluation of the activities of lower controlling structures than directly on their own control.

Approach 4. The use of audit and public financial control systems in order to minimise and eliminate disagreements. Under the circumstances of modern global challenges and socio-economic instability, these types of control are of particular importance.

The priority condition for improvement of economic systems sustainability, is the harmonisation of the objectives of the entire system and its individual elements (Widanaputra & Mimba, 2014). The financial control system allows receiving information about the presence of contradictions, which would allow purposefully eliminating them. This is conditioned by the increased mutual responsibility of various control subjects to ensure the objectivity and quality of control reports, a large number of control objects, limited resources for control, and the common problems of different types of financial control (Gutzeit, 2008). Various types of control (state, public, external audit, internal) have a lot in common. Therefore, it is possible to identify common problems that require solutions within the improvement of the general theory of control: firstly, the

problem of evaluating the effectiveness of control systems; secondly, the problem of standardisation; thirdly, the problem of increasing the level of objectivity and independence of control.

CONCLUSIONS

The hypothesis suggested in the present research was proved about the significantly increasing need to develop public financial control system and create prerequisites for efficiency improvements of local budget execution. In the system of public financial control in conditions of socio-economic instability, it is advisable to ameliorate the regulatory and legislative framework and develop a balanced system of control. The recommendation is to create a system of standardization of all types of state financial control. This is particularly required under the conditions of increasing global socio-economic challenges and instability. The most important direction to improve efficiency of public financial control and execution of local budgets is to minimize the public debt, which significantly reduces the efficiency of budgets at various levels and is a significant constraint on their development. The presence of debt forms a policy of reducing expenditure items for budgets of all levels, therefore, an effective measure to prevent an imbalance is a policy of actively increasing budget revenues-tax and non-tax (which in Ukraine, as the analysis showed, are among the lowest among European countries).

It is advisable to enhance the effectiveness of local budget execution in Ukraine and the management of municipal finances through the following measures. Firstly, increase the share of tax and non-tax incomes to local budgets (focusing on the average indicators of developed European countries). Secondly, assist public administration bodies in the improvement of the quality of management of regional and local finances (budgets). Thirdly, ensure the development of programme-targeted methods of budget management at the regional level. Another priority is the improvement of the controlling part of the state financial policy. Namely: bringing control to a level that allows reducing high rates of violations that cause losses of financial and material resources – illegal spending of resources and shortfall of financial resources.

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Проблеми та перспективи державного фінансового контролю та аналізу виконання місцевих бюджетів

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Анотація. В умовах постійного наростання глобальних викликів та соціально-економічної нестабільності проблема ефективності державного фінансового контролю є однією з центральних для сучасної України. Мета статті полягала в тому, щоб виявити основні проблеми державного фінансового контролю та провести оцінку виконання місцевих бюджетів. Основні методи до дослідження заявленої у статті проблеми: теоретичні підходи (аналіз українських та міжнародних теоретичних положень), аналіз і синтез, статистичний аналіз, систематичний аналіз, термінологічний аналіз, метод графічного представлення статистичних даних, аналіз законодавчих і програмних документів. У результаті проведеного дослідження підтвердилася висунута автором гіпотеза про значно зростаючу необхідність удосконалення, посилення системи державного фінансового контролю та створення передумов для підвищення ефективності виконання місцевих бюджетів. Виявлено недоліки, проблеми, перешкоди, обмеження та перспективи розвитку державного фінансового контролю та виконання місцевих бюджетів. Отримані результати мають теоретичну та практичну значущість. Застосування теоретичних підходів при дослідженні доповнює теоретичні положення державного фінансового контролю. Практичну значущість мають результати особливо при проведенні національної політики у сфері державного фінансового контролю в умовах кризи, спричиненої пандемією та її соціально-економічних наслідків. За результатами дослідження сформульовано пропозиції щодо вдосконалення системи державного фінансового контролю та виконання місцевих бюджетів

Ключові слова: механізми державного фінансового контролю, національна фінансова система, місцевий бюджет, фінансова безпека держави, фінансова безпека держави