

Strategic audit as a means of implementation of the state financial control in Ukraine

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Abstract: In the modern world, the main place among financial management systems belongs to the state financial control, because it provides law and effective use of state resources. In a market economy, state financial control requires the introduction of a strategic audit in order to find ways to increase the productivity and effectiveness of the state in all spheres of its activity. The formation of a strategic audit in Ukraine shows an increase in its role in the development of the national economy and in raising the status of social and political life. The article explores the legal nature of strategic audit in Ukraine, defines the concept of "strategic audit", examines the main elements of the strategic state audit, formulates the main objectives of the strategic audit and raises the importance and necessity of strategic audit implementation for effective state financial control. On the basis of the analysis of foreign experience in the sphere of financial control, the directions of development of strategic audit in the domestic economy are proposed.

Key words: state financial control, strategic audit, stages of evolution of strategic audit, elements of a strategic state audit, tasks of the strategic state audit, auditor, Accounting Chamber (Ukraine)

1. Introduction

In the sphere of functioning of a market economy, the task of controlling the receipt and purposeful use of state funds for its effective functioning at the present stage of development and in the future is of paramount importance.

Thus, government financial control is a kind of financial control carried out by the relevant government authorities, which consists in establishing the actual state of affairs in respect of compliance with the requirements of the current legislative framework on the controlled object aimed at ensuring legality, financial discipline and rationality in the process of formation, distribution, possession, use and disposal of assets owned by the state (Polishchuk, 2014).

Government financial control exists for the implementation of government financial policy and for making financial stability in the country. First of all, those are development, review, approval and execution of budgets of all levels and extra budgetary funds, and also financial activities of budgetary institutions control.

The main objective of the government financial control is to provide adherence to the principles of legality, expediency and efficiency of regulatory and executive actions on the management of public financial resources, tangible and intangible assets, their preservation and increase to perform government functions.

Today in Ukraine measures are being taken for the gradual transition of public administration to the level of European standards. But nevertheless, the system of state financial control which operates today in Ukraine does not fully meet the requirements of the present, because the main disadvantage is imperfect legislation.

It consists of:

- availability of a large number of legal acts regulating the activity of certain bodies of state financial control;
- lack of a basic law on financial control that clearly articulated the concept, essence, forms, types and methods of financial control, as well as the division of powers between the subjects of control activity, etc. (Polishchuk, 2014).

It becomes obvious that new approaches to organizing a country's budget process that are aimed at medium and long-term budget planning require the use of new modern types and methods of public financial control, such as a strategic audit of public finances.

The purpose of the article is to investigate the role of strategic audit in Ukraine, to define the concept of strategic audit, the main elements of strategic state audit, the main tasks of strategic audit, to substantiate the importance of introducing strategic audit in the financial sector.

2. Regulation of strategic audit

A comparatively new but rather effective element of the mechanism of state financial control is a strategic (forward) audit that decides on the development strategy of the government enterprises and institutions, organizations (at the micro level) and the whole country as a whole (at the macro level).

Strategic audit began in the 1950s, when the most Americans corporations and enterprises, and later—Europe, needed strategic planning of business processes. International Audit Standards (IAS) have been put into form in 1997 and from that time strategic audit became not only a tool for monitoring law, but also an economic and legal tool of a preventive nature. And already in 1998, the IAS used 34 countries as national standards, and in 35 countries they were used without significant changes.

With the adoption of the Law of Ukraine “On Auditing Activities” (new version of the law “On Audit of Financial Reporting and Audit Activity”, dated October 1, 2018), the Legal Institute of Auditing in Ukraine began to emerge in 1993. Therefore, the Audit Chamber of Ukraine (APU) adopted the decision of April 18, 2003 on the adoption of the Standards

of Audit and Ethics of the International Federation of Accountants as National Auditing Standards from 1 January 2004.

Along with the introduction and development of financial reporting in Ukraine, the demand for strategic audit has increased in recent years.

In contemporary economic literature, based on the importance of strategic audit, much attention is focused on the direction of its development and efficiency. But nevertheless, the unity of opinions in a wide range of scientists and practitioners does not define the essence of this concept (The Institute of Internal Auditors, 2019).

In the Ukrainian legislation that regulates the scope of the audit, the definition of “strategic audit” is not provided. In turn, foreign scientific opinion on strategic analysis and audit views strategic audit as a process of gathering information used to develop specific business goals and strategies.

After analyzing different approaches to defining the concept of “strategic audit” for both domestic and foreign scholars, we can talk about two basic approaches:

- 1st approach—defines a strategic audit as a subsystem of managerial audit which evaluates the prospects of the organization’s development or the efficiency of the investment resources (Guseva Y. V., Markova V. D., Piskunova S. I., Piskunov O. O., Liubesnov L. M.);
- 2nd approach—considers strategic audit as an area of audit and consulting activity, which produces a comprehensive assessment of internal and external conditions of activity (Zhuravlev P. V., Alekseeva I. V., Thompson A. A., Odegov Yu. G., Striklend A. J.).

The first and following experience with the application of the audit legislation in Ukraine detected some gaps, contradictions and weaknesses in legislation. Inadequate regulation of the audit market in Ukraine has led to problems with the confirmation of the quality and reliability of financial statements of enterprises and banks. This raises the risk of bankruptcy of such entities, which reduces their trust in potential investors and the population, and also creates barriers to attracting investment in the national economy as a whole. All this led to the need for an in-depth look at the problem of legal regulation of the audit institution in general in Ukraine in order to improve it.

In the development of domestic audit, an important event took place—the transition of the national audit to international standards 2003. By that time, Ukrainian auditors were guided by their work with 32 national standards and the Code of Ethics of Auditors. But time is not in place, therefore investors who came to the Ukrainian market became more demanding. Of course, they wanted to assess the financial statements of the activities of the company, the organization was carried out according to the usual canons customary for them. Therefore, the decision of the Audit Chamber of Ukraine from April 18, 2003 adopted International Standards on Auditing and Ethics as National Standards from January 1, 2004.

Until recently, one of the contradictions in the Ukrainian legislation was that the existing system of regulation of audit activity contravened European legislation, taking into account the European integration course of our state (The European Confederation of Institutes of Internal Auditing, 2019). An Indicator of the implementation of the European Parliament and Council Directive of May 17, 2006 on the statutory audit of annual reports and consolidated accounts was the adoption of the new wording of the Law of Ukraine “On Audit of Financial

Reporting and Auditing” dated January 10, 2018, which is currently determining the legal basis for the audit of financial statements, audit activity in Ukraine, and regulates the relations which arise in its conduct.

It should be taken into account that harmonization of legislation in the field of audit with European standards is one of the guiding principles of Ukraine within the framework of the “Ukraine 2020” strategy and a direct obligation within the framework of the Association Agreement.

Implementation of audit reforms in Ukraine will contribute to a positive investment climate, and secure:

- increase of investor confidence in the financial statements of domestic enterprises;
- raising confidence in the activities of national auditors;
- minimization of poor quality audit services;
- transparency and reliability of financial statements of issuers of securities, banks, insurance companies, other public companies, including state-owned enterprises;
- access of Ukrainian auditors to European markets.

Thus, the creation of perfect legislation that would clearly outline the main aspects of regulating the scope of audit in Ukraine is the first and very important step towards building an effective audit regulatory system aimed at improving the quality of audit of financial statements in the interests of the state and all of society.

3. Domestic practice of conducting strategic audit in the field of state financial control taking into account world experience

Developing Ukraine’s integration processes and modern state of the economy request new approaches to financial control from the state.

First of all, the bodies of the external (Accounts Chamber) and the internal (State Financial Inspection) of state financial control in many cases overlap each other’s functions. Of course, this significantly reduces the efficiency of their work. At the present stage it is not enough simply to control the issues of financial discipline, use of funds for the intended purpose and in the established volumes, and also it is necessary to determine the effectiveness of the invested resources in various indicators.

Second, with the transition to the programme-target method of budgeting in Ukraine, the issues of development and implementation of strategic audit in the system of external financial control bodies are very important.

Strategic audit is a modern method and an actual tool for improving the efficiency of management in the long run, a fundamental restructuring of production and organizational processes. Strategic audit is a tool for the correct, rational, economic construction of internal and external business processes and the implementation of economic operations.

At present, the methodology and technique of strategic audit in Ukraine is at the stage of formation and development. After analyzing world experience, one can distinguish four main stages of the evolution of the strategic audit (Figure 1).

With the help of the state strategic audit, a number of tasks are solved in world practice, in particular: assessment of the quality of the strategies of the state and its subjects; analysis of

the interconnection of strategic and territorial planning systems; assessment of the dynamics and level of achievement of key indicators; target indicators of strategic programmes; use of public funds in accordance with the approved strategic goals of the state and its subjects for the medium and long term, the assessment of strategic coherence, intermediate and tactical goals of the state.

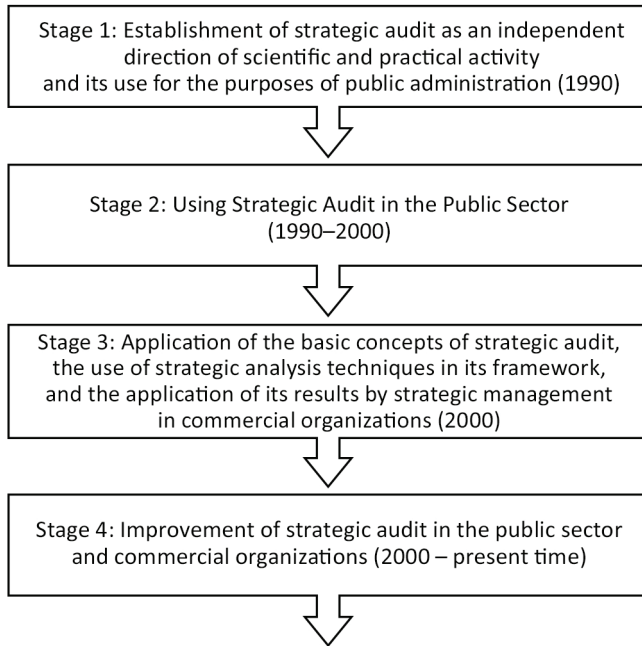


Figure 1. Stages of the evolution of strategic audit

Source: Arsanukaev, 2015.

The sequence of conducting a strategic state audit is similar to the method of conducting an independent audit, but it also has some differences. Thus, the process of strategic audit can be divided into three stages: the assessment of the validity of strategic plans and programmes, the feasibility of their implementation, an assessment of the effectiveness of the formation and use of state resources from the perspective of the possibility of being implemented in the established terms of strategic goals and priorities of state policy; obtaining evidence of the level of achievement of key indicators, target indicators and preparation of comprehensive conclusions based on them.

As world experience shows, strategic audit is perceived as a highly developed management tool and consists of certain key elements (Table 1).

Table 1. Elements of the system of state financial strategic audit

Item name	Characteristics of an element
1. Object	National security, the strategic direction of state policy, the results of major state programmes and system reforms, the activities of the departments responsible for their implementation.
2. Item	The strategic position of the recipient of budget funds and the environment of its functioning, options for achieving strategic goals and their financial support.
3. Purpose	Comprehensive evaluation: a) the system of state strategic planning of socio-economic development; b) the possibility of achieving (realization) in the established time frame of the strategic goals and priorities of the state policy, taking into account the assessment of the resource capabilities, as well as the existing risks and expected consequences.
4. Methods of audit	<ul style="list-style-type: none"> – Examination of the promising and resources of the planned projects. – Strategic analysis (SWOT-analysis) of socio-economic development of the state and its subjects. – Scenario method for forecasting the trajectories of achievement of strategic goals. – Programming, budgeting.
5. Contents of the report	Assessment of the degree and dynamics of achievement of the strategic goals of the state programme.
6. The nature of the conclusions and recommendations	Adjustment of state programmes and strategic goals in order to increase the efficiency of the use of resources in the context of national strategic priorities.

Source: Anhelyna, 2013.

Elements of the system of state financial strategic audit in the country cannot function effectively separately. Only their full-fledged interconnection will enable the state to ensure the qualitative functioning of the strategic audit and the reliable final result of its activity. In particular, the effectiveness of financial strategic audit depends on the entities that perform it.

The subjects of strategic audit in Ukraine are: independent auditors, financial inspectors, accounting Chamber employees. According to the Law of Ukraine “On Audit of Financial Reporting and Audit Activities”, an auditor is an individual who has confirmed qualification for carrying out the audit activity, has relevant practical experience and is included in the Register of Auditors (Verkhovna Rada Ukrayiny, 2018).

Auditors in different countries are called differently. For example, in the USA, an accountant-auditor is called a public or certified accountant, in France, accountants-experts or accountants, in Germany, the controller of the holding or the controller of books, in the UK—the auditor or juryman.

In Ukraine, auditors can work individually (only as an individual entrepreneur) or as a part of a business entity (legal entity), with certification. In Ukraine, a national audit system similar to that of market-economy countries audits has been formed. The basic components of the national audit system are, on the one hand, auditors and audit firms, and on the other hand, a professional non-governmental organization (Auditors’ Union) and the Audit Chamber of Ukraine. According to the statistics of the Register of Auditors (as of November 8, 2018), in Ukraine there are (Verkhovna Rada Ukrayiny, 2019):

- auditors (individuals–entrepreneurs)—2709 persons;
- audit entities (legal entities)—864 firms.

In accordance with the Constitution of Ukraine and the Law of Ukraine “On the Accounting Chamber”, the functions of financial control over the activities of budgetary institutions are exercised by the Accounting Chamber of Ukraine. On behalf of the Verkhovna Rada Ukrainy, it is authorized not only to exercise control over the use of funds from the state budget, but also to control their proceeds.

The activities of the Accounting Chamber are based on the principles of: legality, independence, objectivity, transparency and impartiality. The Accounting Chamber applies in its activities the main principles of the activities of the International Organization of Supreme Audit Institutions (INTOSAI), the European Organization of Supreme Audit Institutions (EUROSAI) and the International Standards of Supreme Audit Institutions (ISSAI) in part that does not contradict the Constitution and laws of Ukraine (The European Confederation of Institutes of Internal Auditing, 2019).

The Accounting Chamber of Ukraine carries out analytical, control and expert activity, which ensures a unified control system for the implementation of the state budget. Although the Accounting Chamber of Ukraine and the main directions of activity are determined, the further adaptation of this supervisory body to international standards is ongoing (Figure 2).

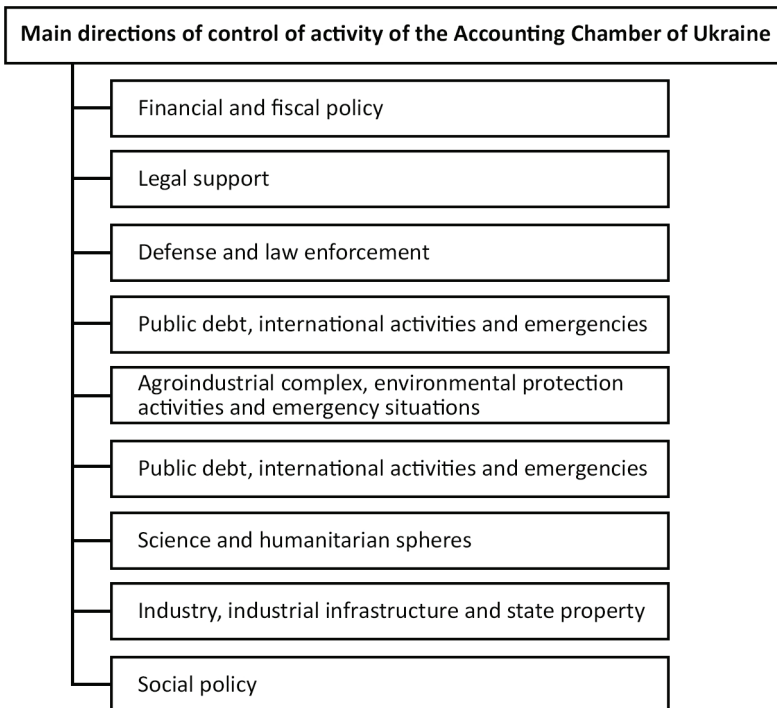


Figure 2. Main directions of control activity of the Accounting Chamber of Ukraine

Auditors of the Accounting Chamber apply a systematic approach to organizing inspections and analyzing their results. In the daily work of the Accounting Chamber experts, much attention is paid to analytical activity, assessment of the effectiveness of the control of objects of verification.

Consequently, the Accounting Chamber acts as a body that provides the public and authorities with reliable real information on the state of the funds management with the State Budget of Ukraine.

If we consider the system of financial control abroad, then it is quite the same type and consists mainly of 5 elements (Figure 3). In Western countries, one of the main places in the field of financial control is the Office of the Chief Auditor—Auditor, that is, the Accounting Chamber. The main purpose of its creation and existence is the implementation of general control over the use of funds from the state budget of the country. Typically, such an organization is subordinate to the president or parliament of the state.

In turn, the tax office is already subordinated to the president, the ministry of finance and government. The main objective of this institution is to control revenue in the context of tax revenues to the budget.

Non-state control services are institutions that carry out audits on the reliability of financial statements and the legality of financial transactions on a commercial basis.

Internal control services are structural divisions of enterprises, the main task of which is to increase profits, to achieve the goal of reducing costs, optimizing financial flows.

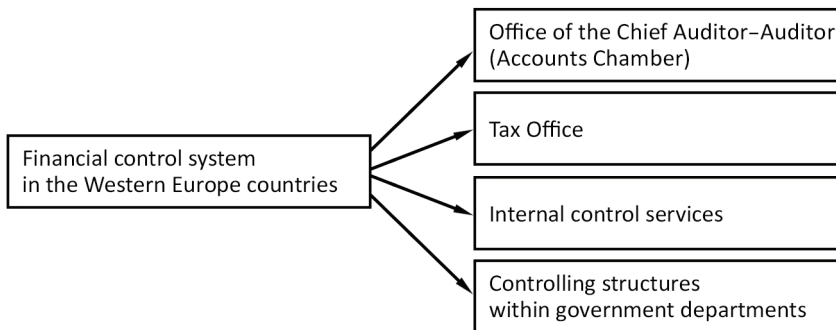


Figure 3. The system of financial control in the countries of Western Europe

Source: Bazyuk and Lahdan, 2018.

The system of financial control in foreign countries is carried out according to the following principles: institutional independence; financial independence; personal independence of auditors-controllers; own responsibility for the programme of inspections; sufficiency of information authority; the right to take measures.

Based on world experience, Ukraine is moving from retrospective forms of state control, such as audit and inspections, to its new form, the state financial audit. This is due to the

need to improve the effectiveness of public financial control in general, to improve the performance of executive bodies and various organizations that use state resources, as well as the need to introduce a new, less fiscal but more operational and partner control form in the budget sphere.

That is why, based on foreign experience, we propose the following recommendations for improving the strategic audit as a means of carrying out the public financial audit in Ukraine:

- preparation of national standards and methodological base for international and European standards, taking into account the European integration course of Ukraine;
- development of a unified information base and normative and legal support for the functioning of internal and external audit bodies;
- to ensure, at the legislative and practical level, the established cooperation of the Accounting Chamber with law enforcement and judicial bodies, which will allow the maximum compensation to offenders caused by the state losses and the return of state funds that were used in an unintended way;
- analysis of the experience of introducing strategic audit in the system of state financial control of foreign countries, its methodological and legal support, which will facilitate the development of the foundation for improvement and further development of the existing system in Ukraine;
- training of the personnel of the appropriate qualification, stimulating the prestige of the profession, creating public places in higher educational institutions of Ukraine.

4. Conclusions

Analyzing the foregoing, we can say that due to the action of objective economic factors in the development of society, it is already not enough traditional financial audit. At the present stage of development, humanity needs new audit technologies that allow obtaining not only relevant but also strategic financial information about the activities of commercial, non-commercial organizations and the state as a whole. This information is also required for investors to be able to analyze the development strategy, strategic reporting and prospects of investing resources in one or another project. That is why strategic audit becomes very relevant in modern conditions.

Strategic audit plays an important role not only in modern business conduct, but also in the implementation of public financial control. Firstly, with the help of a strategic audit, the prospects for the development of the whole country as a whole, as well as the results of large state programmes and system reforms are assessed, and the strategic direction of state policy is determined. Secondly, its conduct makes it possible to compare several projects of state development and to choose the most advantageous strategy for the state. Thirdly, strategic audit allows to minimize risks in one or another sphere.

Creating a clear legislative framework is the first and very important step towards building an effective audit engagement system that should improve the quality of the audit of financial reporting in the public interest.

Harmonization of legislation in the field of audit with European standards is one of the guiding principles of Ukraine within the framework of the “Ukraine 2020” strategy and the duty under the Association Agreement between Ukraine and the European Union.

Consequently, the criterion for the further development of audit in Ukraine is the orientation towards the international requirements adopted by the international community for auditing and related services.

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Audyt strategiczny jako narzędzie kontroli wydatkowania środków publicznych na Ukrainie

Abstrakt: Prowadzona przez instytucje państwowe kontrola wydatkowania środków publicznych odgrywa we współczesnych systemach zarządzania finansami ogromną rolę, zapewniając zgodne z obowiązującymi przepisami prawa i efektywne wykorzystanie środków budżetowych. W gospodarce rynkowej kontrola środków publicznych stwarza potrzebę przeprowadzenia audytu strategicznego, w celu znalezienia sposobów na zwiększenie wydajności i skuteczności państwa we wszystkich obszarach jego działalności. Utworzenie instytucji audytu strategicznego finansów publicznych na Ukrainie pokazuje wzrost roli tego narzędzia w rozwoju

gospodarki narodowej, a także podnoszenie poziomu życia społecznego i politycznego w tym kraju.

W artykule zaprezentowano prawne uwarunkowania audytu strategicznego na Ukrainie, zdefiniowano pojęcie audytu strategicznego, poddano analizie główne elementy strategicznego audytu środków publicznych, sformułowano jego cele i znaczenie dla skutecznej kontroli wydatkowania środków publicznych. Na podstawie analizy przyjętych w innych krajach rozwiązań w zakresie kontroli finansowej zaproponowano kierunki rozwoju audytu strategicznego na Ukrainie.

Słowa kluczowe: środki publiczne, kontrola finansowa, audyt strategiczny, zadania audytu strategicznego, audyt, audytor, Izba Księgowa (Ukraina)