

THE IMPACT OF DECENTRALIZATION ON THE FUNCTIONING OF THE AUDIT



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Abstract. The relevance of the study is due to changes in relations between economic entities. Such changes directly affect the implementation of the functions of the management system system, one of which is control. Thus, the changes that occur during the decentralization of economic relations, affect the features of the form of control, which is defined as an audit. The object of study defined set of relations of economic entities that occur during the audit. Substantive characteristics of changes related to auditing in the context of decentralization are the subject of the study. To achieve the goal of the study we used such methods as abstraction, analysis, synthesis, induction, deduction, bibliographic analysis, systems analysis, economic and legal analysis, generalization and grouping, etc. It is established that decentralization is accompanied by redistribution between the subjects of management of the powers, resources that could be necessary for their implementation, as well as responsibilities. The results of the study have theoretical and practical significance.

Keywords: *decentralization, audit, control, management, economic entities, powers, responsibilities.*

Introduction

The current state of economic relations in Ukraine is characterized by the influence of a large number of different factors that determine the nature, content and consequences of the behavior of both individual economic entities and their groups. This influence is characterized by various orientation, intensity, consequences and other parameters.

Among the factors influencing the relations of economic entities, the processes related to the change of powers and expectations of various participants in the management system acquired special importance in the conditions of transformations. They participate in the formation, accumulation, storage and transmission of information, substantiation and implementation of management decisions based on it, evaluation of the results of their implementation, making adjustments both in the activity itself and in the process of its management. These processes are closely related to the phenomenon characterized by the term "decentralization".

The process of decentralization of economic processes in Ukraine has gained significant positive dynamics after 2014, when a number of regulations were adopted. They regulate the relations between the subjects of management of political, economic and other processes, which allowed to delegate to local governments additional powers and resources necessary for their implementation. Thus, in order to adapt to the Ukrainian conditions of the European Charter of Local Self-Government (European Charter of Local Self-Government, 1985), the normative documents of the Verkhovna Rada of Ukraine, the President of Ukraine and the Cabinet of Ministers of Ukraine approved the Sustainable Development Strategy "Ukraine 2020" (Pro Strategiyu staloho rozvytku «Ukraina-2020», 2015), defined conditions for voluntary association of communities (Pro dobrovilne ob'ednannya terytorialnykh gromad, 2015), formulated the principles of state regional policy (Pro zasady derzhavnoi regionalnoi polityky, 2015), developed measures to ensure decentralization reforms (Pro dodatkovy zakhody schodo zabezpechennya reform iz decentralizaciyi vlady, 2018).

The implementation of these and other normative documents in the legal field of Ukraine has led to the transformation of relations regarding the formation and use of financial and other resources that were previously transferred to local communities by central authorities.

Decentralization processes lead to redistribution of powers between economic entities at different levels. Each decision-maker has its own economic, social, environmental and other interests. Such interests can be aimed at achieving goals, the general parameters of which vary in the range from unidirectional to diametrically opposed. Their content is determined by the expectations of the users of the information, the parameters of the objects that are disclosed in it, the environment in which the relevant data is formalized, as well as the methods of their disclosure and presentation.

Relevant changes in the formalization of different groups of economic entities interests have been formalized in a number institutions of regulations, which, based according to their status, provide the economic needs of the state and other participants in economic processes of both property and corporate interests protection (Pro zatverdzhennya Polozhennya pro poryadok provedennya konkursiv z prodazhu paketiv akcii akcionernykh tovarystv, 2012, Pro zatverdzhennya Poryadku zdiysnennya kontroliu za vykonannyam funkci z upravlinnia ob'ektamy derzhavnoyi vlasnosti ta kryteriyiv vyznachennya efektyvnosti upravlinnia ob'ektamy derzhavnoyi vlasnosti, 2012, etc.).

One of the tools to ensure the interests of economic entities in the context of decentralization is to strengthen the control function, especially in its form as audit. The study of identification and solution of audit problems as a tool to meet the needs of economic entities in a decentralized environment will increase the reliability of information and optimize its use. Considering the above, the aim of the research, the results of which are described in this article, is the verification of the hypothesis as to the existence of influence of decentralization of economic processes on the functioning of audit as one of the control forms, and also the identification and formalization of its features.

Literature review. The experience of introduction of the reforms related to decentralization in different countries found the reflection both in the specialized researches (*Council of Europe Press, 2004*) and scientific publications. Separate aspects of introduction of decentralization and solution of related to it theoretical problems were described in the works of K. I. Bryl (2017), V. I. Gladiy (*Gladiy*), M. I. Derkach (2011), T. M. Horvat (*Horvat*), A. P. Lelechenko, O. I. Vasiljeva, V. C. Kujbida, A. F. Tkachuk (2017), N. Y. Rekova (2018) P. B. Chornopyskyi (*Chornopyskyi, 2018*) and other researchers.

The research related to the attempt of identification and scientific substantiation of mechanisms of implementation of interests of different groups of economic entities gained distribution in the conditions of decentralization. Corresponding results were published in works of V. M. Zhuk (*Zhuk, 2015*), T. C. Osadcha (*Osadcha, 2017*), N. Gonthier-Besacier, G. Hottegindre, S. Fine-Falcy (*Gonthier-Besacier, Hottegindre, Fine-Falcy, 2012*), M. P. R. Bolívar, A. N. Galera, M. D. L. Subirés, L. A. Muñoz (*Bolívar, Galera, Subirés, Muñoz, 2018*) and others.

Among other, the leading role of control in the system of economic processes management on different levels was

acknowledged. In particular the features of implementation of control measures (including in the conditions of decentralization) were described in publications by Th. Volfersson (Volfersson, 1987), T. I. Yefymenko, I. B. Stefaniuk, N. I. Ruban (*Yefymenko, Stefaniuk, Ruban, 2004*), O. M. Petruk, O. V. Smaglo (*Petruk, Smaglo, 2015*), A. Ismail, M. Hasan, C. Clark, R. M. Sadique (*Ismail, Hasan, Clark, Sadique, 2018*).

The audit is one of the forms of control of economic processes and information about them. The ways of solution of problems of audit were investigated by R. Adams (Adams, 1995), A. Arens (*Arens, 2011*), I. M. Dmytrenko (*Dmytrenko, 2013*), O. Y. Redko (*Redko, 2008*), J. Robertson (*Robertson, 1993*), V. V. Ryadska (Ryadska, 2014), Y. B. Slobodanyk (*Slobodanyk*), O. L. Sherstiuk (*Sherstiuk, 2017*), A. Tiron-Tudor, G. S. Cordos, M. T. Fülöp (*Tiron-Tudor, Cordos, Fülöp, 2018*) and other scientists and practicing auditors.

Not discarding the positive results of research of these and other researchers, we consider it appropriate to establish that a necessity emerges of further research with the aim of solution of the issue of functioning of state and independent audit in the conditions of decentralization.

Research methodology. For verification of the hypothesis which was put forward during research the results of which are disclosed in the article, we applied general-scientific (abstraction, analysis, synthesis, induction, deduction) and specialized (bibliographic analysis, systemic analysis, economic and legal analysis, generalization and grouping and others like that) methodical approaches. The combined application of them allowed to formulate results of the conducted study that have a theoretical and practical value.

Research results. In our opinion, there exist reasons to establish the presence of decentralization processes influence of on features of certain elements of an audit.

As a result of redistribution of plenary powers, resources and responsibility among the certain elements of control system (by subjects accountable for preparation and presentation of information and by users of information) their expectation and possibilities concerning the use of informational, financial, material resources, and also resources of time and labor change. In this case, such redistribution can facilitate the change of informative streams, in particular – in the participation of state and independent auditors.

At the same time, the processes of decentralization can result in the redistribution of plenary powers between state and independent auditors as a result of change of expectations of initiators of audit and users of its results. The indicated influence of decentralization, in our opinion, can lead to the change of level of trust to the information tested by auditors.

The results of the conducted research gave an opportunity to establish that such elements of audit as the selection of the criteria of the evaluation of an object, acquisition and evaluation of auditor's evidence and formation of report on results of the executed work have certain peculiarities for an independent and state audit. In other words, there occurs an indirect influence of processes of decentralization on an audit.

Discussion of research results. Audit, in accordance with the valid release of the Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements (2018), is considered one of the types of tasks on results of execution of which the certainty to the

information users is provided. The indicated type of tasks which are executed by an auditor can be identified on condition of simultaneous presence of the row of elements, namely:

- 1) existence of trilateral relations among persons accountable for creation of information, its users and subjects, possessing theoretical preparation and professional skills necessary for implementation of independent evaluation of information;
- 2) an object of a task;
- 3) criteria of evaluation of the object of audit;
- 4) a necessity for acquiring of sufficient amount of appropriate auditor proofs as to the object of audit;
- 5) presentation of a written conclusion to the information users that contains the results of the evaluation of information conducted by an auditor.

The indicated elements of audit as the task of providing confidence to the users of information, in our opinion, can be identified and investigated in the context of determination of influence of processes of decentralization on the development of audit. We believe that the determination of factors of influence on the indicated elements must become the basis for such research, as well as the determination of the character and content of such influence.

Among persons responsible for the formation of information, one can identify financially-economic entities, among which – business entities, as well as establishments, possessing plenary powers to dispose of state resources. On the basis of the content of the aims of functioning and parameters of corresponding tasks, the indicated entities use the resources, granted by proprietors, creditors, and also state administration entities. For the acquisition of access to the corresponding resources economic entities must present their suppliers with the information, systematized in a certain way.

The proprietors of the indicated resources are interested in such information, which is stipulated by a necessity of data concerning the efficiency of their use and the possibility to benefit economically or in other way as a result of this. At the same time, qualitative, quantitative and cost characteristics of information and the process of its preparation must correspond to the totality of criteria. The fact of such accordance must be confirmed by

an independent person that possesses the necessary preparation and practical skills for this purpose – by an auditor.

First of all the processes of decentralization are characterized by the delegation of plenary powers from the management of higher level to the entities that execute administrative functions at lower levels. Therewith, the delegation of powers is accompanied by the transmission of possibility to maintain, distribute and use the resources, which were exclusively owned by one management entity, to two or to the greater amount of managers. Taking this into consideration, the responsibility for the results of corresponding measures is transferred accordingly, which, in its own turn, stipulates additional accountability of entities that received additional plenary powers.

Such redistribution of plenary powers, resources and responsibility for their use results in the emergence of necessity to change objective description of audit as a form of control of the functioning of economic entities. It is explained by creation of new informative streams between the management entities and the managed objects during decentralization. As a result, the physical amount of objects, the functioning of which must be investigated by the subjects of audit, and, accordingly, the amount of control measures that must be executed in interests of management entities, increases.

At the same time, in the context of decentralization, additional economic entities can be created, provided with plenary powers the content of which is determined by the expected results of decentralization. As they were not peculiar to entities of management before, there is a necessity, on the one hand, to create new entities, on the other hand, to execute control measures (in particular – the audit) concerning the results of their functioning. In addition, it is worth indicating that implementing new plenary powers in interests of control system new entities acquire responsibility particularly concerning

the characteristics of information submitted to the control subjects. This also assists an increase of amounts of objects controlled, the verification of functioning of which is envisaged in the form of control, particularly the audit.

On the other hand, additional plenary powers of existent participants of economic and other relations accountable for creation of information and transmission to her users can envisage delegation of certain authorities for the next level of performers. It gives an opportunity to admit the origin of additional requirement in realization of control measures, including – to the audit, already for information that is given by other entities. In the conditions of decentralization such entities are provided with additional plenary powers or such that were created for the achievement of her aims.

The increase of requests for execution of audit stipulates the necessity of revision of volume and content of plenary powers of its subjects. If a certain part of plenary powers of management entities is delegated to the greater amount of economic entities, there emerges an issue of the physical increase of volume of audit measures that must be taken.

However, delegation of plenary powers, resources and responsibility can result in the redistribution of possibilities of the utilization of the results of implementation of audit measures of state and independent audit subjects. If certain types of functions of control system are redistributed from economic entities whose functioning does not envisage the acquisition of income, in behalf on business entities (or vice versa) there can emerge necessities for bringing in independent auditors (instead of state auditors or together with them) or state (instead of independent or together with them).

Thus, changes that occur as a result of decentralization in the element of audit that envisages a presence of three independent parties can be represented illustratively (figure 1).

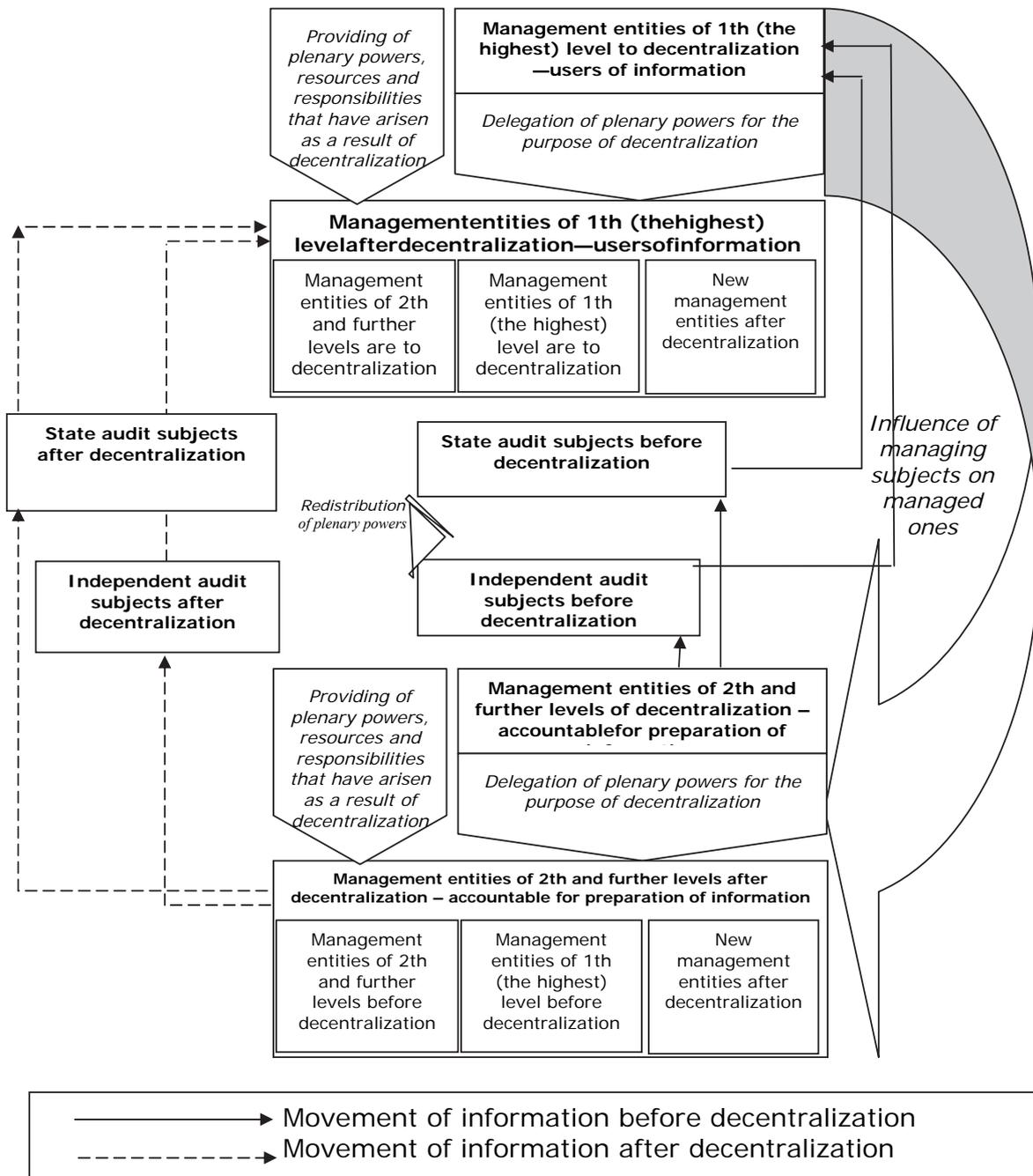


Figure 1. Changes in the relations of subjects on the basis of which the elements of audit are determined in the conditions of decentralization
 Source: development of the author

Another element of audit as of a task of granting the confidence is its object. An object of audit is any data in the evaluation of which there the users of information are interested. Such data can concern the financial, social, ecological, technological, organizational, reporting and other aspects of functioning of the controlled economic entities.

The object of audit is usually determined considering the expectations of users of corresponding information and requirements of the operating normatively-legal regulation. The normatively-legal

regulation determines the minimum set of aspects of functioning of controlled objects that must be evaluated during an audit and forms the subject domain of audit. In addition, it is worth noting that an object of audit that is determined by normative documents, including the ones of the legislative origin, considers the interests of the users authorized to apply financial and other sanctions upon establishing of facts of legislation violation.

In our opinion, such conceptual approach to identification of the object of audit is not substantiated enough. It can be explained by the fact that the functioning of economic entities, especially in the conditions of decentralization, is determined by the content and character of plenary powers they are provided with by managing objects, as well as by the algorithm of formation and utilization of resources, necessary for implementation of acquired plenary powers, and also by responsibility for allowing deviations from the algorithms of such implementation and nonachievement of the aims which were set.

The important aspect of identification of the object of audit, in our view, is the possibility of considering the interval of time during which the signs exist according to which the object of audit can be identified and evaluated. In particular, it can concern information about past events, current descriptions of functioning of the controlled object in the control system and prospects of its functioning in the future.

Other substantial aspect of identification of the object of audit which is completely or partially ignored by normative documents is its relevance, that is to say, expediency to determine a certain article of audit on the basis of his accordance to interests of users from the point of view of auditor.

Indicated and other deficits of identification of the object of audit can be taken into account, if the approach based on expectations of user of information under investigation is preferred. The corresponding conception acquires an especially high level of validity in the conditions of decentralization. It is related to the change in functioning of subjects accountable for creation of information and its presentation to the users, to the informational necessities of users, and also to the totality of circumstances that influence the possibility and method of the use of corresponding aspect for the purposes of both the user of information and audit.

The presence of objective limitation in the operation of both state and independent auditors consists in the determination of duration of conducting the audit as well as in limitation of resources at the disposal of the subject of audit. This stipulates the necessity of determination of the most problematic and risky aspects of functioning of the object under control which need a greater, in comparison with less substantial questions, use of resources of time, labour, material and finance by an auditor.

At the same time, in the conditions of decentralization both subjects accountable for the preparation of information and its users, in the event of initiation of conducting a state or independent audit, are obliged to take into account their own limitations determined by statutory powers, requirements of normative documents concerning the duration of conducting of audit measures, order of evaluation of its results and introduction of them in the functioning of the object under control. In this case the necessity of the rational use will also concern resources that are necessary for the indemnification of expenditures of an auditor resulting from conducting the corresponding measures.

In our opinion, it is also important to indicate an emergence of new aspects of activity of controlled objects in the conditions of decentralization. They are determined not only by the fact of redistribution of plenary powers, resources and responsibility between parties the existence of which is the basis of identification of elements of audit. It directly concerns, for instance, the processes related to implementation of such redistribution. The indicated aspects in the conditions of decentralization must be recognized as the independent elements of subject domain of audit. The observance of corresponding procedures give reasons to define legitimacy of functioning of a controlled object, a user of information about it and an auditor.

Thus, the influence of decentralization on the object of an audit consists in expanding of a circle of processes and their results the evaluation of which can directly or indirectly provide the users of the verified information with the possibility of its adequate utilization.

The next element that characterizes the audit in the conditions of decentralization, in our opinion, is the criteria of evaluation of an object. Their content, the peculiarities of formation and application directly influence the possibility of achieving the aims of audit in the interests of users of its results.

Depending on significant features of the object of audit, the interests of users of its results and selected application methods the following criteria of evaluation used by an auditor can be established: criteria of quality features evaluation, criteria of quantitative features evaluation and criteria of cost features evaluation of the object of audit (figure 2).

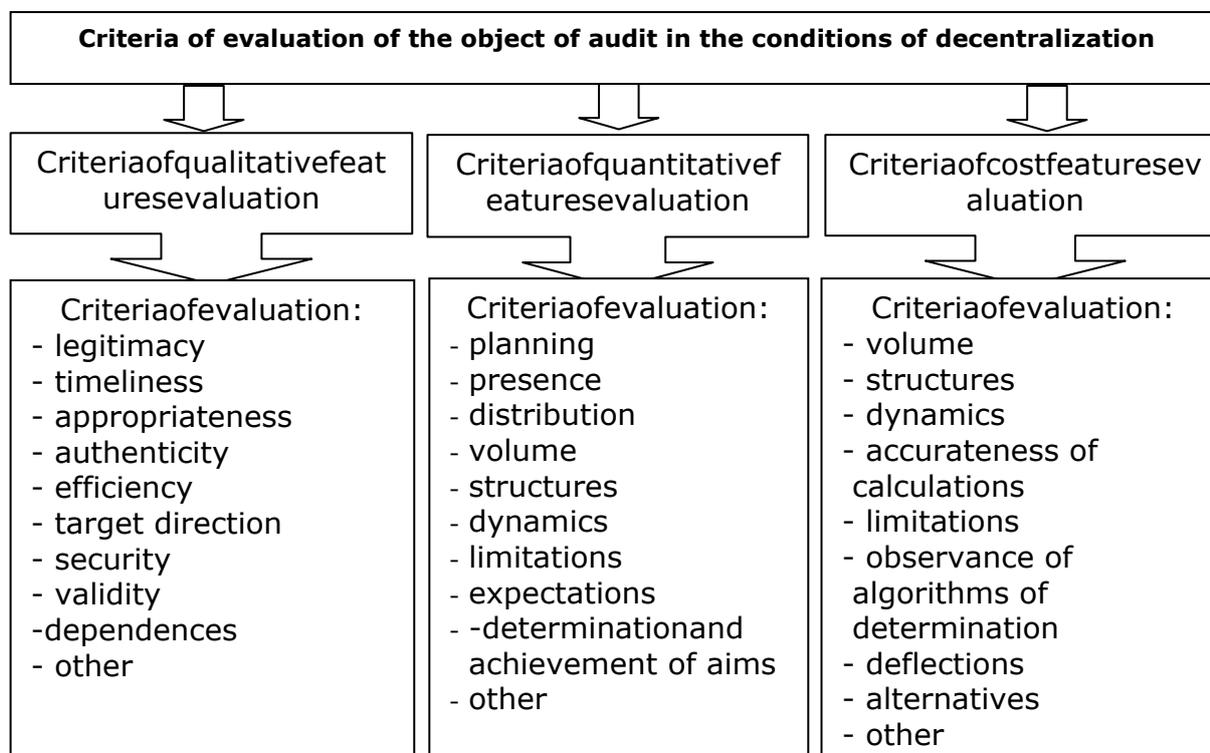


Figure 2. Types of evaluation criteria of the object of audit

Source: development of the author

In the conditions of decentralization the indicated features can change, based on the changes in the object of audit. Such changes can be initiated by an auditor on the basis of acquisition of new understanding of interests of users of information under investigation, requirements concerning evaluation which are contained in normative documents, and also auditor's own experience in the execution of similar tasks. The basis for the choice of evaluation criteria of the object of audit is the professional judgment of an auditor. It must take into account, on the one hand, the facts that certify the possible use of information that has to be verified, and, on the other hand, auditor's own understanding of such facts. Thus, content and features of any changes in the criteria of evaluation of the object of audit, including in the conditions of decentralization, is determined not by external circumstances, but the subjective attitude of an auditor toward them.

Conclusions

Research results, described in the article, will facilitate the optimization of the use of information by economic entities on the basis of providing of high level of credibility from the side of users considering the confidence derived from the results of an audit.

At the same time, the results of the conducted research did not give an opportunity to find an unambiguous solution for a row of debatable issues.

In particular, it concerns the determination of parameters according to which adequacy of distribution of plenary powers between the subjects of state and independent audit can be characterized.

As a result, there emerges a necessity for the development and formalization of the scientifically substantiated approaches to the determination of results of audit user expectation accordance to possibilities that implementation (jointly or separately) of state and independent audit can provide.

In the context of aforementioned we believe that a substantial value is acquired by the necessity of solving the problem of adequate identification of informational necessities of management entities and controlled objects.

The solution of the indicated and other problems of functioning of audit in the conditions of decentralization, in our opinion, will facilitate the increase of adequacy of implementation of necessities of information users.

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