

Theoretical, Legal And Organizational Principles for Optimizing the Financial Control and Audit Mechanism in the Security and Defense Sector of Ukraine



Pavlov Dmytro

Doctor of Law, Docent,
Department of the State Guard of Ukraine



Puhach Serhii

First Deputy Head
of the Institute of the State Guard of Ukraine,
Taras Shevchenko National University of Kyiv

Abstract. The article examines the peculiarities of the mechanism of financial control and audit in the security and defense sector, based on the analysis of the norms of the current legislation and doctrinal approaches, the directions of organizational and legal support for its rationalization in the context of security sector reform in accordance with the modern world standards and changes in the paradigm of ensuring national security are determined.

Keywords: national security; security and defense sector; financial control; audit; internal audit; budget program; performance indicators.

Problem statement

The urgency of the study of the issues of organization of financial control and audit in the field of security and defense is conditioned by the need for a new paradigm of national security, which should be based on an effective system of financial and material resources, based on effective control mechanisms. Optimization of the mechanism of financial control and audit of the use of budget funds for national security and defense is an important scientific and practical problem, the urgency of which, taking into account the tendency to increasing threats

of military-terrorist nature, and, accordingly, the costs to counter such threats, is constantly increasing. particular attention is needed to the issue of optimizing control in the security and defense sector in the context of the adoption of the new Law of Ukraine “On National Security” [1].

Analysis of recent research and publications. The theoretical basis of the study are the works of leading scholars on financial and administrative law, namely: D. Bekerska, A. Berlach, A. Chubenko, R. Kaliuzhnyi,

V. Kolpakov, S. Konstantinov, O. Kopan, O. Korystin, M. Kucheriavenko, O. Kuzmenko, M. Loshytskyi, A. Nechai, V. Nevidomyi, V. Olefir, O. Orliuk, L. Savchenko, L. Voronova and others.

The purpose of the article is to identify the main areas of optimization of the financial control and audit mechanism in the security and defense sector through the introduction of progressive forms and methods of control.

Presentation of the main research material.

The reform of state financial control, including in the field of security and defense, is carried out as an integral part of reforming and modernizing the system of public finances. The main objective of the control system in modern conditions is not only the prevention of financial violations (in particular, the corruption factors of their commission), but also the creation of a rational and effective mechanism for the distribution of limited financial resources, based on the concentration of efforts on the priority tasks of the development of the state and society, taking into account selected strategic priorities. Taking into account that financing of the security and defense sector is carried out at the expense of budgetary funds, the main attention in our study will be devoted to the analysis of areas of improvement of budget control and internal audit in this area.

It should be noted that control is more effective not when the fact of violation is established, but when conditions are created that would enable them to be avoided. This task is precisely auditing. In many developed countries, auditing has become a leading form of budget control, since, by verifying the authenticity and completeness of budget reporting, accounting for primary documents and other information on the activities of the manager or recipient of budget funds, auditors have the opportunity to identify weaknesses in managing budget funds and develop proposals that give an opportunity to increase the efficiency of their use [2; 3].

Legal bases of budget control and audit are defined in art. 26 of the Budget Code of Ukraine, entitled "Control and audit in the budget process". At the same time, as rightly notes L. Savchenko, the very title of the article is not entirely correct since the audit is a kind of control [4, p. 303–304]. Art. 26 is general in

nature, since it actually defines the tasks of control, although it states what it is aimed at, in particular, that control over observance of the budget legislation is aimed at ensuring efficient and effective management of budget funds and is carried out at all stages of the budget process by its participants in accordance with this Code and other legislation, and also provides: 1) evaluation of management of budget funds (including conducting public financial audit); 2) the correctness of accounting and the reliability of financial and budget reporting; 3) achievement of economy of budget funds, their purposeful use, efficiency and effectiveness in the activities of the budget managers by means of the adoption of reasonable management decisions; 4) conducting analysis and evaluation of the state of financial and economic activity of the budget funds managers; 5) prevention of violation of budget legislation and ensuring the interests of the state in the process of managing state-owned objects; 6) the reasonableness of the planning of budget revenues and expenditures [4; 5].

In the field of national security and defense, an important role is played by internal audit, which aims to provide recommendations for improving the public sector, enhancing the efficiency of governance processes that favor the achievement of the goal by the public sector body. The role of internal audit in countering corruption in the security and defense sector is important. In this case, developed countries use the model of internal control and containment of risks, entitled "Three lines of defense" [6, p. 85–91]. The vanguard of the prevention and reduction of corruption (first line) is the management control and measures of internal control. Management control is not separate divisions, but the daily activities of each manager of a structural unit, commander, chief (first of all those responsible for procurement, construction, and acquisition of housing, management of state enterprises, etc.). On the second line of defense, there are units that carry out special types of control: control of financial institutions, inspections, legal control, quality control, control of personnel, control of executive discipline, control over observance of legislation in the field of state secrets, etc. The third line of defense is an internal audit that

assesses how strong and reliable the first two lines of defense are. The internal audit does not affect the adoption of managerial decisions. It draws attention to the risks that were not covered by the previous lines of defense and makes recommendations and proposals for their reduction [6, p. 85–91].

In analyzing the most risky areas of activity of the structural units of the security sector, the main risks that require particular attention when improving the resource management system are centralized and decentralized purchases of goods, works and services for public funds (possible violations – procurement of goods, works and services without appropriate justification for the need for these procurements; the purchase of goods, works and services at overpriced prices from intermediaries, and not from producers (including by way of shredding procurement of goods, works and services of inadequate quality and without appropriate safeguards, specification of technical specifications of the subject of procurement for a particular supplier, unreasonable extension of the terms of delivery of goods (performance of works and provision of services) entailing late satisfaction of security needs and, in some cases, an increase in the final price of goods, works and services; inadequate claims for work seeking compensation for damages inflicted on fulfillment of the concluded agreements, etc.). In addition, special attention from the management of the security sector and relevant internal audit units is required for the issue of the alienation of military property; expenditures for the payment of cash benefits and other types of payments to servicemen, police, rescuers, etc.; rational resource provision (including during the conduct of the OOP – prevention of excessive spending of funds to pay poor nutrition for servicemen, failure to register actual material wealth received, including charitable assistance, groundless cancellation of material assets); the exploitation of immovable military property and land of defense; capital construction and housing acquisition; activity of business entities that are in the sphere of management of the security sector and defense sector [6, p. 85–91].

The ability to provide independent and objective guidance is the main difference between internal audit and other forms of

control. At the same time, centralized internal audit is a public internal audit conducted by the State Audit Office of Ukraine. The direction and coordination of a centralized internal audit is carried out by the Ministry of Finance of Ukraine, and decentralized internal audit is carried out by an authorized independent unit (an official) subordinated directly to the management of the public sector body, but functionally independent of it, within the public sector body itself or within the system of its management [4–6]. External audit in the security and defense sector is carried out by the Accounting Chamber of Ukraine.

Scientists distinguish the following types of audit: audit of reporting, authenticity (traditional financial control); audit of activity (herein the activity means all operations performed by any controlled entity); compliance audit (analysis of the activity of the controlling entity for the purpose of how it fulfills the order of an organization or institution that is superior to it, that is, the audit of the compliance of the laws, control compliance with the instructions, norms, orders of the management body) [4].

At the same time, there are different points of view among scholars and practitioners regarding the relationship between the tasks and content of different types of audit. Yes, V. Konovaliuk notes that financial audit is a method of state financial control, which consists in checking and analyzing the activity, the actual state of affairs in relation to the lawful and effective use of state or communal funds and property, other state assets, the correctness of accounting and the reliability of financial statements, the functioning of the system internal control of economic entities of the state sector of the economy, as well as other economic entities receiving (received during the period under review) funds of all budgets and public funds, or use (used during that verified) state or municipal property [7–8]. The Methodological Recommendations for the Accounting Chamber of the Financial Audit indicate that the financial audit is to verify, analyze and assess the correctness of the conduct, completeness, and reliability of reporting on revenue and expenditure of the budget, establishing the actual state of affairs regarding the use of budget funds, compliance with law in the conduct of operations with budget funds [9].

The Methodological Recommendations also state that the implementation of audit procedures may be accompanied by the application of such methods as verification, request, questioning, confirmation, recalculation, analytical procedures; the main methods of actual control, which are used for the purpose of obtaining audit evidence, are: inventory; control measure; expert evaluation; field observations and more; In practice, other methods of documentary control are used to disclose the content of financial and business transactions and processes carried out and to confirm their legality, reliability and appropriateness, in particular such as verification, verification, review, evaluation, re-calculation, comparison, observation, testing, generalization, examination, etc. [9].

It should be remembered that the effectiveness of spending budget funds or the level of their returns cannot always be determined by the financial audit because the criterion of effectiveness is the level of achievement of the goals, which largely depends on the quality of

management decisions. Therefore, in world practice, along with the financial audit, a form of control such as an audit of administrative activity, which is also called the operational and managerial audit, has long been used. Audit of administrative activity is a form of budgetary control, which examines the procedures for the adoption and implementation of management decisions by the subjects of the budget process in order to achieve certain goals. An integral part of the audit of administrative activities is the audit of the effectiveness of using budget resources. It represents the quality control of management decisions in terms of cost effectiveness and efficiency of using budget funds. It can be used as an audit of the effectiveness of using budget funds in implementing certain budget programs (functions), and on auditing the effectiveness of the functioning of the budget system (its separate components). The purpose of the effectiveness of an audit is to assess the level of return on invested budget funds and analyze the reasons for not achieving the goals [3, p. 448–450].

Conclusions

In modern conditions, the transformation of the ideology of state financial control, the shifting of emphasis from the formal verification of the reliability of expenditures to the analysis of the efficiency of management of budget funds and public property is taking place. Accordingly, in the process of effectiveness audit, performance, efficiency, cost-effectiveness of use of funds and legality, timeliness and completeness of management decisions, etc., are determined in the process of effectiveness audit, and in financial audit – correctness, completeness, reliability of reporting, target use of funds, etc. [1; 10].

The optimization of the financial control and audit mechanism should be based on the conceptual approach formulated in the doctrinal sources to the development of the financial control legislation of our state, which should be based on a basic comprehensive document that would determine the directions of development of public financial control in Ukraine. The improvement of the organization and implementation of public financial control, in the first place, should include the development and adoption of a Strategy for the Modernization of Public Financial Control, the Law “On Public Financial Control”. The existence of special legislation will be one of the grounds for the allocation of financial control right in an independent branch of law [4, p. 299–301].

An urgent need for the present is the development of a single sectoral methodology for assessing state target and budget programs in the field of security and defense. Otherwise, it is virtually impossible to really assess the effectiveness of using budget funds, especially in cases where various target indicators are used in state target and budget programs.

In addition to the indicators of the end result – increasing the level of national security – must take into account indicators of the structure of security threats. The structural analysis allows for a reasonable choice of relevant measures in the area of ensuring national security, depending on the nature and nature of threats.

An important element of the financial control and audit of the effectiveness of spending on security and defense should be the use of a comparative analysis that compares the social outcomes of domestic security programs with similar indicators in countries with a developed market economy or in countries that are on the way to transition to market economy, which will provide an opportunity to identify

the facts of artificial overestimation of budget expenditures or inefficient use of funds and to take appropriate measures adjustment funding. Another advantage of this method can be the refusal of the implementation of programs, the social effect of which in other countries was insignificant [11].

The priority task for the state and society in the context of the hybrid war is to create such institutional capacity of the financial control system that would allow the risk-oriented approach to external and internal audits of the security and defense sector and the relevant state and budgetary programs, taking into account their vulnerability to corruption, wastefulness, misuse and mismanagement, which will also largely determine the main ways of reforming the security sector and the defense in general and its separate components. In particular, in today's conditions, it is extremely important to use the audit methodology to identify possible duplication of budget financing by existing state programs and to constantly seek opportunities for rationalizing budget expenditures.

A prerequisite for increasing the effectiveness of financial control in the field of national security in the context of the application of the program-target budgeting method is the principle of publicity, when all results of control and monitoring of expenditures (other than secret) should be accessible to the public, including scientific and expert and journalistic communities. Citizens as end-users of public services in the security sector should have a realistic picture of the nature of threats and measures aimed at their prevention, as well as the amount of funding for these measures and the effectiveness of the use of funds. Publicity provides a permanent self-improvement of both the security sector itself and the system of indicators for assessing its effectiveness, it allows an objective assessment from domestic and foreign experts [5]. We must note that the norms for carrying out public control were reflected in the Law of Ukraine "On National Security of Ukraine".

In order to effectively regulate the peculiarities of financial control and audit in the field of security and defense, and taking into account the importance of this group of public relations, we propose to develop and adopt the Law of Ukraine "On the peculiarities of state financial control in the security and defense sector".

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