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Influence of state financial control on state authorities functioning

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Abstract

The purpose of the study is to characterize the impact of state financial control on the functioning of public authorities and to highlight the directions for the development of state financial control in Ukraine. The methodological basis of the article is a system of general and special scientific methods (dialectical, formal-logical, comparative legal, analytical, etc.). It is proved that in most countries there are formal systems of state financial control, the subjects of such control and their powers are clearly defined. It has been established that in Ukraine there is a centralized model of activity of state financial control bodies, which does not meet the current challenges. It is concluded that the presence of unified and clearly defined tasks, methods and principles, taking into account the specifics of the national legislation and the socio-economic situation that ensures the effective work of state financial control bodies and improves financial and budgetary discipline. It is based on the priority of three vectors of development of the state control system: formation of a clear structure of state control subjects; development of a legislative framework and unified methodology and, finally, introduction of modern information and innovative technologies.

Keywords: state financial control; regulatory agencies; subjects of financial control; financial discipline; fiscal decentralization.

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El impacto del control financiero estatal en el funcionamiento de las autoridades públicas

Resumen

El propósito del estudio es caracterizar el impacto del control financiero estatal en el funcionamiento de las autoridades públicas y resaltar las direcciones para el desarrollo del control financiero estatal en Ucrania. La base metodológica del artículo es un sistema de métodos científicos generales y especiales (dialécticos, lógicos formales, jurídicos comparados, analíticos, etc.). Está comprobado que en la mayoría de los países existen sistemas formales de control financiero estatal, los sujetos de dicho control y sus poderes están claramente definidos. Se ha establecido que en Ucrania existe un modelo centralizado de actividad de los organismos estatales de control financiero, que no responde a los desafíos actuales. Se concluye que la presencia de tareas, métodos y principios unificados y claramente definidos, teniendo en cuenta las especificidades de la legislación nacional y la situación socioeconómica que asegura el trabajo efectivo de los órganos estatales de control financiero y mejora la disciplina financiera y presupuestaria. Se fundamenta la prioridad de tres vectores de desarrollo del sistema de control estatal: la formación de una estructura clara de sujetos de control estatal; desarrollo de un marco legislativo y una metodología unificada y, por último, la introducción de información moderna y tecnologías innovadoras.

Palabras clave: control financiero estatal; autoridades reguladoras; sujetos de control financiero; disciplina financiera; descentralización fiscal.

Introduction

Control is an important factor in making effective management decisions that is one of the necessary conditions for the existence of a legal and democratic state. It allows identifying deficiencies in the functioning of state institutions, organizations, economic entities; it determines the causes of their occurrence and directions for optimization of activities. Control increases the discipline of employees of the management apparatus, making it possible to objectively determine the level of their awareness and responsibility. Therefore, taking into account the current state of development of economic relations in Ukraine and the state of war, reforming the state financial control and budgetary relations, bringing them into line with the requirements of the European Union, is of priority.

State financial control in the developed foreign countries is based on the main principles of the Lima Declaration (Lima Declaration of Guiding Principles of Control, 1977), the International Organization of Supreme Audit Institutions (INTOSAI), the European Organization of Supreme Audit Institutions (EUROSAI), which include Ukraine. Thus, the Lima Declaration notes that each state has to create the highest agency of financial control in order to achieve effective and rational management of state financial resources, whose independence should be enshrined at the legislative level. The process of financial decentralization has been taking place in Ukraine since 2014. In this process country's economic development level is an important factor when introducing reform of fiscal decentralization (Slavinskaitė, 2017).

A component of fiscal decentralization reform is to increase the financial capacity of local authorities. This financial capacity of local authorities is based on the ability to attract existing and potential financial resources from this territory to finance economic, social and environmental needs, to establish rational and effective directions for their distribution and use. Fiscal decentralization is aimed at increasing the financial capacity of local authorities. This financial capacity of local authorities is based on the ability to attract existing and potential financial resources from this territory to finance economic, social and environmental needs, establish rational and efficient directions for their distribution and use (Teremetskyi *et al*, 2021a). Achievement of those tasks is possible only in the presence of effective financial control. In this regard, it is worth considering the positive experience of the developed countries having an effective system of financial control.

The scientific literature does not provide clear and unified approach to the assessment of state financial control in foreign countries. However, scholars agree that control over distributed public financial flows is a key task in ensuring financial security (Avdeev, 2021).

O. Z. Seleznov distinguishes the following systems of financial control depending on their consolidation in the constitutions of different states: parliamentary (Russia), judicial (Turkey, Greece), specialized (Ireland, Poland, Brazil) and presidential (Uzbekistan, Portugal) systems. However, the development models of financial institutions in foreign countries are usually mixed and contain characteristic features of all the listed systems. As an example, we can mention the financial control systems of the Czech Republic, Austria, and China, where features of parliamentary and specialized systems are combined, or France and Italy, where parliamentary, judicial and presidential systems are mixed at the same time (Seleznov, 2010).

Ukraine also has a mixed system of financial control, which combines elements of parliamentary and specialized systems, because the greatest

attention in the system of state financial control of the state is given to external control, which is carried out by the Accounting Chamber of Ukraine on behalf of the Verkhovna Rada. We can currently talk about two main agencies, whose competence includes the implementation of state financial control in Ukraine – these are the Accounting Chamber of Ukraine and the State Audit Service of Ukraine, which are the basis for further reforming the system of state financial control of the European model. At the same time, the Accounting Chamber offers to transfer all financial and control activities to itself, leaving only internal control to the State Audit Service, whose activities are directed and coordinated by the Cabinet of Ministers of Ukraine (Dikan, 2019).

There are other approaches in the scientific literature to delimiting the powers of the specified agencies. Thus, S.P. Yaroshenko believes that the State Audit Service, like the Accounting Chamber, should carry out external control, leaving the issue of internal control to internal control agencies (Yaroshenko, 2007). V.K. Symomenko notes that the system of state financial control should effectively combine state internal and external control, which will allow coordinating the work of all regulatory agencies and contribute to the improvement of legal support and methodological potential of control activities (Symonenko, 2006).

The above allows us to conclude that there is no unity in approaches among scholars to defining the system of financial control agencies in Ukraine.

Analysis of the legislative framework of foreign countries regarding the activities of state financial control agencies indicates the need to improve the system of state financial control in Ukraine. The experience of using this type of audit by regulatory agencies, such as an efficiency audit, contributes to the fact that the public sector of the economy is transparent and manageable (Pihotskyi, 2016).

Germany, the USA, France, Great Britain are those countries that have significant experience in the formation and effective implementation of the system of state financial control. Each of those countries ensures an increase in the responsibility and importance of state financial control agencies in its own way by providing them with sufficient logistical base, powers, separating them from the objects of control. At the same time, most countries have a formed and stable market economy, where financial control is built on the principle of delimiting the areas of control agencies' subordination and the absence of a single criterion for their classification.

Despite the need to stabilize the state's economy during martial law, Ukraine continues to reform the system of state financial control in the country. However, the specifics of the influence of state financial control on the effectiveness of the functioning of state authorities, as well as the

directions of its development in Ukraine, are still not scientifically studied. The purpose of this article is to study this issue.

1. Methodology

The following research methods were used in this article:

- *the dialectical method* of scientific cognition of ideas about the impact of state financial control on the functioning of state authorities allowed us to consider them within their relationship and development with a number of related definitions in administrative and financial law, to identify established patterns and directions of their implementation;
- *the formal and logical method* contributed to clarifying the essence and main tasks of state financial control, analysis of the concepts of “state financial control”, “state power”;
- *the logical and semantic method* was applied to define conceptual structures regarding state financial control, powers of regulatory agencies;
- *the structural and functional method* was applied to find out the characteristic features of the activity of state financial control agencies and their impact on state authorities’ functioning;
- *the comparative and legal method* consists in comparing the systems of state financial control of different countries in order to identify their similar or distinctive features;
- *the analytical method* became the basis for studying the legal principles for regulating the impact of state financial control on state authorities’ functioning and the analysis of normative and legal regulation in the relevant sphere of relations.

2. Results and Discussion

2.1. International experience of ensuring state financial control

According to the liberal intergovernmental approach, while maintaining state “diversity”, control over the society life processes should remain in hands of state, within which civil society exist and develop (Gryshchenko *et al.*, 2021).

Taking into account the previously defined tasks, we believe it expedient to determine the priority areas of state financial control and, accordingly, its model – centralized or decentralized.

Let's start with the analysis of the experience of using the centralized model, which is implemented in France and has a stable socio-economic development. State financial control in this country is centralized and has vertical interdepartmental relations. A positive point of such an organization is that the regulatory agencies have considerable experience in the field of control over the expenditure of budget funds, the appropriate staff and the status of civil servants assigned to the employees.

The General Inspectorate of Administration and the General Inspectorate of Finance are financial control agencies. These agencies are directly subordinated to the Minister of Economy and Finance. The General Inspectorate of Finance performs control functions over the activities of the local departments of the Ministry of Economy and Finance. It supervises the activities of all accountants who are appointed to public positions and administrative accounting offices of managers of secondary loans, state enterprises, as well as those state agencies and enterprises that are under the financial control of the state. The General Inspectorate of Finance commissioned by state ministries and departments, as well as on its own initiative conducts and organizes research on economic and financial results (Aleksandrovych, 2014).

State financial control is also managed by the Accounting Chamber, which primarily monitors that economic reporting meets the criteria defined in legislation. It is entrusted with the task of identifying and preventing violations in the budgetary and financial sphere, facilitating parliamentary and governmental control of activities aimed at implementing laws in the sphere of finance. An important role in the management of centralized financial resources belongs to specialized state entities, such as the Banking Control Commission, the National Credit Council, the Commission for Economic and Regional Development of the country. State financial control is aimed at evaluating both the effectiveness of the use of budget funds and the effectiveness of the work of various state organizations (Stefaniuk, 2005).

At the same time, this model of activity of state financial control agencies is mostly characterized by a lack of both mobility and flexibility, as well as mutual control of agencies resulted to a risk of internal corruption.

The current system of state financial control in the USA is built on the basis of the principle of separation of powers without the creation of a special agency that performs administrative control and financial functions. That is, there is a diverse system of state financial control agencies in this country functioning on the basis of independence and ensuring the balance of powers of both the legislative and executive branches of power.

The executive branch of government is represented by the Administrative and Budgetary Department, whose sphere of activity includes issues of

financial control, which also evaluates the effectiveness of management and organizational structures and ensures the coordination of their activities. The agency of state financial control is the Main Control Department of the Congress. It has significant oversight powers over all government contracts and programs, and conducts research to evaluate the effectiveness of the suggested programs. Inspectors of this Department also verify the activities of auditors of the executive power. In some cases, it is possible to coordinate actions with the investigative units of the Ministry of Justice and other agencies endowed with relevant powers for verification (Malyshev, 2003).

We believe that such organization of the activity of financial agencies system assists to achieve the most effective financial policy, since the indicated system is sufficiently flexible (all agencies have a high degree of specialization and mutual control; financial management agencies in the USA are independent and autonomous while implementing tax and financial policy).

There is also an advisory agency within the financial management system along with the federal agencies, which are represented by the Main Control and Audit Department and the Administrative and Budgetary Department. This agency is entrusted with the responsibilities of forming the foundations of the economic and financial policy of the country (Szostakowski, 2016).

The construction of the system of state financial control in Sweden is carried out on the basis of a socially oriented economy. There is a three-level system of state financial control over the use of budget funds in this country: district, municipal and national. The main body in matters of state accounting and control is the State Audit Office, whose activity is characterized by two areas: the audit of the effectiveness of public procurement and the annual audit of the financial and economic activities of enterprises and institutions at the national level.

Its task is to achieve high-quality management of financial activities. Unlike other European countries, Swedish central executive authorities are not empowered to manage government departments. Therefore, the Basic Law of Sweden enables the government and parliament to have their own control units in the public sphere (Hubanova, 2012).

The beginning of a new method of control was laid in Sweden. It was “performance control”, which was the basis of the activities of most world countries. In the process of efficiency control, special attention is focused on the assessment of the consequences of the decisions taken by the authorities in the financial and budgetary sphere. A successful evaluation of the effectiveness of the authorities’ activities contributes to the effective socio-economic effect of the spending of budget funds. The results of performing audit and the financial audit are reflected in detailed reports, which are sent to one of the responsible Auditors General, whose competence is to

make decisions, which of them are subject to submission to the Parliament. Subsequently, such reports are published in open sources for general perusal (Polishchuk, 2014).

The given examples show that special financial control agencies play the leading role in the financial control system in the developed foreign countries. We also can see their clear hierarchical structure headed by the Supreme Control Board with broad rights and powers. Other agencies are subordinated to it or their work is coordinated and verified for effectiveness.

The unifying element in the legal status of modern highest control institutions is their established accountability to the parliament within constitutions, institutional independence from the executive authorities and independence in planning the audit and its implementation. Such independence is built on the principles of accessibility and openness of audit results, as well as independence in the coverage of audit results (Dmytrenko, 2010).

The autonomy of regulatory agencies in the professional and political aspect consists in the procedural features of the appointment and dismissal of their members, as well as the specified stay in the position of the head of a particular agency (Pozhar, 2012).

One of the main conditions for rational, efficient and effective provision of financial and control activities in the vast majority of countries is the presence of local divisions. Usually those divisions, depending on the form of the country's government, are partially or completely subordinated to the Supreme Accounting Office. At the same time, they retain their independence in performing their functions and focus on auditing local budgets regarding their fund's expenses. If necessary, they promptly perform the tasks of the central control institution. Similar regional offices of the supreme budget control agency operate in France. It is believed that the presence of such agencies in Ukraine will increase the effectiveness of budget control at the local level in the future.

2.2. Specifics of carrying out state financial control in Ukraine

Centralized model of the activities of state financial control agencies currently operates in Ukraine. It consists of the following governing bodies: the Accounting Chamber and the State Audit Service of Ukraine. The Constitution of Ukraine established the status of the Accounting Chamber as a constitutional agency acting on behalf of the Verkhovna Rada of Ukraine and exercising control over the use of funds from the State Budget of Ukraine. At the same time, the powers defined by the Constitution and the list of functions of the Accounting Chamber can be supplemented and changed based on the provisions of the Law of Ukraine "On the Accounting Chamber" (2015), the Budget Code of Ukraine and other regulatory legal acts (Constitution of Ukraine, 1996, Article 98).

The activities of the Accounting Chamber were reformed towards the introduction of parliamentary control over its activities in 2015. Thus, this agency according to the Art. 1 of the Law of Ukraine “On the Accounting Chamber” is a state collegial body accountable to the Verkhovna Rada of Ukraine and informs it about the results of its activities (Law of Ukraine “On the Accounting Chamber”, 2015). Similar provisions are enshrined in the Art. 98 of the Constitution, the Art. 109 of the Budget Code of Ukraine and the Regulations of the Accounting Chamber. Besides, this agency is organizationally, functionally and financially independent, and also independently plans its activities. It means that the activity of the Accounting Chamber does not depend on the activity of other regulatory agencies.

Regarding innovations in the activities of the Accounting Chamber, it should be noted that the Accounting Chamber has been applying the main principles of the International Organization of Supreme Audit Institutions (INTOSAI), the International Standards of Supreme Audit Institutions (ISSAI) in its activities since 2015, in part that does not contradict the Constitution and laws of Ukraine. An external audit and assessment of the Accounting Chamber’s activities has become mandatory, as well as the cooperation with the legislative agency has been improved.

We should note that those provisions are included in the Association Agreement between Ukraine and the European Union, as well as in the Agenda of the Association between Ukraine and the European Union for the preparation and promotion of the Association Agreement’s implementation.

In addition, the Group of States against Corruption of the Council of Europe (GRECO) provided recommendations on expanding the powers of the Accounting Chamber in the Evaluation Report on Ukraine to conduct an external independent audit of local self-government agencies in order to cover all types of their activities.

The Article 4 of the Law of Ukraine “On the Accounting Chamber” states that the powers assigned to the Accounting Chamber by the Constitution are exercised through the implementation of measures of state external control, which is ensured by the Accounting Chamber through defining two types of audits – financial and audit efficiency. However, the Inspire and Support of Supreme Audit Institutions (ISSAI) defines the presence of three types of audit, to be more precise an additional audit of the compliance with the aforementioned types of audit. The indicated types of international standards are different in their specific implementation, tasks and purpose. Therefore, it is necessary to officially translate them into Ukrainian for their implementation in accordance with the Art. 7 of the Law of Ukraine “On Standardization” and INTOSAI.

It is important, because the Department of Strategic Development of Analytics and Standards of the Accounting Chamber has developed Methodical Guidelines for conducting financial audit, where it is noted that they are prepared taking into account the provisions and requirements of the Inspire and Support of Supreme Audit Institutions (ISSAI). However, due to the lack of an official translation, it is impossible to verify the compliance of the specified Methodological Recommendations with International Standards. It is interesting that there are no Methodological Recommendations for conducting an efficiency audit on the official website of the Accounting Chamber.

Therefore, the Accounting Chamber is the highest agency of external state financial control in Ukraine, independent of any state agencies. The powers of the Accounting Chamber are derived from the powers of the Verkhovna Rada of Ukraine and it cannot go beyond their limits in its activities in accordance with the Art. 19 of the Constitution of Ukraine (Constitution of Ukraine, 1996).

It is worth noting that the economic development of Ukraine based on decentralization and increasing the role of local budgets and local councils in managing funds will improve the economic situation in territorial communities. But in this case, there is a problem of state control over the use of funds of territorial communities due to their significant amount. Therefore, means of monitoring and control should be implemented, which should ensure smooth execution of tasks, as well as should increase the productivity and efficiency (Teremetskyi *et al*, 2021b). At the same time, it is necessary to strengthen the responsibility of local self-government agencies to the community.

Decentralization contributes to corruption, if political competition at the local level is limited, minimizes the effectiveness of central government control over the budgetary process at the local level, deepens the differentiation in the levels of regional development. (Teremetskyi *et al*, 2021a). Kenya's experience of decentralization is a vivid example of innovation in economic development, because the local authorities created a significant number of financial control agencies in order to overcome corruption problems. Those agencies supervise certain economic spheres, while simultaneously granting additional powers to local governments (Zavalko, 2017).

The regulatory and legal provision for the activities of the Accounting Chamber is difficult at the current stage both from the point of view of its insufficient compliance with international standards and from the point of view of its limitations. As a result, the Accounting Chamber is not efficient enough in its control measures, because it uses outdated methods to conduct them. Given that the Art. 15 of the Law of Ukraine "On the Accounting Chamber" establishes new powers regarding local budgets, the primary

task for the Accounting Chamber is to take into account the development of a strategy for the development of measures and tasks to regulate the mechanisms of external audit of budgets at the local level.

International experience of the highest financial control agencies proves that the basis of their functionality is not so much the fight against crimes in the financial sphere, but methodical activities aimed at improving the efficiency of budget financing. It is achieved not only through the implementation of specific budgets, but also through legislative activity.

We believe that the Accounting Chamber of Ukraine should not be a state agency, which is reflected in the relevant law, but a state power agency that has the right to exercise its powers in relation to agencies and officials under its control. In order to improve the overall effectiveness of the Accounting Chamber, it is necessary to grant it the right to suspend the implementation of those decisions regarding which it has initiated one or another investigation until the relevant agency provides a reasoned response. However, such decisions of the Accounting Chamber should be subject to appeal in court.

The State Audit Service of Ukraine is the central agency of the executive power, whose activities are directed and coordinated by the Cabinet of Ministers of Ukraine and which ensures the formation and implementation of state policy in the field of state financial control. The agencies of the State Audit Service of Ukraine include the central apparatus and its interregional territorial agencies. Normative and legal acts that regulate the activities of the State Audit Service of Ukraine are the Law of Ukraine “On the Basic Principles of State Financial Control in Ukraine”, the Budget Code and the Regulations on the State Audit Service of Ukraine.

The main tasks of the State Audit Service of Ukraine are reflected in the Art. 2 of the Law of Ukraine “On the Basic Principles of State Financial Control in Ukraine” and are realized by implementing state financial control over the use and preservation of state financial resources, non-current and other assets, the correctness of determining the need for budget funds and making commitments, effective use of funds and property, compliance with procurement legislation, etc. (Law of Ukraine “On the Basic Principles of State Financial Control in Ukraine”, 1993).

The distribution of inspection and audit functions is carried out with the help of an organizational change in the structure of the divisions of the State Audit Service of Ukraine, that is, through the creation of audit departments according to the relevant sectoral orientation. Nowadays, the agencies of the State Audit Service of Ukraine conduct audits of state target-oriented programs, activities of business entities, implementation of budget programs, investment projects, local budgets, the Pension Fund of Ukraine, and mandatory state social insurance funds. Each of these types of audits is combined and does not meet international standards.

It is due to the fact that the audit service replaced the previously existing State Financial Inspection without the necessary amendments in the legislation. Amendments were made only in the new Regulations on the State Audit Service of Ukraine, which established its subordination to the Cabinet of Ministers of Ukraine. However, it would be more logical to subordinate the Audit Service to the Ministry of Finance of Ukraine.

We believe that the existence of two main agencies in the field of state financial control leads to a conflict between those agencies and a decrease in the effectiveness of financial control measures. Herewith, the functions of the State Audit Service are duplicated with the functions of the Ministry of Finance in the field of formation and implementation of state policy and the functions of the Accounting Chamber in the field of state financial audit.

At the same time, there is no coordination of actions of the specified agencies. A similar model exists in Argentina, where internal and external financial control is carried out by two institutions – the Main Audit Agency and the Main Control Agency. Therefore, we consider it expedient to create local agencies of the State Audit Service of Ukraine with the special status and broad powers in the field of supervision over budgets at different levels.

Pakistan's experience is also important for the issue under consideration. Since 2000 this country has had a specially authorized official – a financial advisor belonging to the system of state financial control agencies. The main powers of that official are consultative functions, which are manifested in providing advice not only to financial control authorities, but also to other authorities and ministries (Government of Pakistan, 2006).

Considering that fact, a significant part of the reforms oriented towards the European vector of the development should be implemented by the end of 2022, it is necessary to make appropriate amendments to the Ukrainian legislation on state financial control as soon as possible.

Conclusion

Therefore, the current situation that has developed in the field of state financial control cannot allow the state financial control agencies of Ukraine to effectively perform their functions due to the existence of a model, where there are two main regulatory agencies, which do not have a common vector of development and an appropriate legislative framework regulating their activities.

International experience in the outlined topic shows that the following steps must be taken for state financial control agencies' effective work:

- to clearly define the control functions of responsible agencies in the financial sphere and to enshrine them in the Constitution of Ukraine and special legislation by ensuring the absence of duplication of their powers;
- to develop and implement uniform generally accepted standards and methods, as well as terminology in the researched field;
- to ensure the introduction of effective mechanisms for the implementation of various types of state financial control and to eliminate conflicts in the current legislation;
- to consider all current standards of the International Organization of Supreme Audit Institutions (INTOSAI), the International Standards of Supreme Audit Institutions (ISSAI) and to develop national implementation strategy requirements of the specified acts, taking into account the positive international experience.

It has been concluded that the presence of unified and clearly defined tasks, methods and principles, taking into account the specifics of national legislation and the socio-economic situation ensures the effective work of state financial control agencies and improves financial and budgetary discipline.

The authors have proved the expediency of forming a system of state financial control in Ukraine with an orientation towards a mixed model, which combines elements of parliamentary and specialized systems. Such a model will contribute to increasing the effectiveness of state financial control agencies, will eliminate the features of chaos and will make it possible to implement preventive measures both at the state and local levels for the proper use of the country's financial resources.

The authors have substantiated the priority of three vectors of the development of the system of state financial control: development of the legislative framework and unified methodology of state financial control, its standards; formation of a clear structure of subjects of state control; introduction of modern information and innovative technologies in the field of state financial control, which will contain uniform criteria for control activity.

Further research of the possibilities of implementing better international experience in the functioning of the state financial control system is perspective. It will allow the proper implementation of control activities and create an effective tool for providing society and the state with objective, high-quality indicators necessary for improving the efficiency of public administration.

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