



# EVALUATION OF THE EFFECTIVENESS OF DECENTRALIZED INTERNAL FINANCIAL CONTROL OF EXPENDITURES OF BUDGETARY ORGANIZATIONS

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## ABSTRACT

*The article considers the main aspects of assessing the effectiveness of decentralized internal financial control of expenditures of budgetary organizations. The study was conducted on the basis of data from Ukraine. Internal control is a set of measures applied by the head to ensure compliance with the legality and efficiency of budget funds, achieving results in accordance with the established purpose, objectives, plans and requirements for the activities of the budgetary institution and its subordinate institutions. The basic principle of public internal financial control is a clear distinction between internal control and internal audit. Internal audit should determine how internal control is performed, including methods of ex-ante control. The theoretical platform of performance audit is formed by these three categories: economy, efficiency and effectiveness. Expenditures of budgetary institutions as an*

*object of internal financial control are considered. The analysis of control of expenses of local budgets is carried out. To analyze the effectiveness of financial control of budgetary institutions in the context of decentralization, the result of the analysis of the financial aspect of the functioning of the united territorial communities - in 2019. It is proved that Ukraine needs further reform of the state financial control of expenditures of budgetary institutions - in the direction of decentralized control.*

**Key words:** efficiency, effectiveness, decentralized internal financial control, expenditures of budgetary organizations.

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## 1. INTRODUCTION

### 1.1. Relevance of the Topic and Problem Statement

An important task of the state financial policy is the formation of an effective system of internal financial control of budgetary institutions, based on the principles of decentralization and managerial responsibility for the effectiveness of the use of budget funds. The functioning of the system of internal financial control will be effective and economical in the interaction of all structural units of the budgetary institution and the proper coordination of their activities, adjustment of their plans and programs. The process of financial management and control is continuous, affects managers at all levels and employees of the institution. In public institutions, such a process should be organized and implemented in such a way that management (senior, middle, operational levels) is responsible for achieving certain goals, in accordance with the allocated budget and available resources.

In order to systematically implement these tasks and their effectiveness, it is advisable to evaluate the existing system financial management and control, in accordance with European concept of public internal financial control. There is a need to improve the forms and methods of financial control of budgetary institutions. The subsystem of decentralized internal control needs special attention. Currently, there are problems that slow down the implementation of internal control in public authorities:

- formal approach of managers to defining the goals of budget programs, as well as the purpose of the institution, and thus - imperfect management;
- unwillingness to change and resistance from the middle and lower management of institutions;
- Insufficient number of qualified personnel in the system of state bodies who have the basics of internal control (strategic management, risk management, etc.);
- lack of motivation of civil servants to work as an internal controller and auditor of highly qualified specialists;
- reluctance of civil servants to study, as well as apply in their work, new effective and scientifically sound methods of organizing activities;
- imperfect legislation, lack of clear recommendations on the structure of internal audit and control in the executive branch;

- unwillingness to lose the established corruption schemes, which will be eliminated with the introduction of internal control.

The purpose of this article is to identify the economic nature expenditures of budgetary institutions as an object of internal financial control and evaluation of the effectiveness of decentralized internal financial control of expenditures of budgetary organizations. In the framework of this study, the following problematic issues are identified:

- expenditures of budgetary institutions as an object of internal financial control;
- evaluation of the effectiveness of financial control of budgetary institutions in the context of decentralization;
- improving the mechanism of internal financial control of expenditures of budgetary institutions.

## 2. THEORETICAL SECTION

### 2.1. The Essence of Internal Financial Control of Budgetary Organizations

In modern research of scientists on the problems of implementation and development of internal control, two scientific approaches have been formed. Internal control is a combination of two controls - accounting and management (Horngren, 1989), which ensures the compliance of those decisions that are made in the institution, their practical implementation. Accounting control is a set of methods and techniques that ensure the preservation of existing values, based on the verification of financial statements in order to avoid inventory errors, fraud and other violations. Administrative control is a set of instructions, regulations (eg, technological, administrative, job), as well as methods and techniques that help manage, plan and control the economic activities of the organization (Zeff, 2008). So, two methodological approaches to the study of internal control are formed - functional-managerial and informational. In this context, control over the validation of reporting is already focused on the effectiveness of activities (Altamuro & Beatty, 2010). Thus, internal financial control is an accounting and management tool.

The system of internal financial control (PIFCS - Public Internal Financial Control Systems) is implemented in the public sector, in accordance with European standards in order to reform the public administration and establish its administrative capacity. The Internal Control Committee of the International Organization of Supreme Audit Institutions has developed a manual on internal control standards for the public sector, which is based on the concept of risk-oriented control of COSO. Researchers of theoretical and practical issues of implementation of the COSO model in the risk management process consider control as a process carried out by managers at all levels and other employees (Tkach et al., 2019). The basis of risk-oriented management is the introduction of internal control and management accountability (responsibility) (Sudomyret al., 2020; Bondarenko et al., 2019; Tkach et al., 2020). A series of international standards has been developed for the public sector based on the COSO concept:

- INTOSAI GOV 9100 - Guidelines for Internal Control Standards in the Public Sector;
- INTOSAI GOV 9120 - Internal control: providing a basis for accountability in the Office;
- INTOSAI GOV 9110 - Guidelines for reporting on the effectiveness of internal control: the experience of the SAI in the implementation and evaluation of internal control;
- ISSAI 9130 - Guidelines for Internal Control Standards in the Public Sector - Additional Information on Risk Management in the Organization.

## Evaluation of the Effectiveness of Decentralized Internal Financial Control of Expenditures of Budgetary Organizations

Public internal financial control is a system of internal control, internal audit, inspection, harmonization activities in order to ensure quality management of state resources based on the principles of legality, economy, efficiency, effectiveness and transparency. Internal control is a set of measures applied by the head to ensure compliance with the legality and efficiency of budget funds, achieving results in accordance with the established purpose, objectives, plans and requirements for the activities of the budgetary institution and its subordinate institutions. This control must ensure:

- 1) assessment of budget funds management (including public financial audit);
- 2) the correctness of accounting and the reliability of financial and budgetary reporting;
- 3) achievement of budget savings, their targeted use, efficiency and effectiveness in the activities of budget managers by making informed management decisions;
- 4) analysis and assessment of the state of financial and economic activities of budget managers;
- 5) prevention of violations of budget legislation and ensuring the interests of the state in the process of managing state property;
- 6) the validity of planning budget revenues and expenditures.

The basic principle of public internal financial control is a clear distinction between internal control and internal audit. Internal audit should determine how internal control is performed, including methods of ex-ante control.

Internal control is a management tool that allows the management of a public sector body to check the status of the body's tasks. This is a process carried out in the body itself, the purpose of which is to ensure the confidence of the management of the public sector body in achieving the appropriate level of economy, efficiency and effectiveness in accordance with the tasks of the public sector body; reliability of financial, statistical and management reporting; observance of the norms and rules established by the legislation and the management; proper protection of assets from losses. Thus, internal control is management control, the purpose of which is to assist management in managing and performing tasks on an ongoing basis. That is, it is not a one-time action, but a series of actions and activities carried out by these bodies on a permanent basis,

Preliminary control - control that precedes the adoption of a management decision or the implementation of financial and economic transactions (for example, before making financial commitments or before making payments).

Further control - control that is carried out after the implementation of a management decision or financial and economic transaction (for example, after making payments).

Internal control should also provide an opportunity to make management judgments and take the initiative to increase efficiency and effectiveness, as well as reduce costs.

Internal audit is the activity of the internal audit department in a budgetary institution aimed at improving the management system, preventing illegal, inefficient and ineffective use of budget funds, errors or other shortcomings in the activities of budgetary institutions and subordinate budgetary institutions, improving internal control. The purpose of the internal audit of the budgetary institution is to provide recommendations for improving the activities of the budgetary institution, improving the efficiency of financial resources management. Internal audit services (internal audit units) are created within individual budgetary institutions and must be subordinated to the head. The tasks of internal audit include ensuring effective internal control, in accordance with the costs incurred.

The system of internal control is a set of measures applied by the head of the budgetary institution in order to prevent financial and other offenses, their timely detection. According

to the Concept of development of the state internal financial control, the system of internal control consists of the following elements:

- control environment. Management and staff should create an environment in the public sector body that provides a positive and favorable attitude towards internal control. That is, the management of the public sector body, in addition to performing its direct functional responsibilities, is responsible for the state of internal control;
- risk assessment. In the process of internal control, an assessment should be made of the risks faced by the public sector body, which are both external and internal. In order to carry out effective internal control, it is necessary to identify risk links in the financial and economic activities of the body, establish the causes and circumstances of their occurrence, prepare recommendations to the management of public sector bodies on possible ways to eliminate these causes and circumstances (risk management);
- controlling activities. In order to carry out a proper management process, rules, procedures, techniques and a mechanism for following management's instructions and instructions should be defined;
- information and information exchange. The information should be registered and communicated to the management and other users in the public sector body in such a form and at such a time that it can serve as a basis for proper performance of internal control, internal audit and other functions by creating adequate information and communication infrastructure in the public body. sector;
- monitoring. The system of internal control should be built in such a way as to ensure continuous monitoring during the implementation of activities to qualitatively assess its results and ensure prompt action on the results of internal control and internal audit.

Internal audit is a form of control that provides a functionally independent assessment of the performance of public sector bodies in that the public administration system operates in a way that minimizes the risk of fraud, waste, error or unprofitability. The purpose of internal audit is to provide recommendations for improving the activities of the public sector body, increase the efficiency of management processes, which contributes to the achievement of the goal of the public sector body. The tasks of internal audit also include ensuring effective internal control in accordance with the costs incurred. The ability to provide independent and objective recommendations is the main difference between internal audit and other forms of control.

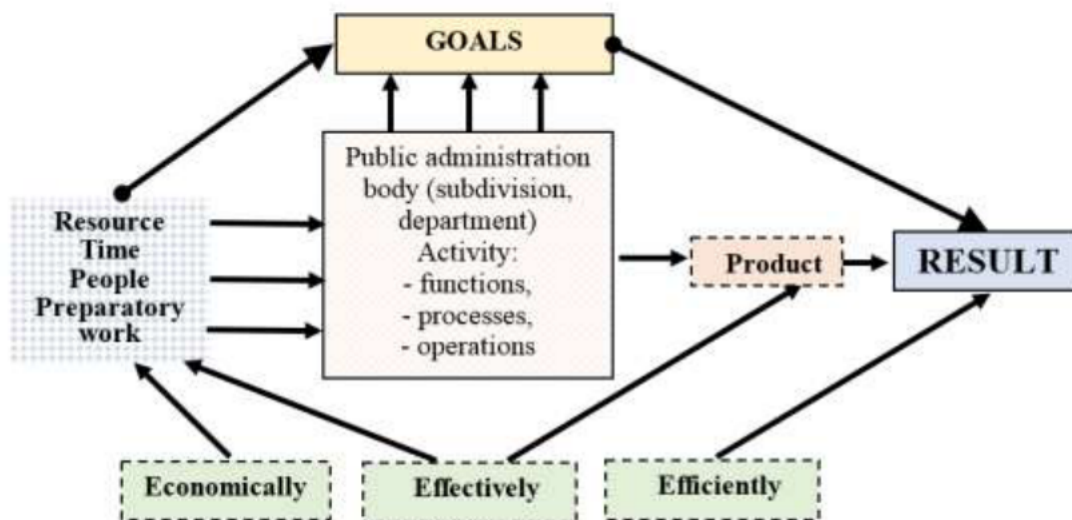
Decentralized internal audit is an internal audit performed by an authorized independent unit (official) subordinated directly to the management of a public sector body, but functionally independent of it, within the public sector body itself or within its management system. Inspection - further control over compliance with the law by public sector bodies in the use and disposal of financial and material resources, the formation of budget commitments, accounting and financial reporting, which is carried out in the form of audits and inspections. The difference between inspection and internal audit is its fiscal orientation - based on its results, the management of the public sector body, the control over the activities of which was carried out, sets requirements, but does not provide recommendations. Centralized inspection - inspection carried out by the state control and audit service. Decentralized inspection - inspection carried out by control and audit units or other authorized units (officials) of ministries, other central executive bodies and their territorial bodies within the system of activity (management) of each of these ministries, other central executive bodies, their territorial bodies.

## Evaluation of the Effectiveness of Decentralized Internal Financial Control of Expenditures of Budgetary Organizations

Three categories play a central role in the audit:

- economy - minimization of resource costs;
- efficiency - achieving maximum results (quantity, product quality) with a certain available amount of resources;
- effectiveness - maximum achievement of the purpose of the activity, set goals or planned results.

The theoretical platform of performance audit is formed by these three categories: cost-effectiveness, efficiency and effectiveness (Model three "E") (Figure 1).



**Figure 1** Model "Three E: contribution-product" in public administration

This model is based on the assumption that the implementation of any activity / function / process must be organized in a chain sequence of its main elements with a clear relationship between them. The system of internal financial control corresponds to the model "Three E: contribution-product", if:

- the head of the institution timely receives complete and reliable information for management decisions;
- management decisions are made within their own powers and the requirements of the law, control over their implementation is established;
- financial and economic transactions are carried out in consultation with management and are reliably and fully recorded in accounting and financial reporting;
- access to cash and valuables is possible only with the consent of management;
- the correspondence between accounting data and the actual availability of assets is monitored, their proper preservation is ensured;
- prevention and prevention of financial violations is provided, their consequences are minimized;
- resource management is carried out economically, effectively - to achieve the goal of the organization;
- proposals are made to increase the efficiency of the use of budget funds, state and municipal property, etc.

So, we can talk about the so-called: economical, efficient or effective approach to system formation internal financial control of the budgetary institution. The ratio of the categories of economy, efficiency and effectiveness are presented in Table 1.

**Table 1** The ratio of categories of efficiency, effectiveness and efficiency of internal financial control of the budgetary institution

Category	Definition
Cost-effectiveness	Minimum use of resources to achieve the set goals: <i>Example: Purchasing medicines at the lowest price, given the appropriate quality</i>
Efficiency	The relationship between the product - in the form of goods, services or other products - and the resources that went into their production: <i>Example: Timely and 100% provision of the needs of sick children with the necessary medical treatment within the defined resources</i>
Effectiveness	The degree of achievement of the goal in the context of a social problem (the needs of society): <i>Example: Reducing the level of secondary disability of sick children in the country</i>

Thus, for the internal financial control of a budgetary institution, it is important to understand that the research process can be focused on cost-effectiveness, efficiency or effectiveness, or even simultaneously on all or more of these categories of program, function, process, administrative service, depending on which the problem will be selected for research and what are the reasons for its occurrence.

### 3. METHODOLOGY

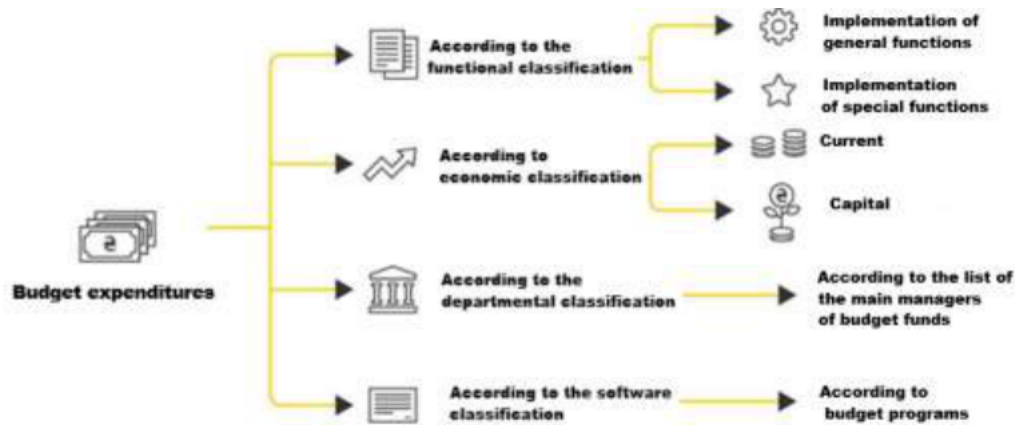
The methodological basis of this article are general scientific and empirical research methods. The research was conducted according to the general scientific principles of the system approach - in the formation of the concept of internal control over the use of financial resources of budgetary institutions. For realization of the set tasks in research methods are applied: dialectical knowledge of economic processes (at clarification of theoretical aspects of the organization of financial control and development of methodical bases of research); generalization (to study the structure of the system of internal financial control, highlighting its principles); statistical analysis (to reflect the dynamics of the structure and share of identified budget violations in the use of funds and calculations of the effectiveness of the results of internal financial control). The study was conducted on the basis of statistical information of Ukraine. The information base of the study is the materials of the State Statistics Service of Ukraine, official websites of state budget institutions, works of domestic and foreign scientists, Internet resources.

### 4. ANALYSIS OF RESULTS

#### 4.1. Study of Expenditures of Budgetary Organizations of Ukraine as an Object of Internal Financial Control

According to Of the Budget Code of Ukraine, under the state budget expenditures should be understood funds directed to the implementation of programs and activities provided by the law on the state budget for the relevant budget period, except for funds to repay the principal amount of debt and return overpaid amounts to the budget. Figure 2 presents the classification of budget expenditures.

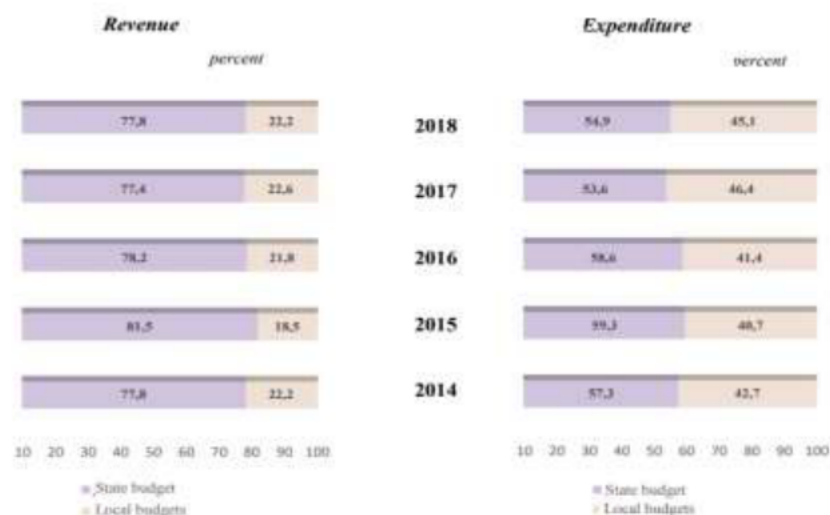
## Evaluation of the Effectiveness of Decentralized Internal Financial Control of Expenditures of Budgetary Organizations



**Figure 2** Classification of state budget expenditures

The budget system of Ukraine consists of the state budget and local budgets. Local budgets are regional, district budgets and local government budgets. Budgets of local self-government are the budgets of territorial communities of villages, their associations, settlements, cities (including districts in cities), budgets of united territorial communities. Consolidated budget indicators are used to forecast the economic and social development of the state. The consolidated budget of Ukraine includes indicators of the State Budget of Ukraine and the consolidated budgets of oblasts and the city of Kyiv. The control of revenues and expenditures on budgetary issues carried out during the verification of the budget must comply with the Regulations, to consider, report the basic requirements for the verification of budget estimates.

The structure of revenues and expenditures of the Consolidated Budget of Ukraine in 2014-2018 is presented in Figure 3.

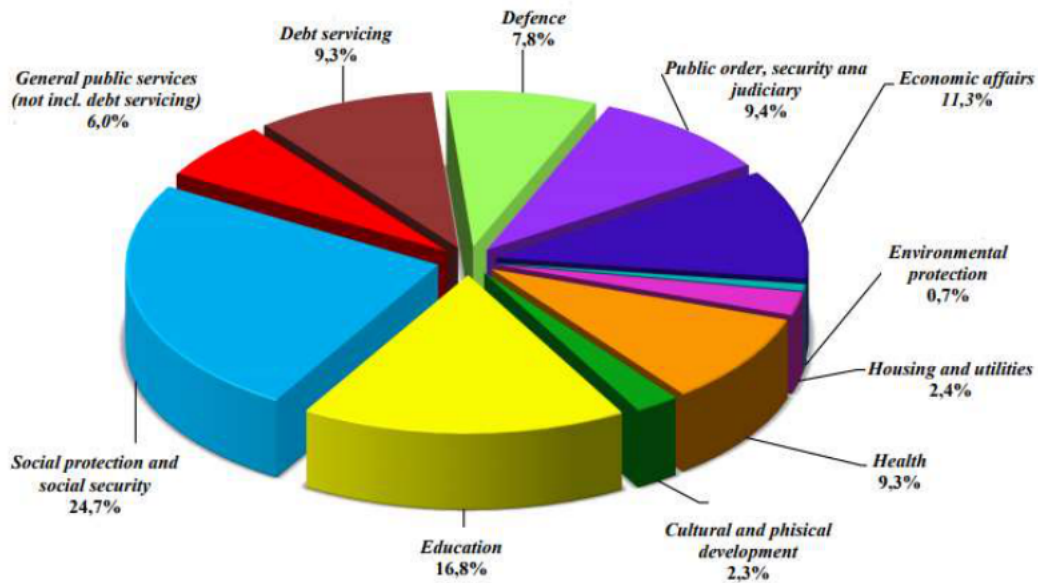


**Figure 3** Consolidated budget of Ukraine revenue and expenditure structure in 2014-2018

The activities of the budgetary institution should be carried out within the allocations approved by the budget and the allocation plan. The control is carried out during: crediting of incomes, taking of budgetary obligations, carrying out operations with budgetary funds, spending of budgetary funds, realization of borrowings, etc.



The structure of expenditures of the Consolidated Budget of Ukraine in 2018 is presented in Figure 4.



**Figure 4** Consolidated budget of Ukraine expenditure structure in 2018

Managers of budget funds, represented by their heads, organize internal control and internal audit and ensure their implementation in their institutions and in subordinate budget institutions. The number of managers and recipients of budget funds in terms of regions of Ukraine is presented in Figure 5.



**Figure 5** The number of managers and recipients of budget funds in terms of regions of Ukraine

The structural ratio of managers and recipients of budget funds is presented in Figure 6. In the conditions of decentralization of Ukraine, the issues of control of local budget expenditures deserve special attention.

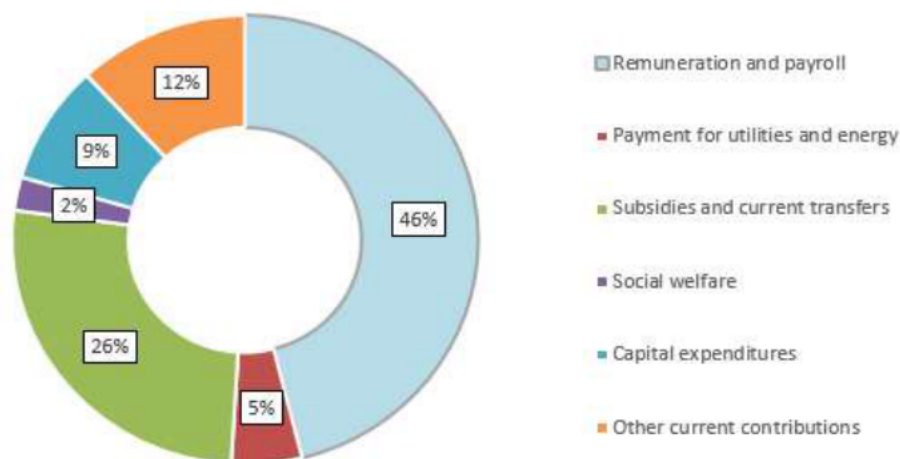
## Evaluation of the Effectiveness of Decentralized Internal Financial Control of Expenditures of Budgetary Organizations

Total	54715	National budget	15067	Local budgets	39648
Chief administrators	13 561 (24,78%)	Chief administrators	97 (0,64%)	Chief administrators	13 464 (33,95%)
Lower level managers	24 604 (44,96%)	Lower level managers	14 086 (93,48%)	Lower level managers	10518 (26,52%)
Recipients	16 550 (30,24%)	Recipients	884 (5,86%)	Recipients	15 666 (39,51%)

**Figure 6** Managers and recipients of budget funds in Ukraine (2019)

According to official statistics, local budget expenditures account for 33.2% of the total consolidated budget expenditures of Ukraine in the first quarter of 2020.

The total expenditures of local budgets for the first quarter of 2020 amounted to UAH 99.2 billion. Of this amount, expenditures of the general fund amounted to UAH 87.9 billion, special - UAH 11.3 billion. The structure of local budget expenditures is presented in Figure 7.



**Figure 7** Structure of local budget expenditures in Ukraine (2020)

It is proposed to consider local budget expenditures on the example of united territorial communities.

Expenditures in the amount of UAH 16.7 billion were made from the general fund of budgets of the united territorial communities of Ukraine, including:

- UAH 11.3 billion (67.9% of the total expenditures) was allocated for accrued salaries,
- to pay for utilities and energy - UAH 1.1 billion (6.4%).

Capital expenditures of UAH 1.4 billion were made from the budgets of the united territorial communities at the expense of a special fund. In terms of functional classification of expenditures, the largest amount of funds during the first quarter of 2020 was directed to the financing of education - UAH 43.2 billion (Table 2), which is 43.5% of the total expenditures made from local budgets. Compared to the same period in 2019, education expenditures in 2020 increased by UAH 2.5 billion or 6.2%. UAH 20.1 billion was spent on health care, which is 20.3% of local budget expenditures. Compared to the first quarter of 2019, health care expenditures increased by UAH 1.6 billion or 8.5%. Expenditures on spiritual and physical development amounted to UAH 4.7 billion, which is 4.7% in the structure of expenditures and is UAH 0.4 billion or 10.6% more than in the first quarter of 2019.

**Table 2** Indicators of local budget expenditures by functional classification for the first quarter of 2019 and 2020 (UAH million)

Expenditures by functional classification	General fund		Special fund		Together	
	I quarter 2019	I quarter 2020	I quarter 2019	I quarter 2020	I quarter 2019	I quarter 2020
National functions	6 965,6	8 239,1	316,0	216,5	7 281,6	8 455,6
Public order, security and the judiciary	201,6	263,8	18,0	32,5	219,5	296,3
Economic activity	2 269,9	2 781,4	5 808,1	6 412,3	8 078,0	9 193,7
Environmental protection	8,9	11,0	256,5	131,0	265,4	142,0
Utilities	3 534,6	4 318,8	736,5	997,3	4 271,0	5 316,1
Health care	17 216,0	19 315,1	1 311,5	786,4	18 527,5	20 101,4
Spiritual and physical development	3 957,2	4 388,6	261,4	275,9	4 218,6	4 664,5
Education	38 437,2	41 157,3	2 249,7	2 042,0	40 686,9	43 199,3
Social protection and social security	34 214,1	4 826,2	273,3	298,3	34 487,4	5 124,5
<b>Together</b>	<b>106 805,0</b>	<b>85 301,3</b>	<b>11 230,9</b>	<b>11 192,1</b>	<b>118 035,9</b>	<b>96 493,4</b>
Intergovernmental transfers	2 069,2	2 603,7	124,9	112,7	2 194,1	2 716,4
<b>Total</b>	<b>108 874,2</b>	<b>87 905,0</b>	<b>11 355,7</b>	<b>11 304,8</b>	<b>120 230,0</b>	<b>99 209,8</b>

The highest growth dynamics was recorded in expenditures on housing and communal services - their volume amounted to UAH 5.3 billion, which is 24.5% more than the expenditures made for the same period in 2019. Expenditures on national functions, which include expenditures on the maintenance of local governments, amounted to UAH 8.5 billion, which is 1,

The analysis shows that in the course of planning the estimated budget expenditures of the united territorial communities are determined separately for each of the budget sectors, taking into account the total resource of the community budget and the priority of expenditures. The responsible executor of budget programs of the budget of the united territorial community is determined by the chief administrator of budgetary funds in coordination with the local financial body. The responsible executor of budget programs in the budget of the united territorial community may be the chief administrator of budget funds for budget programs, the implementation of which is provided by his staff, and / or the manager of lower level budget funds who execute budget programs in the system of the chief administrator.

Execution of the budget of the united territorial community, compiled according to the program-target method, involves the implementation of a number of measures related not only to the financing of the program, but also to the management of expenditures allocated to subprograms and tasks of the program. Monitoring is carried out by fund managers - program executors. The budget program passport is the main document used by local budget managers at the stage of monitoring budget programs. Program implementers provide monitoring results to the main fund manager to compile data and make operational decisions to improve program management.

The evaluation of the budget program is carried out by comparing the planned and actual indicators of its implementation, as well as taking into account all the factors that affect the implementation of the budget program. The basis for obtaining information on the performance of the budget program is: budget request; budget program passport; reports on the implementation of the budget program passport; reporting of the State Treasury Service of

Ukraine; financial statements of the chief administrator of budget funds; other sources of official information.

Thus, the main aspects of internal control by budget managers include::

- definition of principles and five elements of internal control (internal environment, risk management, control measures, information and communication, monitoring);
- issues of organization and implementation of internal control by managers of budget funds in their institutions and subordinate budget institutions;
- strengthening of managerial responsibility and accountability for proper management and development of the institution, efficiency and effectiveness of its activities, achievement of certain goals (missions), strategic and other goals, implementation of internal control.

#### **4.2. Evaluation of the Effectiveness of Financial Control of Budgetary Institutions in the Conditions of decentralization of Ukraine**

To analyze the effectiveness of financial control of budgetary institutions in the context of decentralization, the result of the analysis of the financial aspect of the functioning of the united territorial communities was used. Following the results of 2019, experts conducted another assessment of certain indicators of financial (budgetary) activity of united communities (Monitoring of decentralization, 2020).

For 2019, the evaluation was conducted according to the following indicators:

- Income of the general fund per 1 inhabitant (the ratio of the income of the general fund without transfers to the number of inhabitants of the corresponding united territorial community);
- Expenditures of the general fund per 1 inhabitant (the ratio of the expenditures of the general fund to the number of inhabitants of the corresponding united territorial community);
- Expenditures for the maintenance of the management staff per 1 inhabitant (the ratio of the expenses for the maintenance of the management staff, spent at the expense of the general fund to the number of inhabitants of the corresponding united territorial community);
- Capital expenditures per 1 inhabitant (the ratio of the volume of capital expenditures of the community budget to the number of inhabitants of the corresponding united territorial community);
- The level of budget subsidies (the ratio of the amount of basic or reverse subsidies to the total amount of revenues of the general fund of the budget united territorial community with subsidies, but without taking into account subventions from the state budget);
- The ratio of expenditures for the maintenance of the management staff with financial resources united territorial community (the ratio of expenditures for the maintenance of the management of local governments with the amount of revenues of the general fund without taking into account transfers from the state budget, as a percentage);
- The share of wages in the expenditures of the general fund of the budget united territorial community (Percentage of wage expenditures made from the general fund of the budget with accruals to the amount of expenditures of the general fund of the budget without taking into account transfers transferred from the budget united territorial community to other budgets);

- The share of capital expenditures in the total expenditures (the share of capital expenditures in the total expenditures of the general and special fund of the relevant budget united territorial community).

In the study, 806 united territorial communities were grouped by population. In addition, cities of regional significance, in which the procedure of unification or accession took place, were allocated to a separate group for a more correct comparison (Table 3).

**Table 3** Researched united territorial communities according to the selected criteria

<b>Groups</b>	<b>Grouping criteria</b>	<b>Number of united territorial communities</b>	<b>Total population in the group of united territorial communities, thousand people</b>	<b>% of the total population of the studied united territorial communities</b>
<b>Group 1</b>	Population over 15 thousand people	95	2,001.1	24.1%
<b>Group 2</b>	Population from 10 to 15 thousand people	128	1,561.6	18.8%
<b>Group 3</b>	Population from 5 to 10 thousand people	268	1,874.9	22.5%
<b>Group 4</b>	Population up to 5 thousand people	288	979.1	11.8%
<b>Group 5</b>	OTG - cities of regional significance	27	1,891.0	22.8%
<b>Together</b>		<b>806</b>	<b>8,307.7</b>	<b>100.0%</b>

According to the results of 2019, the budgets of the studied united territorial communities received 39.4 billion hryvnias. Per capita income in all communities averages UAH 4,737.7 (Table 4).

**Table 4** Revenues of the general fund of united territorial communities in 2019

<b>Groups</b>	<b>The number of OTGs with an income per capita higher than the average</b>	<b>The average amount of own income received by OTG, UAH</b>	<b>Average indicator of own income per 1 inhabitant in the corresponding OTG group, UAH</b>	<b>Highest indicator of the amount of income per 1 inhabitant, UAH</b>	<b>The lowest indicator of the amount of income per 1 inhabitant, UAH</b>	<b>The difference between the highest and the lowest indicator</b>
1	26	87.2 million	4,139.3	7,695.0	1 108.6	6.9 times
2	37	53.5 million	4,387.6	23,702.4	905.2	26.2 times
3	81	30.8 million	4 409.6	21 239.2	792.0	26.8 times
4	108	16.2 million	4,755.8	35,748.0	760.6	47 times
5	14	418.5 million	5,976.0	9,813.0	3,098.8	3.2 times

In 266 communities (33.0% of the total number) the income per capita exceeds the average.

According to the results of 2019, expenditures in the amount of UAH 57.0 billion were made from the general fund of community budgets. (table 5).

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**Table 5** Expenditures of the general fund of united territorial communities in 2019

Groups	The number of OTGs with an expenditure per capita higher than the average	The average amount of expenditures made from the OTG budget, UAH	Average indicator of expenditures per 1 inhabitant, UAH	Highest indicator of the amount of expenditures per 1 inhabitant, UAH	Lowest indicator of the amount of expenditures per 1 inhabitant, UAH	The difference between the highest and the lowest indicator
1	24	131.4 million	6,239.1	11,404.4	1,863.2	6.1 times
2	31	74.6 million	6 115.9	17,906.3	2,333.1	7.7 times
3	55	43.2 million	6,169.0	17,380.7	2,150.9	8.1 times
4	97	21.7 million	6,391.8	26 085.0	1,371.2	19 times
5	24	635.0 million	9,067.1	12 176.8	4,470.8	2.7 times

The average expenditures in all communities, per capita, amounted to UAH 6,861.8. The average cost of maintaining the management staff per capita is:

- for Group 1 - UAH 782.4 (max - UAH 1,603.7, min - UAH 362.5);
- for Group 2 - UAH 945.3 (max - UAH 2,542.5, min - UAH 378.8);
- for Group 3 - UAH 1,075.1 (max - UAH 3,816.0, min - UAH 425.1);
- for Group 4 - UAH 1,389.8 (max - UAH 4,927.4, min - UAH 322.9);
- for Group 5 - UAH 752.7 (max - UAH 1,439.2, min - UAH 483.2).

On average, the level of expenditures for the maintenance of the management staff per 1 inhabitant is 943.9 hryvnias.

Capital expenditures in the amount of UAH 12.8 billion were made from the budgets of the united territorial communities. The average capital expenditure per capita is:

- for Group 1 - UAH 1,249.7 (max - UAH 3,906.4, min - UAH 210.9);
- for Group 2 - UAH 1,461.7 (max - UAH 8,487.0, min - UAH 278.3);
- for Group 3 - UAH 1,645.1 (max - UAH 16,626.4, min - UAH 175.9);
- for Group 4 - UAH 1,741.6 (max - UAH 15,398.1, min - UAH 242.7);
- for Group 5 - UAH 1,732.6 (max - UAH 3,438.3 min - UAH 215.5).

The average expenditures per capita amounted to UAH 1,546.6.

The least dependent on subsidized resources from the state budget are communities - cities of regional significance from Group 5, in which of the 27 united territorial communities the highest level of subsidies is only 9.1%. In Group 1, the highest level of subsidies is 49.7%.

Among the communities of Group 2 - in five communities the subsidy rate exceeds 50% (or 3.9% of the total number of communities in the group), the highest value is 57.5%.

In Group 3, in nine communities, the subsidy rate exceeds 50% (or 3.4% of the total number of communities in the group), the highest value is 63.5%.

In Group 4, only in three communities the subsidy rate exceeds 50% (or 1.0% of the total number of communities in the group), the highest value is 62.6%.

On average, in all communities, the average level of expenditures for the maintenance of the administration is 19.9%. The average cost of maintaining the management staff is: in Group 1 - 18.9%; in Group 2 - 21.5%; in Group 3 - 24.4%; in Group 4 - 29.2%; in Group 5 - 12.6%.

That is, there is a general trend that the share of management expenditures is higher in the united territorial communities with a smaller population. Among Group 1 there are 44 united territorial communities (46.3% of the total number in the group), in which management expenditures exceed 20% of the amount of financial resources. The largest share of administrative expenditures is 55.2%, and the smallest - 9.5%. Among Group 2, in 88 communities the indicator of management expenditures exceeds 20% (68.8% of the total amount in the group), including in 6 united territorial communities the indicator is more than 50%. The largest share of administrative expenditures is 87.4%, and the smallest - 7.3%. In Group 3 of 218 communities, management expenditures exceed 20% of the financial resources (81.3% of the total in the group), including 18 united territorial communities, the figure is over 50%. The largest share of administrative expenditures is 87.1%, and the smallest - 8.8%. In Group 4, the number of united territorial communities, in which management expenditures exceed 20% of the amount of financial resources, is 264 (91.7% of the total number in the group), including 26 united territorial communities, the figure is more than 50%. The largest share of administrative expenditures is 86.1%, and the smallest - 10.0%. In Group 5, the number of united territorial communities - cities of regional significance, in which management expenditures exceed 20% of own revenues, is 10 (37.0% of the total number in the group).

Following the results of 2019 from the general fund of budgets of the united territorial communities expenses for financing of a salary with accruals for the sum of 35,7 billion UAH that makes 62,7% of volume of expenses of the general fund of budgets were carried out. The average share of wages in the expenditures of the general fund is:

- in Group 1 - 71.4% (max - 86.0%, min - 46.5%);
- in Group 2 - 71.0% (max - 89.4%, min - 34.8%);
- in Group 3 - 70.9% (max - 93.3%, min - 33.5%);
- in Group 4 - 73.3% (max - 91.8%, min - 25.7%);
- in Group 5 - 42.5% (max - 75.5%, min - 34.9%).

The average level of capital expenditures is 18%. The average share of capital expenditures in total expenditures is:

- in Group 1 - 16.3% (max - 41.9%, min - 3.1%);
- in Group 2 - 18.9% (max - 57.2%, min - 4.2%);
- in Group 3 - 20.7% (max - 55.0%, min - 3.9%);
- in Group 4 - 21.0% (max - 63.1%, min - 4.3%);
- in Group 5 - 15.7% (max - 25.7%, min - 3.4%).

The analysis revealed a significant differentiation in the resource provision of communities, which will inevitably affect the quality and volume of public services received by citizens in different areas. Therefore, the improvement of internal financial control in the context of decentralization becomes the main task of public policy. Optimizing the effectiveness of the use of budget funds will increase the financial potential of the territories, will help equalize interregional financial disparities - to provide citizens with an adequate level of public services regardless of their place of residence.

### 4.3. Improving the Mechanism of Internal Financial Control of Expenditures of Budgetary Institutions

The control and audit units of the central executive bodies of Ukraine, as a result of control measures, do not actively influence the management decisions of the heads of public sector bodies, and do not pay due attention to assessing the state of financial management.

In the ministries of finance of most EU countries there is a unit (central directorate), which is responsible for the harmonization of financial management and control and internal audit. In some countries, the Ministry of Finance has two separate centralized units - on harmonization of financial management and internal control and on harmonization of internal audit.

The task of the Financial Management and Internal Control Harmonization Unit is to assist the Minister of Finance in overseeing the budget process and administering budget revenues. This subdivision defines the direction in which the state financial policy should be implemented and the system of financial management and internal control should be improved.

The task of the centralized unit for harmonization of internal audit is to develop recommendations, instructions, methods of organizing internal audit, as well as to provide advice to internal auditors of public sector bodies on the application of relevant standards. In addition, the unit is a center that ensures the creation of a reliable and sustainable structure of internal audit in public administration.

In Ukraine, there is no body for harmonization of financial management and control and internal audit.

The general system of state internal financial control in terms of subjects of control over the level of centralization and time of control over the management decision or financial and economic transaction is presented in table 6.

**Table 6** The system of public internal financial control over the level of centralization (Concept, 2005)

The level of centralization of control	Time of control over the management decision or financial and economic transaction		
	preliminary control		further control
	before making financial commitments	before making payments	
Centralized	Ministry of Finance and Treasury; centralized inspection body; heads of public sector bodies	Treasury	centralized inspection body; centralized internal audit body
Decentralized baths	heads of public sector bodies	heads of public sector bodies; financiers or accountants of public sector bodies; officials of the relevant body of the Treasury, which serves the public sector	decentralized internal audit of public sector bodies; heads of state bodies sector

In Ukraine, as in some Eastern European countries, the centralized model of public internal financial control prevails with elements of decentralized - in terms of ex-ante control.



Components of the system of public internal financial control in Ukraine are internal control, centralized internal performance audit, centralized, decentralized inspection and harmonization of inspection at the central level. According to the recommendations of the European Commission, the system of public internal financial control should equally fully cover all public and EU resources.

In order to improve the existing mechanism for the implementation of state policy in the relevant field and solve existing problems, in Ukraine, starting from 2020, the Review of State Budget Expenditures is being implemented. Expenditure reviews will be conducted by specially established working groups, which will include representatives of the relevant budget managers and the Ministry of Finance, as well as independent experts. The working groups should analyze the areas and work out at least two options for achieving the review objective in the relevant area. For preparation of reports the information on results of internal financial control, internal audit of expenses of budgetary institutions will be used.

## 5. CONCLUSION

In this study the main aspects of evaluating the effectiveness of decentralized internal financial control of expenditures of budgetary organizations are considered. The study was conducted on the basis of data from Ukraine. Internal control is a set of measures applied by the head to ensure compliance with the legality and efficiency of budget funds, achieving results in accordance with the established purpose, objectives, plans and requirements for the activities of the budgetary institution and its subordinate institutions. The basic principle of public internal financial control is a clear distinction between internal control and internal audit. Internal audit should determine how internal control is performed, including methods of ex-ante control. The theoretical platform of performance audit is formed by these three categories: cost-effectiveness, efficiency and effectiveness. Expenditures of budgetary institutions as an object of internal financial control are considered. The analysis of control of expenses of local budgets is carried out. The analysis shows that in the course of planning the estimated budget expenditures of the united territorial communities are determined separately for each of the budget sectors, taking into account the total resource of the community budget and the priority of expenditures. Monitoring is carried out by fund managers - program executors. Program implementers provide monitoring results to the main fund manager to compile data and make operational decisions to improve program management. The evaluation of the budget program is carried out by comparing the planned and actual indicators of its implementation, as well as taking into account all the factors that affect the implementation of the budget program. To analyze the effectiveness of financial control of budgetary institutions in the context of decentralization, the result of the analysis of the financial aspect of the functioning of the united territorial communities - in 2019. It is proved that Ukraine needs further reform of the state financial control of expenditures of budgetary institutions - in the direction of decentralized control.

The direction of further research is to develop a methodology for decentralized internal financial control of expenditures of the united territorial communities.

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