STANDARDIZATION OF STATE FINANCIAL CONTROL ON THE BASIS OF SYSTEM APPROACH

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Abstract. The Ukrainian integration into the world economic community means the unification of national standards, the financial reporting, auditing and state financial control, its closest approach to the international requirements.

It is difficult to overestimate the value of standardization for the economic environment and state administration. The advantages of standardization consist not only in the simplification of processes and procedures, but also in their strengthening due to reliability, which is based on the identity of understanding the rules and norms, and the high quality based on the approach regarding the questions of responsibility and introducing penalties for the possible violations.

The author analyzes the development of the state financial control in Ukraine according to the INTOSAI standards. The article presents the necessity to develop and implement the national standards of financial control in accordance with the INTOSAI standards.

Key words: state financial control, standards of financial control, INTOSAI standards

1. Introduction

The most noticeable consequence of introducing the standards is improving the standardized activity process which arises from the introduction of systematization, rationalization, and optimization of control procedures and processes. Standards are aimed at a close supervision providing the achievement of clearly preset parameter set of procedures. This is important especially in applying them to the control function of state administration to which the observance of the set procedures presents the main and inviolable requirement.

The standards also help spreading common language and common approaches and help to avoid differences in the interpretation of the same facts, which has the first importance for the presentation and interpretation of financial statements, for internal use within an institution and for interested external users with the account that in case of the public sector, the parties concerned are all citizens of the country.

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Standards provide for management transparency and accessibility of information. No wonder the criteria of informative exchange standardization play a large role in our “informative society”. The enormous volumes of information and the multiplicity of its sources must be balanced by the measures of providing reliability and integrity of data, and also the existence of the appropriate communication environment, which corresponds to the need of information and, simultaneously, guarantees its control and accountability. These tendencies are confirmed by the circumstance that the parties of economic activity in the reports pay more special attention to such questions as conscientious management and corporate social responsibility, namely the factors that determine the input of an organization into providing for its workers’ prosperity, natural and social environment.

2. Standardization of state financial control

In the field of state finance and accounting, standardization is a prominent condition of achieving the accountability of government and ministries. Only a strict application of standards can provide for the adequate interpretation and estimation of information about the work of the state economy sector. The work of government would not be possible without standardization.

In the recent years, market economy continues causing big a pressure on the state sector as a result of going on internationalization and globalization of economy. The financial crisis gave a new impetus to the introduction of standards as the necessary condition of mutual understanding and dialog on the intrastate and international level.

In the conditions when authorities should prove to the market that the financial condition is stable, the function control becomes the determining factor. There are numerous documents, new mechanisms of reflection and deficit and national debt coverage which are developed in the current documentation; the strick mechanisms of monitoring and control of the administrative vehicle are set unprecedentedly for this purpose. All these measures require the application of a common approach to all financial institutes for the estimation of financing.

The today’s crisis attracted general attention to financial statements’ transparency both of private enterprises and state institutes.

In terms of national debt, the crisis has showed that transparency should be examined as a substantial important precondition without which the trust to the given information and, accordingly, to the extraordinary measures which are accepted by the states will be shattered.

The increased transparency of public finances in the recent years made a positive impact on the crisis.

In October 2012, coming forward on the General Assembly of the United Nations with the lecture “Initiative from advancement of transparency and accountability by
strengthening of audit of state finances” the Secretary General of INTOSAI Dr. Josef Moser has noted that in a crisis situation citizens show more strict requirements to the government finance control, which would be impossible to apply without using the professional standards that define the appropriate work of the INTOSAI.

The themes of the XXI Congress of the INTOSAI, which took place in autumn 2013 in Beijing, confirm the interest all over the world to the issues of the financial crisis which were: “State audit and conscientious management” and “Role of INTOSAI in supporting the long-term firmness of financial policy of the state”.

As part of international standards development of accounting in the state sector (IPSAS), the Committee on State Sector of the International Federation of Accountants (IFAC) released a set of recommendations to the measures providing for the long-term viability of state finances.

With the transformation of national debt to the major ingredient of the international financial system, the problem of the control of state finances became more urgent. The audit of the financial reporting uses the external rating of such information turned into instruments which determine and forecast the future condition of a state finance and the ability of the state to be in charge of its liabilities.

The problem of state debt has become very important because of the high pressure in the EU. There is a threat of failing attempt to put under control the federal deficit because of the sharp increase in financial charges from covering. It requires such government spending cuts which in number of cases may be characterized even as the violation of rights important for the state wealth.

Performing the prioritized task of cutting off the state charges and thus maintaining the general wealth which reflects the condition of the state finances and requires more transparency, an effective management of the state sector is possible only in the presence of the appropriate state financial control based on general standards and a system of economic criteria.

If the necessity of such adjusting and control were clear before, in the years of the economic growth the state finances and economy on the whole would not be in such a difficult situation. A close interdependence between the state finance and private banks causes a mess and interlace of interests, which are very hard to overcome. The role of the state bank, which is today executed by the Government treasury service of Ukraine, does not solve the problems of budget implementation, especially in the conditions of financial resources deficit.

This is the reason why in the conditions of crisis first there was a necessity to introduce international standards of record-keeping and corporate sector audit. In the state sector it was the application of national standards of accounting, compiled on the basis of international ones. As a result, control procedures based on the formed accounting of
budget establishments, the use of money on the budgetary programs must be regulated also according to the standardized approach to provide for their transparency. Today, it is one of the main requirements to the state which applies the measures of a strict economy of costs and national debt and allows to give a more clear and reliable information about the state finance, which is necessary for recovering the global trust to the existing economic system and state administration.

The process of record-keeping and auditing standardization in the state and private sectors confirms the importance of these procedures and their close interrelation, as well as the necessity of searching for new directions and spheres of activity, which correspond to the evolution of the economic systems.

In this relation, the South African declaration dedicated to the international standards of the INTOSAI, accepted on the XX Congress of the INTOSAI in Johannesburg, became the background for the development of state financial control standards. According to the provisions of Lima and Mexican declarations, this new declaration of the INTOSAI acknowledges the right independently to determine the policy of standardization as part of national legislation and the plenary powers of each body. The declaration calls to use the INTOSAI as the general concept of the state financial control and audit.

Standards help to plan and conduct audits, and their usage provides for the professionalism and high quality of control results, sequence in presenting these results to society. At the same time, standards not only set the correct procedure of state financial control and audit, but also strengthen these functions in the system of democratic institutes of state administration.

Standards help all government bodies to achieve common aims of transparency and reporting. Achievement of these aims requires independence, objectivity, high qualification and keeping ethic norms. The results of state financial control and audit must be based on the application of common procedures and methods, and also on sufficient evidences which enable a state inspector or a public accountant to express logical and competent opinions in the report.

Society has the right to get current information about the quality of state administration. The top government of financial control is responsible for giving this right which must provide for the high quality of the information.

It should be noted that in Ukraine certain steps are taken to introduce the international standards of control of the INTOSAI, internal standards of state auditing, and the conceptions of the COSO in relation to the construction of the internal control and risk management system in enterprises of state the sector. According to the law adopted by the Ukrainian Ministry of Finance, all enterprises report according to the international standards of financial accounting, and from the decisions of the Accountant Chamber of Ukraine there are used the last 9 years as international standards of audit. However, the
question of the state financial control system standardization remains open. Especially it concerns the standards of external state financial control.

Up to now, the problem of national standards of financial control codification remains unsolved. They were already accepted and used in practice by the Chamber of Account in Ukraine and State Financial Inspection of Ukraine, which negatively affects the efficiency of management in the state. Moreover, the underestimation of systemic approach to the development of domestic standards of financial control maximally take into account the features of the domestic system of state finances, influences its effectiveness and results in unproductive financial and labor charges.

The fact that operating standards are not systematized negatively affects their usage, limits the application of these or other standards only by the scopes of certain types of control and supervisory subjects, and, moreover, results in an ambiguous interpretation of separate situations which arise during control activity.

To form an integral system of national standards’ state financial control, from the point of avoiding duplication and parallelism, it would be justified to set up (on the public issues) a committee, group or advisory body which on the Ukrainian scale would engage in coordinating the development of standards’ state financial control.

The process of unifying the state financial control standards and audit is directly related to the changes in the world economy, which take place as a result of its globalization, and is best observed in the sphere of international intercommunications in relation to state audit. Globalization means the identicalness and transparency of application in different countries of principles and record-keeping, which the financial reporting being formed in accordance with substantive provisions and procedures during the realization of control activity.

In the book-keeping and budget accounting, the control function is mostly used; this is why the indexes of accounting and financial reporting, made on their basis, are the informative source of financial control and in an aggregate form a high-quality informative base necessary for the taking of administrative decisions.

The financial reporting statements are usually done annually and are used to satisfy informative needs for a great number of users. Many users, as far as they are not provided with plenary power to get additional information which helps them to concretize the informative queries, depend only upon the financial reporting as on a basic information generator. If the financial reporting comes forward as the basic information generator, then there must be confidence in it, authenticity and plenitude for a user. This is why financial reporting audit is needed if the financial reporting is made according to the set requirements in all substantial attitudes toward the preparation and forming of accounting indexes.

There is a growing demand for financial information on a wide circle of current indexes from the bodies which make these decisions. Every year the need for the corporate
and public sectors in services, confirming the accuracy of this information, leads to the fact that they achieve the required transparency and integrity of financial statements. Moreover, the necessity of creating unified international standards is dictated by the state activity of international economic cooperation, which showed excellent results. The standards of record-keeping in the state sector and state audit are used to highly reduce the risks of users of budgetary accounting indexes and also remove these differences in national standards, which affect the openness of information. In other words, the purpose of record-keeping standards in the state sector of economy is important for making decisive information about the property and financial state of managers of budgetary facilities. Such information must be clear, comparable, substantial and reliable, characterized by plenitude and be based on economic approach. The purpose of the international standards of state financial control of the INTOSAI is providing standardization of control activity and increases the trust in its results. So, the international standards of control, determining the fundamental methods of financial control, help to increase its quality according to changing requirements of control activity, and also set the directive pointing orders on special questions of control and state audit.

At the same time, international standards come forward only as a basis for the development of our own national standards. None of the developed countries in the world uses them fully as national standards. The international standards of state financial control and state audit should be considered only as a starting point for the preparation of a clear system of national standards which correspond to the requirements.

There are no doubt that for accounting services it is necessary to make generally accepted norms for regulating the activity of independent auditors, their relations with the objects of audit on the closest to international standards level.

Regulation of the state financial control activity means the establishment of norms, provisions, rules and procedures executed properly in the form of standards, and their observance is obligatory for all public servants of the national bodies.

Standards of state financial control are the basis for the auditing and expert-analytical activity of supervisory bodies, their quality and reliability.

In many developed countries, the activity of state financial control government is also standardized, as is also the public accountant activity. Thus, the standards of state financial control are quite similar to the standards of audit carried out in the private sector, but the latter are more detailed.

In the US and European countries, the national standards of state financial control, the procedure of their realization are developed by higher supervisory bodies. For example, the USA Government Accountability Office has worked out standards for the audit of state organizations and government programs. However, according to requirements of the current American legislation, these standards must follow not only federal inspectors but also public accountants – people who carry out the corporate control.
The importance of the standardization of state financial control is substantial, because the INTOSAI has accepted a number of standards of control activity, which were recommended for the application of control in different countries.

The INTOSAI standards primarily aim at the unification of state financial control bodies in different countries in order to increase the effectiveness of international cooperation in the fight against corruption, financial fraud, misappropriation of public funds.

The international standards have a recommendation character, and countries independently make a decision about their use. But as international standards are the generalized result of functioning in the most developed registration and control systems of the world (American and European), it is quite obvious that a blind printing-down can negatively affect the national practice.

The international standards of state financial control are worked out from public interests and on the condition of their correct application provide for responsibility at presenting financial reporting, its transparency, clearness, and comparability. They conquered the deepest approval among professional organizations and specialists. The international standards of state financial control comprise the basis for its organization and methodology on which a national financial control system must be based.

The national system of financial control of any country is a complex of norms and rules which regulate the mutual relations of a supervisory body and a controlled object, the features of which are determined by the legislation and culture of a corresponding state. The standards of financial control open the essence of this system: they determine the methods of realization of control actions rising from the principles of legality, objectivity, and responsibility. Only the open system of control standards can clearly show how effective is the state financial control system.

3. Conclusions

Thus, requirements to the realization of audits of budget establishment must be identical, clear for users and public. Also, these requirements must be executed as the corresponding standards, grouped after characteristics by the system signs in the common codification field.

In our opinion, it would be clever and justified to set up a committee (advice) which on the public issues would engage in the development of financial control standards on a national scale. To work in this commission it is possible to attract research workers, members of public advisory at supervisory bodies, members of professional public organizations.

A commission or council of standardization of financial control must enable to:

- create full-time or temporary groups for developing standards;
- to attract to this work educational institutions;
• to coordinate the work on standardization of the state financial control, internal control, and audit;
• to observe if all standards are clear and understandable, and accessible for the controlling bodies;
• to observe if they are concerted and have a clear hierarchical structure.

As this process of standardization of the financial control is permanent, standards must be regularly analyzed for their accordance with the terms which were changed, to the requirements, tasks and, if necessary, revised in the operative order. Moreover, for the developers of standards there must be a close and adjusted intercommunication with the direct contractors of audit and analytical measures to have the possibility to react quickly enough to a situation which requires standardization.

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