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## NEED FOR IMPROVING FINANCIAL CONTROL AT LOCAL LEVEL WITH USE OF EXTERNAL EXPERIENCE

### НЕОБХІДНІСТЬ УДОСКОНАЛЕННЯ ФІНАНСОВОГО КОНТРОЛЮ НА МІСЦЕВОМУ РІВНІ ІЗ ЗАСТОСУВАННЯМ ЗАРУБІЖНОГО ДОСВІДУ

#### ANNOTATION

The problem aspects of the organization of financial control at the local level are considered. The necessity of improving financial control at the local level based on the use of positive experience of foreign countries is substantiated. Specifies the decisive role of public control in budgetary decentralization. The main tasks of financial control at the local level are outlined.

**Keywords:** financial resources, financial control, budget decentralization, public control, public finances, local finances.

#### АНОТАЦІЯ

Розглянуто проблемні аспекти організації фінансового контролю на місцевому рівні. Обґрунтовано необхідність удосконалення фінансового контролю на місцевому рівні на основі застосування позитивного досвіду зарубіжних країн. Вказано на визначальну роль громадського контролю в умовах бюджетної децентралізації. Окреслено основні завдання фінансового контролю на місцевому рівні.

**Ключові слова:** фінансові ресурси, фінансовий контроль, бюджетна децентралізація, громадський контроль, державні фінанси, місцеві фінанси.

#### АННОТАЦИЯ

Рассмотрены проблемные аспекты организации финансового контроля на местном уровне. Обоснована необходимость совершенствования финансового контроля на местном уровне на основе применения положительного опыта зарубежных стран. Указано на определяющую роль общественного контроля в условиях бюджетной децентрализации. Определены основные задачи финансового контроля на местном уровне.

**Ключевые слова:** финансовые ресурсы, финансовый контроль, бюджетная децентрализация, общественный контроль, государственные финансы, местные финансы.

**Formulation of the problem.** Nowadays conditions of implementation of the budget decentralization reform, issues of organization of an effective system of financial control, which are an important tool for influencing the functioning of state and local finances, are particularly topical. At the same time, it attaches importance to ensuring their transparency, which accordingly provides for constant control both by specialized bodies, and through civil society institutions and directly by the population on the processes of formation, distribution and use of financial resources of the state and regions. Increasing the significance and effectiveness of financial control in this context will ensure the targeted focus of budgetary resources and maximize the consideration of the public interest, which in turn

will contribute to increasing confidence in public authorities and local self-government, both from the public and the international community.

**Analysis of recent research and publications.** Scientific issues of such scientists as O. Anisimov, V. D. Bazilevich, M. G. Belukha, O. D. Vasilik, M. M. Golovan, G. M. Davydov, O. S. Danevych, V. G. Demyanishin, E. V. Kalyuga, L. A. Mirgorodskaya, M. A. Nikonovich, V. S. Ogorodnik, V. M. Radionova, L.A Savchenko, R.G Somaev, V.I Stoyan, V.M Fedosov, S.I. Yuryi, and others are devoted to the research of actual issues concerning the development and improvement of financial control.

However, further research needs to solve a problem of the organization of the system of financial control at the local level, the modernization of which is an integral part of the successful implementation of decentralization processes.

In view of this, the purpose of the article is to study the problem aspects of the organization of financial control at the local level, justifying the need for its improvement, taking into account foreign experience.

**Presentation of the main research material.** With the approval of democratic processes and decentralization in Ukraine, transformation of economic processes takes place in the context of the formation of a new financial system and the functioning of progressive market institutions. That is why the problem of effective financial control as an important component of management processes at the macro and micro levels remains topical. Due to the wide scope of application, financial control overlaps the interests of practically every citizen or business entity in one way or another. Therefore, an important aspect is the growth of public welfare of the population, improvement of the quality of the provided goods and services through increased efficiency of the use of financial resources of the state and individual regions. However, the current system of financial control, which has been built in Ukraine for many years, still does not provide at the appropriate level financial-budgetary discipline,

nor does it resolve a number of problems that create conditions for the growth of the number and volume of major financial violations. In particular, the tendency towards misuse of budget funds and the constant growth of economic crime is evidenced by the fact that in today's conditions, the financial control system is weakly opposed to such a violation.

Thus, according to the postulates of financial theory, financial control is an integral part of the financial activity of the state and individual regions. It should be noted that the existence of financial control is objectively due to the fact that finance as an economic category is characterized not only by distribution but also by control functions. Accordingly, financial control is carried out in the manner prescribed by law by the entire system of government authorities of different levels, including special supervisory authorities.

Therefore, the execution by state and local authorities of their tasks and functions necessarily involves monitoring the process of their implementation. For this, in particular at the local level, sufficient financial resources of local authorities are needed, which is precisely a set of cash flows that ensure the implementation of the functions of economic and social orientation in certain territories. The sources of the formation of local financial resources include the funds of local budgets, which make up the largest share in the total amount of financial resources of local self-government, the finances of enterprises of all sectors of local economy, population incomes, sponsorship fees and other financial resources that are in circulation at the local level. It should be emphasized that each year the structure of local financial resources is transformed in accordance with the current conditions of implementation of administrative and territorial reform and budget reform. In particular, there is a positive tendency to increase both local budgets and capital expenditures. Taking into account the above, all this requires revision of approaches to the organization of financial control over the formation and use of local financial resources. Therefore, one of the ways of solving these tasks is to improve the financial control system, including at the local level.

Nowadays, the issue of the effectiveness of financial control is extremely important, which makes it necessary to increase the efficiency of the functioning of the system of public administration and local self-government, transparency of budget policy, rationality and efficiency of budget expenditures. Therefore, one can not but agree with the opinion of many prominent scholars and economists that financial control is an indispensable element of managing local financial resources and an effective tool that allows the financial discipline to be maintained at an appropriate level.

The organization of financial control at the local level should take into account the peculiarities of the functioning of local finances. In many

countries, central authorities have significant control over local finance. This is primarily due to the fact that the state plays a decisive role in the financing of local self-government bodies, in particular to ensure the implementation of its delegated powers. Accordingly, there is a need to control the use of funds sent to these goals, as well as the volume and quality of services that are created at their expense.

Therefore, we consider it positive to study the world experience in the organization of financial control, in particular at the local level, taking into account its specificity in domestic practice. The implementation of financial control in countries with a developed market economy and civil society is determined by the form of government, the peculiarity of the structure of financial control bodies, as well as the development of the legal system for its provision. It should be noted that foreign countries are characterized by the development of both external and internal financial control over local authorities.

In many countries of the world, including the countries of the European Union, the organization of financial control is entrusted to the Accounting Chamber, as well as to specialized control and audit bodies. Such bodies control the activities of federal enterprises, insurance companies, private and other enterprises, which have 50% of the state's share, as well as carry out checks on the financial activities of local authorities.

The rich experience of organizing external financial control at the local level is marked by France, which has the most effective mechanism for controlling the use of financial resources at various levels of government. The main controlling body is the regional chambers of commerce, despite the fact that until 1982, at the local level, financial control was carried out by the Court of Auditors – the state financial control authority at the central level. However, as a result of the adoption at that time of the law on the rights and freedoms of administrative units and the creation of 22 regional chambers of account, the reform of the entire system of state external financial control of France [2]. The main difference in the organization of external financial control at the local level is that when the local budget is not adopted in time, the regional Accounting Chamber, directly on behalf of the Prefect, develops and submits to it for approval a draft budget. This, accordingly, deprives local authorities of budget powers.

During the budget control, such bodies play only an advisory role. They are required to carry out an assessment of the accounts of public accountants and make judgments in this regard. The functions of public financial control at the local level are carried out by general treasury regions, which, through subordinated financial controllers, control the expenditures of administrative units and state institutions (with the exception of local governments).

An independent public financial control body in the UK is the Audit Committee whose main task is to ensure the efficient and economical use of funds by local authorities in financing various fields. The Audit Commission carries out inspections of local authorities, checks and discloses information on the activities of municipal councils, and is responsible for assessing the activities of individual municipal councils of the country. The purpose of the functioning of such a body is to enable comparing the activities of various councils, reflecting their activities to improve the quality of their services. Therefore, the results of inspections for the provision of such services are the definition and publication of general indicators of their activities [1].

The basic principles for the implementation of public financial control in Germany are governed by the Federal Constitution of Germany, which regulates relations between the federation, the lands and communities. Accordingly, financial control at the local level is carried out by the Accounts Chamber of the land. Implementation of decisions by the executive body of local self-government is controlled by the audit department. Direct control and supervision over the activities of the executive body is entrusted to a representative body, before which the executive body reports, and the municipal council approves the budget and the report on its implementation. The cooperation of the relevant institutions that are authorized by the state authorities and local self-government bodies to carry out functions related to control over budgetary funds is implemented through the system of budget administration [3].

The Accounting Chamber of Austria has control over not only the activities of federal enterprises, but also local authorities, charitable foundations whose accounts are audited annually by the central body. In addition, land governments and tax administration must submit annual financial documents to all communities with a population of more than 20 thousand people.

Despite the existence of a constitutional monarchy in Spain and the presence of 17 autonomous regions comprising 50 provinces, there is no control over regional autonomous governments and local governments, although they are fully dependent on state transfers. Control functions in this country are implemented by the legislature the bicameral parliament (General Cortés) and the executive (the Government of Spain, the Ministry of Economy and Finance). Independent financial control body is the President of the Accounting Chamber (Chairman of the Senate of Spain). In general, control over the financial activities of local authorities in Spain is assigned to a special Court of Audit.

The Canadian experience regarding the implementation of public control at the level of individual states is relevant for application in Ukraine. Municipal legislation regulates requirements for

municipalities to hold compulsory public hearings and accountability to citizens. The public is directly involved in the adoption of appropriate management decisions, resulting in the documents coming into force after being approved at public meetings of the municipalities. An effective form of citizen participation in the implementation of financial control is the functioning of public councils in many developed countries, which, in turn, perform the functions of public expertise, which increases the transparency of the activities of the controlling bodies.

In the context of fiscal decentralization in Ukraine, public control only acquires its significance, especially with regard to conducting public assessments, public hearings to discuss certain socially important areas of activity of state and local government bodies.

However, unfortunately, the main obstacles to public participation in governance processes and the adoption of important decisions approved by public organizations are excessive politicization and the continued existence of bureaucratization in society. Therefore, this aspect also requires the active participation of the public in management, especially for the successful implementation of fiscal decentralization in the country.

Inadequate legal and regulatory framework for the process of implementing public control, low level of citizens' awareness about the peculiarities of the organization of the budget process, the use of budget funds, and the adoption of appropriate decisions of local authorities, lack of interaction in the activities of state authorities, local self-government and the general public leads to a violation of effective cooperation. state and population.

The activation of the role of public control in conditions of fiscal decentralization, its strengthening with the proper fulfillment of authorities, and the fight against corruption in the functioning of state and local government bodies will contribute to the effective management of local finances, the clear definition of the principles of the work of local authorities, which serves as the basis for realization of the foreseen tasks and priorities, as well as to ensure the full satisfaction of the needs of territorial communities.

**Conclusions.** Therefore, it is advisable to consider one of the main areas of improvement of the organization of financial control, including at the local level, in the context of maximum approximation to the European practice of the introduction of progressive world experience.

Taking into account the aforementioned, as well as the fact that since an effective organization of financial control in the state depends to a large extent on the coordinated coordination of the activities of the controlling bodies both at the state and at the local level, the optimal distribution of their functions and powers, it is necessary to distinguish the following tasks of financial control at the local level levels:

– unconditional compliance with the requirements of the current legislation when making financial decisions by local self-government bodies;

– Identification of possible reserves for expanding the resource base of local self-government;

– provision of economical and efficient use of material resources in accordance with decisions approved by representative bodies of local self-government;

– prevention and detection of facts of the use of financial resources in violation of established rules;

– ensuring the reliability of information about financial activities of local self-government bodies.

Realization of the set tasks only helps to strengthen financial discipline of local self-government bodies, increase of efficiency of man-

agement of public finances in general. This, accordingly, stimulates economic growth, the development of democratic relations in society and the improvement of public attitudes towards the activities of government institutions.

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