

Improving the Internal Financial Control of Expenditures of the Budgetary Institutions under the Influence of the Crisis Caused by COVID-19

Larysa Ivanchenkova¹, Halyna Tkachuk^{1,*}, Larysa Skliar¹, Olesia Holynska², Kateryna Stasiukova¹, Yuliia Tomchuk³

¹Department of Accounting and Audit, Odessa National Academy of Food Technologies, Odessa, Ukraine

²Odessa Regional Institute for Public Administration, National Academy for Public Administration under the President of Ukraine, Odessa, Ukraine

³Department of Accounting, University of State Fiscal Service of Ukraine, Irpin, Ukraine

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Abstract The purpose of this article is to analyze the control of local budget expenditures in Ukraine under the influence of the crisis caused by COVID-19 and to find ways to improve the internal financial control of expenditures of budgetary organizations. The relevance of the study is due to the need to create a system of separation of powers and responsibilities in the public sector on the basis of ensuring economical, efficient, effective and legal use of budget resources to achieve the goals set by the organization. The study was conducted on the basis of data from Ukraine. 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. It is established that Ukraine needs further reform of the state financial control of expenditures of budgetary institutions - in the direction of decentralized control. It is proved that the creation of a modern information and analytical resource optimizes the accounting and control system, which will lead to the introduction of more effective mechanisms for administration, de-shadowing of the economy and increasing control over budget expenditures. Thanks to digital technologies, the economic activity of budgetary

institutions will become more transparent, risk assessment will be optimized and the capabilities and effectiveness of the system of internal financial control of expenditures will increase.

Keywords Internal Financial Control, Expenditures, Budgetary Institution, State Internal Financial Control

1. Introduction

Aligning the organization of financial management and control with the best international practices and requirements of the EU to public internal financial control has been considered a difficult task in many countries undergoing reform. An important task of the financial policy of the state is the formation of an effective system of internal financial control of budgetary institutions. Such a system promotes better decision-making and more efficient use of resources. This ensures the planning, use and control of financial resources in order to effectively

and efficiently achieve the goals set for the institution [1]. The effectiveness of the internal financial control system has been ensured by the well-established interaction of all structural units of the budgetary institution, coordination of their activities, adjustment of their plans and programs [2], [3]. *It is very important* to be understood by the management of the budget organization of the nature of the risks they face, their ability to maintain control over the organization [4]. Process financial management and control is continuous, applied to 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. Thus, the issues of creating a system of separation of powers and responsibilities in the public sector on the basis of ensuring economical, efficient, effective and legal use of resources, budget to achieve the goals set by the organization [5], [6]. In order to systematically implement these tasks and their effectiveness, it is advisable to assess the existing system of financial management and control, in accordance with the European concept of public internal financial control. The subsystem of decentralized internal control needs special attention.

The purpose of this article is to analyze the control of local budget expenditures in Ukraine under the influence of the crisis caused by COVID-19 and to find ways to improve the internal financial control of expenditures of budgetary organizations. This study highlights the following issues:

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

The object of study is internal control expenditures of budgetary institutions.

To achieve this goal, the following tasks were performed:

- to explore modern scientific approaches to the definition of the concept internal financial control of expenditures of budgetary institutions;
- to determine the location of the internal system financial control of expenditures of budgetary institutions for the purposes of the company and its management activities;
- to develop a mechanism for internal financial control of expenditures of the budgetary institutions, in accordance with modern requirements.

The categorical apparatus of this article is selected on the basis of a literature review of research by scientists on the problems of implementation and development of

internal control under the influence of the crisis caused by COVID-19. Modern scientific approaches, criteria of conformity of the system of internal financial control of the modern budgetary institution are allocated. The analysis of the budget system of Ukraine, from the standpoint of the components of the state budget and local budgets. Based on the presented statistical data, the tendency of change of the share of expenditures in the GDP of Ukraine for the period 2008-2020 is revealed. The logical continuation was the analysis of data on the relative size of the actual expenditures of the Consolidated Budget by functional classification (2012-2019 and targets for 2020-2021), based on which the priorities of public spending of Ukraine and possible prospects for expenditures. Since in the conditions of decentralization of Ukraine the issues of control of expenditures of local budgets deserve special attention, in this study considerable attention is paid to the peculiarities of the organization of the system of control of expenditures of territorial communities. For this purpose, the actual data on local budget expenditures depending on the differentiation in the resource provision of communities were used. The study considers the features of the introduction of digital technologies in the system of internal financial control of expenditures of budgetary institutions.

2. Literature Review

Control over the activities of a budget organization can be divided into two types - internal and external control, which establishes levels of management, a certain type of relationship and stakeholder attitude to a particular system of control [7], [8]. Internal control includes senior management of the organization, while external control for a budgetary institution can be defined as the basic principles and provisions of state regulation of expenditures of budgetary institutions [9], [10].

The introduction of a system of a financial management and control and managerial accountability (responsibility) in public institutions should be result-oriented and carried out systematically [11], [12]. 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 set of two controls - accounting and management [13], [14], 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 types of violations. Administrative control is a set of instructions, regulations (eg, technological, administrative, official), as well as methods and techniques that help manage, plan and control

the economic activities of the organization [15]. So, two methodological approaches to the study of internal control have formed - functional-managerial and informational. In this context, control over the validation of reporting was already focused on the effectiveness of activities [16], [17]. Thus, internal financial control is an accounting and management tool.

The system of internal financial control (PIFCS - Public Internal Financial Control Systems) is being 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 has been based on the concept of risk-oriented control of COSO. Researchers of theoretical and practical issues of implementing the COSO model in the risk management process consider control as a process carried out by managers at all levels and other employees [18]. The basis of risk-oriented management is the introduction of a system of internal control and managerial accountability (responsibility) [19]. A series of international standards has been developed for the public sector based on the COSO concept: INTOSAI GOV 9100 - Guide to internal control standards in the public sector; INTOSAI GOV 9120 - Internal control: providing a basis for accountability in the Office; INTOSAI GOV 9110 - Guidance 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. Some researchers argue that in the last decade, traditional budgeting does not meet the modern needs of managers [20], [21]. Researchers and practitioners are working to create alternative budgeting methods that meet the needs of the modern business world: Beyond Budgeting's (BB), budget improvement, ongoing forecasts, activity-based budgeting, budgeting, results-based budgeting (RBB) - the main alternatives developed for the last few years to manage the expenditures of budgetary institutions [22].

Relative key performance indicators (KPIs), which derive directly from strategic goals, link the strategic plan to the budget management process [23]. A public internal financial control is a system of internal control, internal audit, inspection, harmonization activities to ensure quality management of state resources based on the principles of legality, economy, efficiency, effectiveness and transparency [24]. Internal control is a set of measures used 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 it is subordinate institutions. The basic principle of a public internal financial control is a clear distinction between internal control and internal audit. An internal audit should determine how internal control has performed, including methods of ex ante control. An internal control is a management tool that allows the management of a public sector body to check the status of the body's tasks. Scheme of organization and interaction of internal financial control and internal audit budgetary institution, depending on their direction and purpose, shown in Figure 1.

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, so internal control should not be considered as a separate system within the public sector body.

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 has 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.

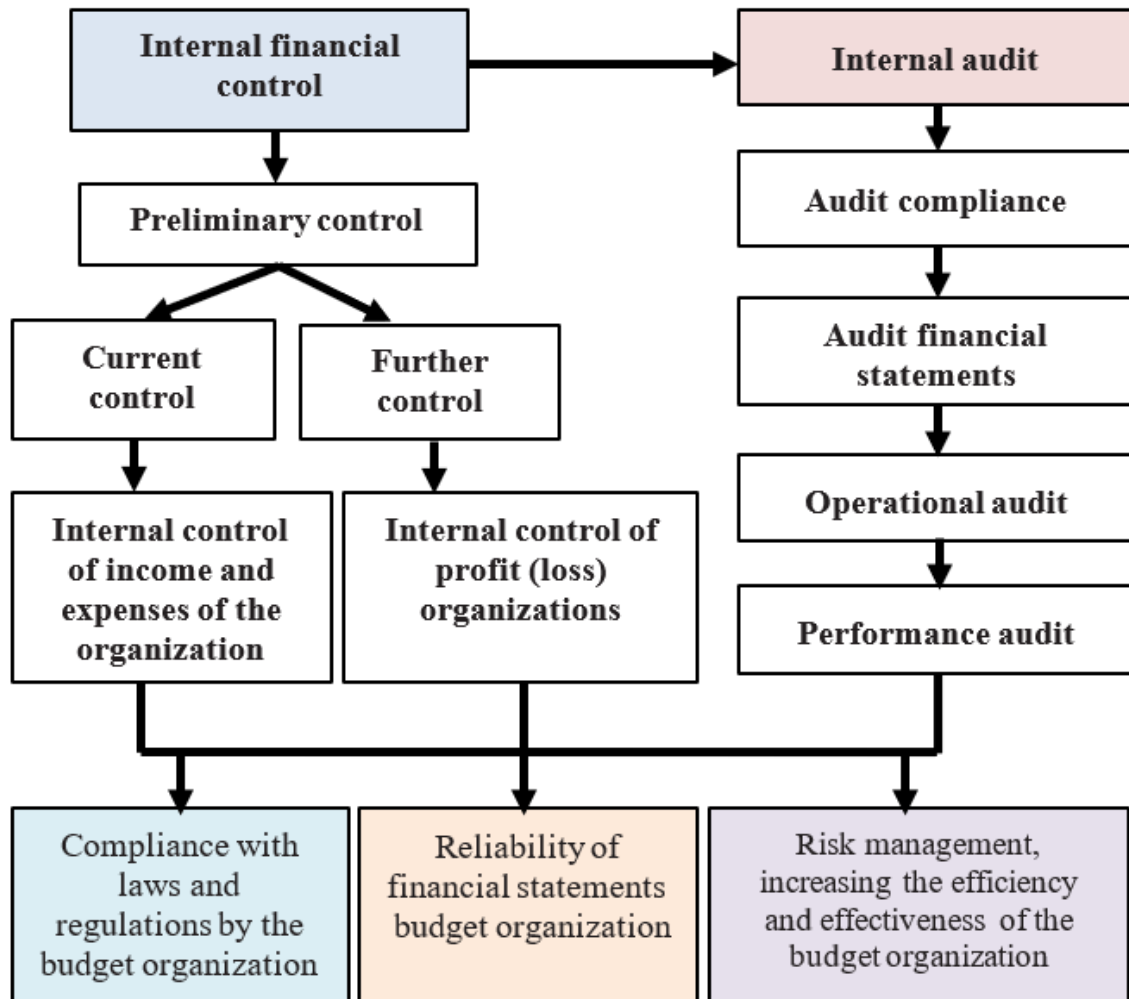


Figure 1. Scheme of organization and interaction of internal financial control and internal audit budgetary institution

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 deficiencies 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) have 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

ability to provide independent and objective recommendations is the main difference between internal audit and other forms of control.

The system of an 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.

The system of a public financial management, in accordance with EU standards and practices, contains the EU concept of management and organization of public internal financial control. This concept and the connection with other important elements can be clearly represented in the form of the so-called "House of Public Internal Financial Control" [25] (Figure 2).

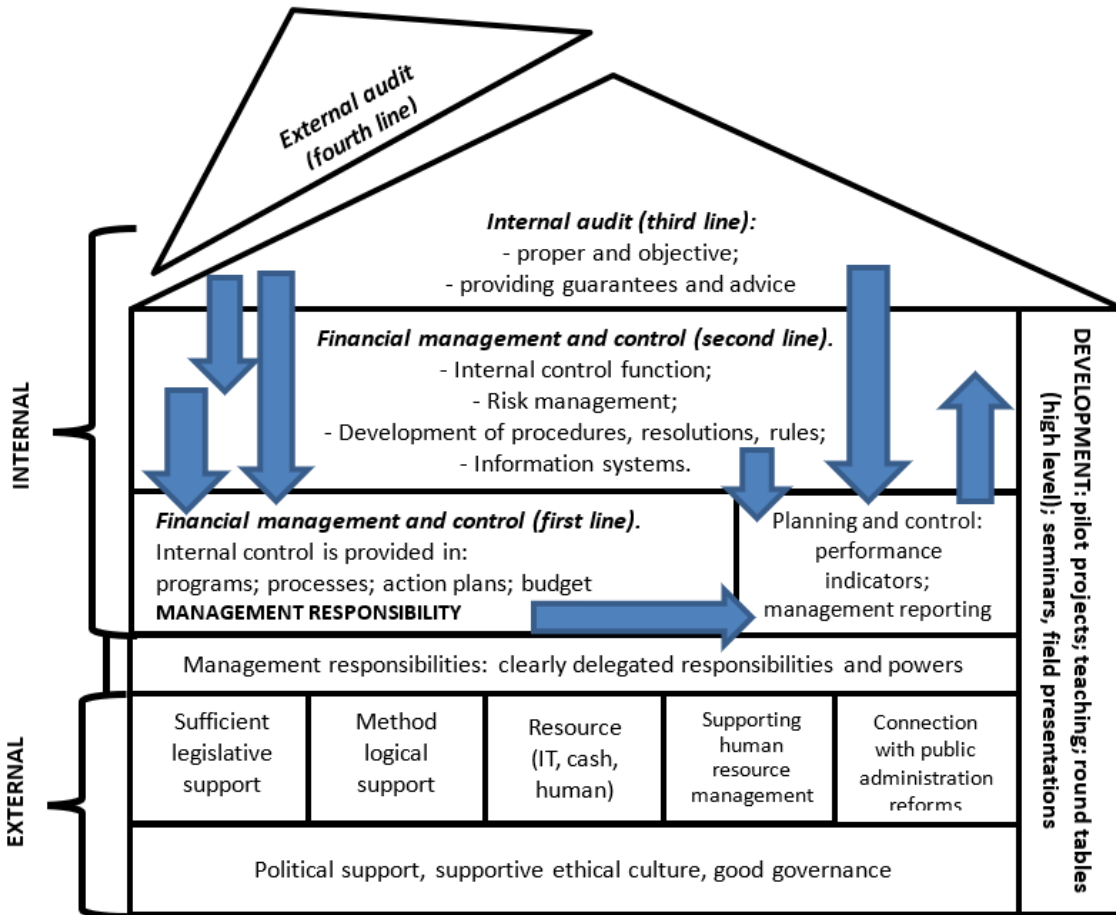


Figure 2. The system of a public internal financial control: the main components and interdependencies with other relevant elements and aspects

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

- control environment. A management and a 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 the instructions and instructions of management should be defined;
- information and information exchange. Information should be registered and communicated to 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 internal control system 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.

A decentralized internal audit is an internal audit performed by an authorized independent unit (official) directly subordinate to the management of a public sector body, but functionally independent of it, within the public sector body itself or within its management system. An inspection - a 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 has been 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. A centralized inspection - inspection is carried out by the state control and audit service. A decentralized inspection - such that has been 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.

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") (Fig. 3).

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 legislation, 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 are provided, their consequences are minimized;
- resource management is carried out economically, effectively - to achieve the goals of the organization;
- proposals are made to increase the efficiency of the use of budget funds, state and municipal property, etc.

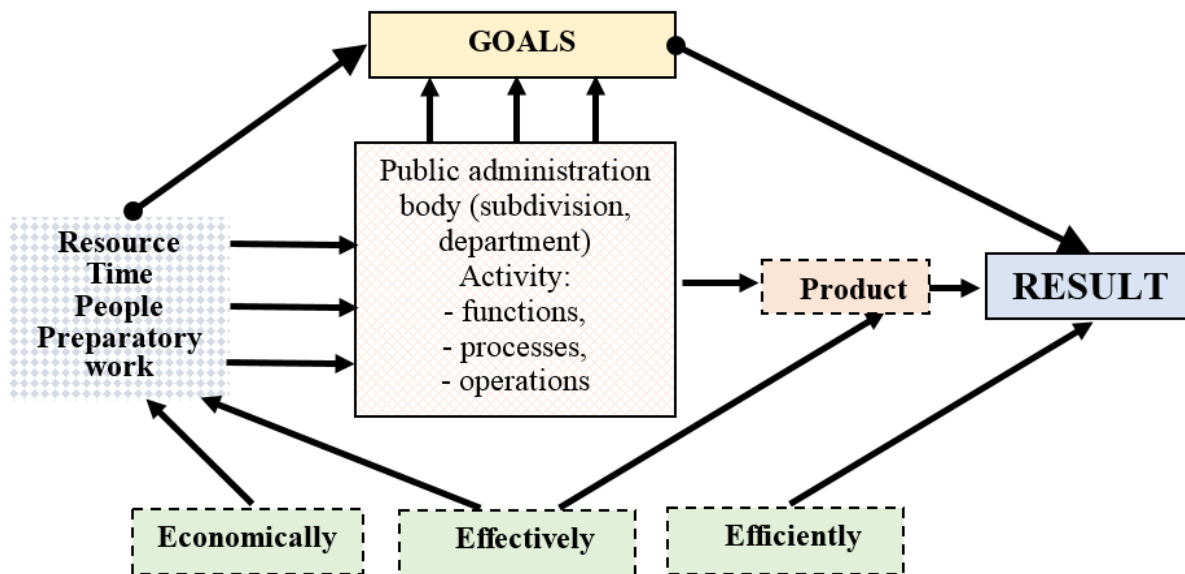


Figure 3. Model "Three E: contribution-product" in public administration

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

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

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

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.

Methodical recommendations on the organization of internal control by managers of budget funds in their institutions and subordinate budget institutions, approved by the order of the Ministry of Finance of Ukraine dated 14.09.2012 № 995 (as amended).

So, we can talk about the so-called: economical, efficient or effective approach to system formation internal financial control of the budgetary institution. 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. Data and Methodology

The methodological basis of this article is 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.

To implement the tasks in the study used methods: a dialectical knowledge of the economic processes (in clarifying the theoretical aspects of the organization of financial control and the development of methodological foundations of the study); a generalization (to study the structure of the system of internal financial control, highlighting its principles); a 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. Results

4.1. Composition and Structure of Expenditures of Budgetary Organizations of Ukraine in the System of Internal Financial Control

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 region and the city of Kyiv. According to the Budget Code of Ukraine, state budget expenditures have 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 the overpaid amounts to the budget.

Figure 4 presents the classification of budget expenditures.

Expenditures and budget lending have been classified by: budget programs (program classification of expenditures and budget crediting); a sign of the main administrator of budget funds (departmental classification of expenditures and budget lending); functions related to the implementation of expenditures and budget lending (functional classification of expenditures and budget lending).

Budget deficit is a constant phenomenon in the economy of Ukraine (Figure 5).

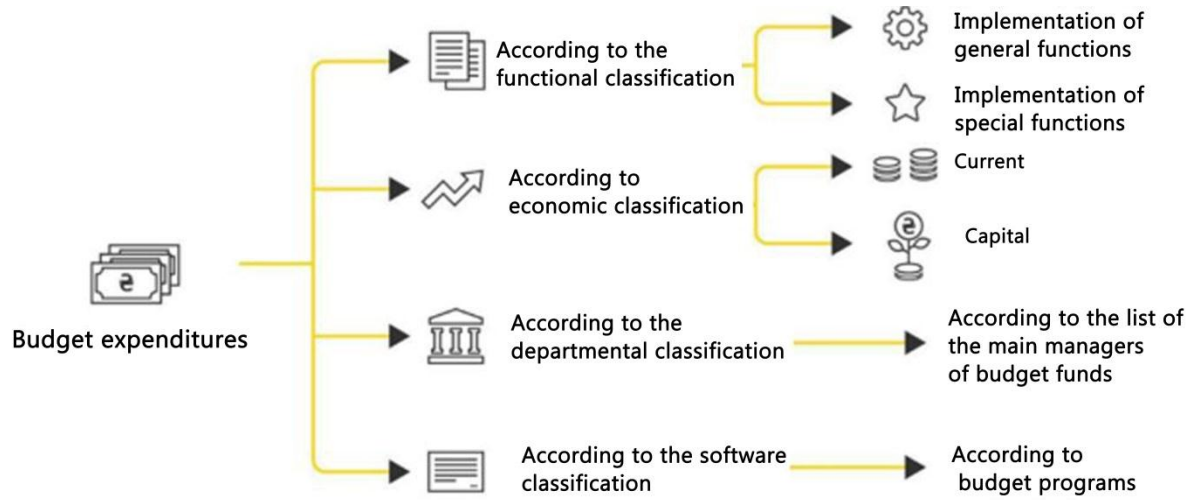


Figure 4. Types of state budget expenditures (Ministry of Finance of Ukraine)

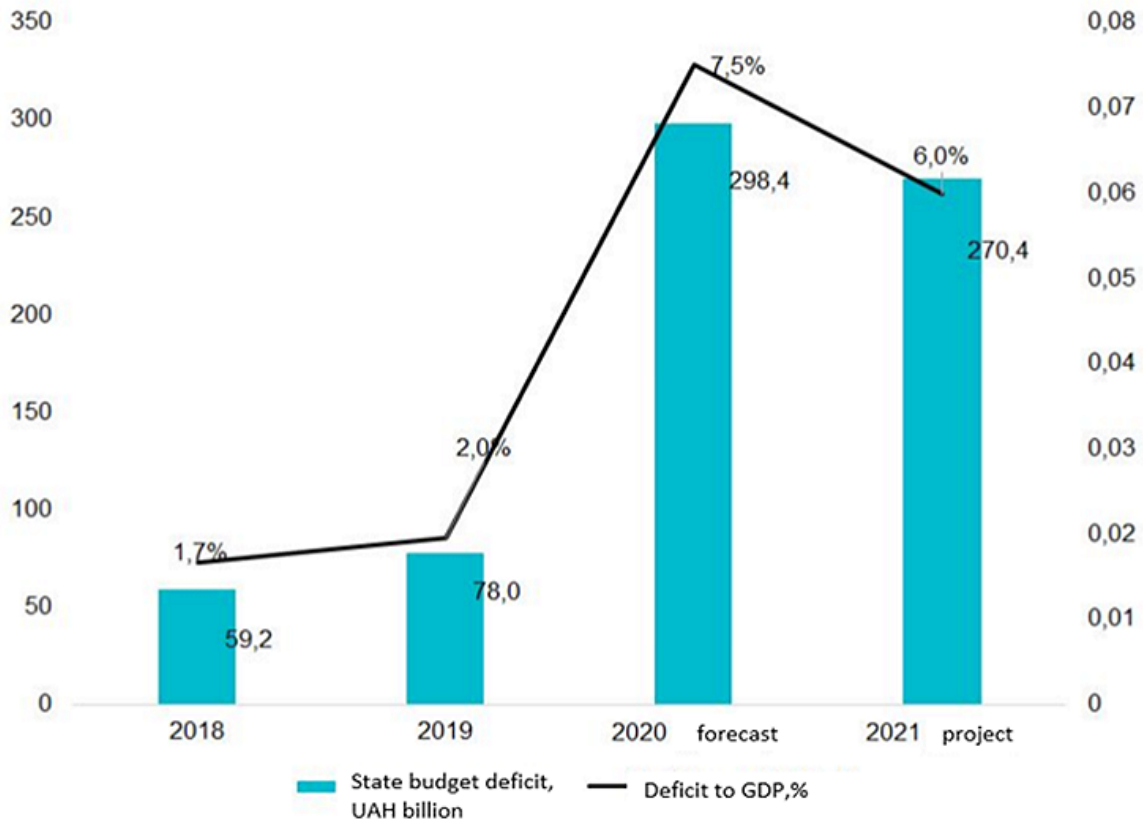


Figure 5. Budget deficit of Ukraine

Table 2. Expenditures of the Consolidated Budget of Ukraine by functional classification, % of GDP

Types of state budget expenditures	Years							Change 2021 to 2012
	2012	2015	2017	2018	2019	2020 plan	2021 forecast	
Expenses	34.9	34.2	35.4	35.1	34.5	40.7	37.1	+2.2
National functions (without debt service)	2.1	1.6	1.9	2.1	2.1	2.5	2.2	+0.1
Public debt service	1.8	4.3	3.7	3.3	3.0	3.7	3.6	2 times
Defense	1.0	2.6	2.5	2.7	2.7	3.0	2.6	2.6 times
Public order, security and the judiciary	2.6	2.8	3.0	3.3	3.6	4.0	3.7	1.4 times
Economic activity	4.4	2.8	3.4	4.0	3.9	6.0	4.5	+0.1
- agriculture, forestry and fisheries	0.5	0.3	0.4	0.4	0.4	0.4	0.4	-0.1
- coal industry	0.9	0.1	0.1	0.1	0.1	0.1	0.1	-0.8
- road management	1.1	1.4	1.4	1.7	1.7	3.4	2.2	2 times
Environmental protection	0.4	0.3	0.2	0.2	0.2	0.3	0.3	-0.1
Utilities	1.4	0.8	0.9	0.9	0.9	0.8	0.6	-0.8
Health care	4.1	3.6	3.4	3.3	3.2	4.1	4.2	+0.1
Spiritual and physical development	1.0	0.8	0.8	0.8	0.8	0.8	0.9	-0.1
Education	7.2	5.7	6.0	5.9	6.0	6.7	6.7	-0.5
Social protection and social security	8.9	8.9	9.6	8.7	8.1	8.8	7.8	-1.1
- transfers to the Pension Fund	-	4.8	4.5	4.2	4.6	5.1	4.5	-0.3 until 2013
- housing subsidies	-	0.7	2.2	2.0	1.1	1.0	0.8	+ 0.1 until 2013

Source: calculated according to information and analytical materials for the draft law of Ukraine №4000, according to the State Treasury and the State Statistics Service of Ukraine, [26].

The outbreak of acute respiratory disease COVID-19 was a turning point for global economic development. Ukraine, like most countries, has also been negatively affected by the spread of COVID-19. The strict quarantine measures introduced during March-May 2020 provided for a de facto ban on the activities of enterprises in a number of economic activities, which negatively affected the economic dynamics in the first half of 2020. As a result of rising uncertainty, business and consumer sentiment deteriorated, negatively affecting consumption and investment. Data on the relative size of the actual expenditures of the Consolidated Budget by functional classification in the period 2012-2019 and the targets for 2020-2021 are given in Table 2.

The most significant areas of growth in the relative volume of budget expenditures in 2021 compared to 2013 are the following: a defense (increase in expenditures by 1.6 percentage points of GDP - from 1.0 to 2.6% of GDP); a debt service (by 1.3 percentage points of GDP - from 2.3 to 3.6% of GDP); a road economy (by 1.1 percentage points of GDP - from 1.1 to 2.2% of GDP); a public order, security and the judiciary (per 1 percentage point of GDP - from 2.7 to 3.7% of GDP). Thus, for the period 2014-2020, the actual priorities for spending public funds are related to: a payment of interest on public debt; a financing the activities of law enforcement agencies; an increasing the defense capabilities of the state; an improving the quality of roads.

Beginning in 2020, Ukraine has begun to spend significantly more on education and health care, key areas of human capital development. Thus, health care expenditures in 2021 compared to 2019 should increase by 1 percentage point. GDP, and expenditures on education - by 0.7 percentage points. GDP. In fig. 6 shows the dynamics of the relative size of expenditures on health care and public debt service in 2013-2021.

According to the results of the analysis of consolidated budget expenditures, we can distinguish short- and long-term trends in the field of budget financing of Ukraine. This is a significant reduction in the Consolidated Budget expenditures on social protection and social security. Their relative size was reduced from 10% of GDP in 2013 and 9.6% in 2017 to 8.8% according to the plan for 2020 and to 7.8% of GDP according to the forecast for 2021.

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At the same time, the two most important components of

expenditures on social protection and social security are declining in relative terms - transfers to the Pension Fund and expenditures on housing subsidies to the population.

In addition, as a result of maintaining the reduced subsistence level for 2021, payments of social benefits to families with children, veterans, low-income families, and persons with disabilities will be reduced.

Such tendencies signal a decrease in the role of the state as a guarantor of human survival in difficult life

circumstances and a low level of redistribution of citizens' incomes through the budget system of Ukraine.

This situation is potentially dangerous in the context of maintaining social stability in the country.

The table 3 shows the state budget expenditures by program classification will be subject to the largest reduction in 2021 relative to the planned expenditures of the current year, approved by the budget law.

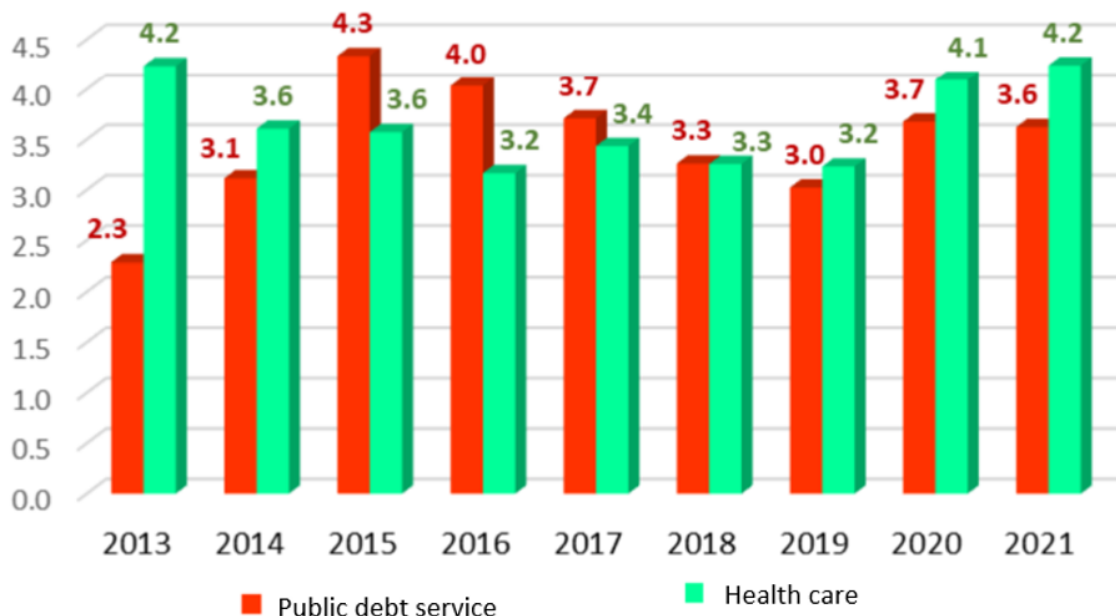


Figure 6. Dynamics Consolidated Budget Expenditures on Debt Service and Health Care in 2013-2021 (% of GDP)

Table 3. Expenditures of the State Budget according to the program classification, the amount of which was significantly reduced in 2021

Program classification code of expenditures	Name according to departmental and program classifications	Absolute increase in expenditures 2021/2020, million UAH	Expenditure growth rates 2021 to 2020,%
2501230	Payment of benefits and housing subsidies to citizens to pay for housing and communal services, purchase of solid and liquid furnace household fuel and liquefied gas in cash	-2 721.8	-6.9
2211260	Subvention from the state budget to local budgets for the implementation of the program "Able school for better results"	-1 500.0	-60.0
2211270	Subvention from the state budget to local budgets to improve the social protection of certain categories of teachers of general secondary education	-2 200.0	-
2401000	Office of the Ministry of Energy of Ukraine	1,189.2	-16.7
3111020	Development of the network and maintenance of public roads of national importance	-1 421.8	-3.7
3131090	Subvention from the state budget to local budgets for financial support of construction, reconstruction, repair of public roads of local significance, streets and roads of communal property	-829.4	-3.7
1201000	Office of the Ministry of Economic Development, Trade and Agriculture of Ukraine	-673.7	-7.8
1004000	State Migration Service of Ukraine	-383.7	-9.6
1004020	Ensuring the implementation of tasks and functions in the field of citizenship, immigration and registration of individuals	-393.1	-10.3

Source: according to analytical materials to the draft law №4000 dated 14.09.2020.

Table 4. Expenditures of the State Budget according to the program classification, the amount of which increased significantly in 2021

Program classification code of expenditures	Name according to departmental and program classifications	Absolute increase in expenditures 2021/2020, million UAH	Expenditure growth rates 2021 to 2020,%
0111000	The Office of the Verkhovna Rada of Ukraine	+243.9	+11.9
0301000	The Office of the State Administration	+789.3	+33.1
0901000	The Office of the Attorney General	+1 939.4	+25.6
1002000	The Administration of the State Border Guard Service of Ukraine	+1 346.4	+10.4
3601000	The Office of the Ministry of Justice of Ukraine	+1 351.2	+10.5
3901000	The Office of the Ministry for Reintegration of the Temporarily Occupied Territories of Ukraine	+694.6	+88.2
6341000	The staff of the National Commission for State Regulation of Energy and Utilities	+226.1	+46.4
2201000	The Office of the Ministry of Education and Science of Ukraine	+8 914.8	+20.7
6541000	The National Academy of Sciences of Ukraine	+1 142.0	+22.4
3401000	The Office of the Ministry of Youth and Sports	+4 567.9	+200.8
2301000	The Office of the Ministry of Health of Ukraine	+4 951.1	+18.7
3101000	The Office of the Ministry of Infrastructure	+2 119.2	+271.7

Source: according to analytical materials to the draft law №4000 dated 14.09.2020.

In terms of absolute amounts and annual growth rates in terms of budget programs, it has expected to reduce expenditures by: payment of benefits and housing subsidies to citizens to pay for housing and communal services (-2,721.8 million UAH or -6.9% of the planned allocations in 2020); a subvention to local budgets to improve the social protection of certain categories of teachers of general secondary education institutions (-2,200 million UAH - abolition of the subvention); a subvention to local budgets for the implementation of the program "Able school for better results" (-1 500 million UAH or -60%); the staff of the Ministry of Energy of Ukraine (-1 189.2 million UAH or -16.7%); a development of urban infrastructure and measures in the district heating sector of Ukraine (-852.7 million UAH or -47.5%); the staff of the Ministry of Economic Development, Trade and Agriculture of Ukraine (-673.7 million UAH or -7.8%); the State Migration Service of Ukraine (-383.7 million UAH or -9.6%). *However*, a number of the main managers of budget funds and their budget programs will receive in 2021 larger amounts of appropriations, both in nominal and real terms. The table 4 presents the state budget expenditures according to the program classification with the largest increase in funding in 2021 compared to 2020.

Given the global trends, the Government of Ukraine has planned to continue soft fiscal policy in 2021 to support aggregate demand and mitigate the effects of the economic and epidemiological crisis. Thus, the draft law on the budget for 2021 sets the maximum size of the state budget deficit at 270.4 billion UAH or 6% of GDP. In 2020, according to the budget law, the deficit limit was 298.4 billion UAH or 7.5% of GDP. A managers of budget funds, in the person of their heads, organize an internal control and an internal audit and ensure their implementation in

their institutions and in subordinate budget institutions.

The activities of the budgetary institution should be carried out within the allocations approved by the budget and the allocation plan. The control has been carried out during: crediting of incomes, taking of budgetary obligations, carrying out operations with budgetary funds, spending of budgetary funds, realization of borrowings, etc. In the conditions of decentralization of Ukraine, the issues of control of local budget expenditures deserve special attention.

In the course of planning, the estimated amounts of budget expenditures of the united territorial communities have 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 has been 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 provides for 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 has carried out by fund managers - program executors. The budget program passport is the main document used by local budget managers at the stage of budget program monitoring. A 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 has been 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: a budget request; a 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.

4.2. Assessment of Financial Control of Expenditures of Budgetary Institutions in the Conditions of Decentralization of Ukraine

The result of the analysis of the financial aspect of the functioning of the united territorial communities was used to analyze the effectiveness of financial control of a budgetary institutions in the conditions of decentralization

of Ukraine. Following the results of 2020, experts conducted another assessment of certain indicators of financial (budgetary) activity of united communities [27].

The total expenditures of local budgets in 2020 amounted to 478.1 billion UAH, which is 88.2 billion UAH (-15.5%) less than the expenditures made in 2019 (Table 5).

Of this amount, the expenditures of the general fund in 2020 amounted to 357.7 billion UAH, which is 84.9 billion UAH (-19.2%) less than in 2019. In the structure of local budgets, the largest share falls on wages - 206.7 billion UAH, or 43.2%. The capital expenditures amounted to 98.6 billion UAH, which is 20.6% of all expenditures. Compared to 2019, labor costs increased by 15.3%, while energy was spent almost 20% less, a slight decrease was recorded in capital expenditures - 98.8% of the volume of 2019. In terms of functional classification of expenditures, the largest amount of funds during 2020 was directed to the financing of education - 199.4 billion UAH (Table 6), which is 41.7% of the total expenditures made from local budgets.

Table 5. Expenditures of local budgets of Ukraine years by economic classification

Expenditures by economic classification	General fund, billion UAH		Special fund, billion UAH		Total, billion UAH		Deviation
	2019	2020	2019	2020	2019	2020	
Remuneration with accruals	177.9	205.5	1.4	1.2	179.3	206.7	115.3%
Payment for utilities and energy	16.9	13.6	0.3	0.2	17.2	13.8	80.2%
Subsidies and current transfers	71.6	74.1	4.0	5.6	75.6	79.7	105.4%
Social welfare	88.8	10.2	0.1	0.1	88.9	10.3	11.6%
Other current expenses	87.4	54.3	18.1	14.7	105.5	69.0	65.4%
Capital expenditures	0.03	0.0	99.8	98.6	99.8	98.6	98.8%
Together	442.6	357.7	123.7	120.4	566.3	478.1	84.4%

Table 6. Expenditures of local budgets for 2019-2020 by functional classification

Expenditures by functional classification	General fund, billion UAH		Special fund, billion UAH		Total, billion UAH	
	2019	2020	2019	2020	2019	2020
National functions	33.0	39.5	1.9	1.5	34.9	41.0
Public order, security and the judiciary	1.1	1.5	0.2	0.3	1.3	1.8
Economic activity	15.2	19.5	66.7	74.4	81.9	93.9
Environmental protection	0.1	0.1	3.3	2.3	3.4	2.4
Utilities	21.1	22.2	13.3	9.9	34.4	32.1
Health care	77.7	40.2	12.1	10.7	89.8	50.9
Spiritual and physical development	18.5	19.8	3.1	2.1	21.6	21.9
Education	167.3	183.1	19.8	16.3	187.1	199.4
Social protection and social security	100.5	21.5	2.7	2.5	103.2	24.0
Together	434.5	347.4	123.1	120.0	557.6	467.4
Intergovernmental transfers	8.1	10.3	0.6	0.4	8.7	10.7
Total	442.6	357.7	123.7	120.4	566.3	478.1

Compared to 2019, expenditures on education increased by 12.3 billion UAH or 6.6%. 50.9 billion UAH was spent on health care, which is 10.6% of local budget expenditures. Compared to 2019, health care expenditures decreased by 38.9 billion UAH or 43.3%. The reduction in health care expenditures is due to the continuation of medical reform and the introduction of secondary funding from the state budget through the National Health Service. In 2020, the National Service under the program of state guarantees of medical care provided expenditures totaling 89.5 billion UAH. According to the Accounting Chamber of Ukraine, during 2020, local budgets were spent 10.3 billion UAH for measures related to the fight against COVID-19, which is 2.2% of total local budget expenditures. Expenditures on spiritual and physical development amounted to 21.9 billion UAH, which is 4.6% of the expenditure structure and is 0.3 billion UAH or 1.4% more than in 2019. 93.9 billion UAH was allocated to expenditures related to economic activities, which is 14.7% more than in 2019. Expenditures on housing and communal services decreased by 6.7% and amounted to 32.1 billion UAH. Expenditures on national functions, which include expenditures on the maintenance of local governments, amounted to 41.0 billion UAH, which has 6.1 billion UAH or 17.5% more than in 2019. From the general fund of budgets united territorial communities Expenditures in the amount of 72.6 billion UAH were incurred, including: 50.9 billion UAH (70.1% of the total expenditures) was allocated for salaries with accruals, 3.1 billion UAH for the payment of utilities and energy (4, 2%). The amount of capital expenditures made from budgets united territorial communities, amounted to 12.9 billion UAH.

The general tendency should be noted insignificant nominal growth of incomes, socially oriented articles of expenses, maintenance of performance of the basic social obligations of the state; continuation of sectoral reforms in the field of administrative-territorial organization and local self-government. To assess the system of control over expenditures of budgetary institutions, a study was conducted on the example united territorial communities.

In the study, 872 united territorial communities were grouped by population criterion, according to the Law of Ukraine "On Voluntary Association of Territorial Communities":

- Group 1 - with a population of over 15 thousand inhabitants;
- Group 2 - with a population of 10 to 15 thousand inhabitants;
- Group 3 - with a population of 5 to 10 thousand inhabitants;
- Group 4 - with a population of less than 5 thousand inhabitants;
- Group 5 - cities of regional significance.

Calculations of indicators of a local budgets on 872 have been carried out united territorial communities (study period - January-September 2020). The evaluation was

conducted according to the following indicators:

Indicator 1. 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 territorial community). The calculation includes only the income of the general fund, which has mobilized in the relevant territory. This indicator characterizes the financial potential united territorial communities, the ability to provide the community with resources generated on its territory.

According to the results of January-September 2020 to the general fund of budgets 872 united territorial communities (excluding transfers) 38.1 billion UAH was received. Per capita, the average for all united territorial communities the amount of income is 3,348.3 UAH, the median income per capita is 2,903.1 UAH. For 319 communities (36.6% of the total), the per capita income is higher than the average.

Indicator 2. Expenditures of the general fund per 1 inhabitant have been calculated as the ratio of the volume of expenditures of the general fund to the number of inhabitants of the respective united territorial community. In January-September 2020 from the general fund of budgets united territorial communities expenditures in the amount of 50.5 billion UAH were made. The average expenditures per capita amounted to 4,806.2 UAH, the median indicator of expenditures per capita was 4,603.1 UAH. For 358 communities (41.1% of the total) the expenditure per capita is higher than the average.

Indicator 3. Expenditures on the maintenance of the management staff per 1 inhabitant have defined as the ratio of the volume of expenditures on the maintenance of the management staff, carried out at the expense of the general fund, to the number of inhabitants of the respective united territorial community. The average level of expenditures for the maintenance of the administration per capita is 909.6 UAH, the median indicator is 823.3 UAH. For 348 communities (39.9% of the total number) the indicator of expenditures for the maintenance of the administration per capita exceeds the average.

Indicator 4. The level of budget subsidies (share of basic / reverse subsidies in a general fund revenues) has been calculated as the ratio of the amount of basic or reverse subsidies to the total revenues of the general fund budget united territorial communities taking into account basic or reverse grants, but without taking into account subventions from the state budget.

The least dependent on subsidized resources from the state budget are communities - cities of regional significance from Group 5, in which out of 43 united territorial communities the highest level of subsidies is only 22.6%. In Group 1, the highest level of subsidies is 55.1%. Among united territorial communities Group 2 - in 8 communities the subsidy rate exceeds 50% (6% of the total number of communities in the group), the highest value is 62.9%.

In Group 3 of 15 communities, the subsidy rate exceeds 50% (5.4% of the total number of communities in the group), the highest value is 65%.

In Group 4 in 4 communities the subsidy rate exceeds 50% (or 1.3% of the total number of communities in the group), the highest value is 63%.

Indicator 5. The ratio of expenditures for the maintenance of the management staff with financial resources united territorial communities is defined as the ratio of expenditures for the maintenance of the management staff of local governments with the amount of revenues of the general fund (excluding transfers from the state budget). On average, the level of expenditures for the maintenance of the management staff is 31.9% of the total fund revenues. For 372 communities (42.7% of the total) the expenditure on the maintenance of the administration is higher than the average. In 2 united territorial communities the amount of expenditures for financing the governing bodies and ensuring the activities of the council is almost equal to the amount of own revenues of the general fund.

Indicator 6. The share of wages in general fund expenditures has been defined as a percentage of wage expenditures made from the general fund of the budget with accruals to the amount of general fund expenditures without taking into account transfers transferred from the budget united territorial communities to other budgets. During January-September 2020 from the general fund of budgets territorial communities Expenditures were made to finance salaries with accruals in the amount of 36.4 billion UAH, which is 72.1% of the expenditures of the general fund of budgets united territorial communities.

Indicator 7. The share of capital expenditures in total expenditures has been defined as the ratio of capital expenditures to the total expenditures of general and special budget funds united territorial communities. The capital expenditures reflect capacity united territorial communities to provide socio-economic development, opportunities for the implementation of infrastructure development projects, creation of tangible assets or obtaining a social effect. The capital expenditures in the amount of 7.1 billion UAH were made, the average level of capital expenditures is 9.3%.

These data indicate the existence of significant differentiation in the resource provision of communities. In view of this, it is necessary to direct the state economic and budgetary policy to increase the financial potential of the territories that need it and to achieve the maximum possible alignment of interregional financial disparities in order to provide citizens with adequate public services regardless of their place of residence.

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, drawn up 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 budget program monitoring. 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 basic principles 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.

4.3. 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 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.

The components of the public internal financial control system 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. To improve the mechanism of internal financial control of expenditures of budgetary institutions, based on the theory of active systems, one of the so-called smart management mechanisms was chosen, which belongs to the group of "fair play mechanisms" or "unmanipulated management" in the allocation of financial resources.

Suppose a governing body has a centralized fund R (resource), which he must distribute between n budget institutions (structural subdivisions) for modernization of internal financial control of expenditures of budget institutions, provision of targeted measures or increase of scientific and technical level and quality of priority structure of expenditures for the state, etc. To simplify the calculations, assume that the use of the subject i resources in the amount x_i will give the Center an effect that can be provided as an effect function:

$$\Phi_i = 2\sqrt{x_i r_i} - x_i, \tag{1}$$

where r_i - the size of the required resource, at which the effect is maximum.

With regard to the financial resource, the chosen type of effect function can be interpreted as preferential (interest-free) financing of business entities.

The distribution deficit situation is of interest for the practice of distribution

$$\sum_i r_i > R$$

when the sum of the optimal size of resources (r_i) exceeds the centralized fund. Of course, if the Center knew exactly the dependencies $\Phi_i(x_i, r_i)$, ie the optimal size of the resource (r_i) for all subjects, he would easily determine the optimal distribution of the centralized fund, solving the problem of mathematical programming

$$\sum_i (2\sqrt{r_i x_i} - x_i) \rightarrow \max, \sum_i x_i = R, \tag{2}$$

From here

$$x_i^0 = \left(\frac{r_i}{\sum r_i} \right) R$$

ie if the optimal values r_i resource are known, the funds must be distributed in direct proportion to this optimal value. But the fact is that the information about the optimal

needs r_i the Center does not have. The Center receives applications directly from the subjects S_i for a resource from the central fund. Let's take into account if the Center for "optimal decision" applies the procedure of a distribution of funds in direct proportion to the applications S_i , then the subjects will start to act on the principle "the more you ask - the more you get" and will overestimate their demands. That is why in order to obtain reliable requests, it is advisable to use the "fair play mechanism" as one of the accepted in the theory of active management ways to optimize management decisions.

If the Center uses a "fair play mechanism" for resource allocation, it must provide each entity with the most advantageous amount of resources, ie v_i . Note that the value v_i can be managed to take into account the limitations of centralized resource resources, identified λ provided:

$$\sum_i v_i = \sum_i \frac{r_i}{(1 + \lambda)^2} = R \tag{3}$$

Thus, we get the following "fair play mechanism" for the distribution of the centralized fund:

$$x_i = \frac{s_i}{S}, \quad \lambda = \sqrt{\frac{S}{R}} - 1, \tag{4}$$

$$S = \sum_i s_i$$

We can observe three conditional areas of the ratio of the size of the centralized resource fund R and requests S from objects for resource allocation: $R > S$ - unlikely situation, $R = S$ - possible situation and $R < S$ - the most probable situation. At $R \geq S$ allocation of resources has carried out "as needed". Thus, the "fair play mechanism" has been implemented during the allocation of limited financial resources. The given mechanism is a "fair play mechanism" only if the request S_i individual object "has little effect" on the rate λ , as a result of which the recipients of resources do not take this influence into account when forming requests. In the theory of active systems, this assumption has called the "weak influence hypothesis." This condition is met if there are enough objects and there is no monopoly object with value r_i much larger than other facilities, which is typical of the system of public internal financial control. If there are priority subjects, the allocation of resources can be planned in two stages. At the first stage, a mechanism of direct proportional distribution according to the requests can be applied for the subjects, at the second stage - the balances of the resource can be distributed according to the "fair play mechanism".

If we denote the efficiency standard through ξ , and the coefficient of the fine (premium) - through α , the target function of the object can be written as follows:

$$2\sqrt{r_i x_i} - x_i - \alpha [\xi x_i - 2\sqrt{r_i x_i}] \tag{5}$$

As flexible parameters in this case, it is possible to use the standard of efficiency ξ and the coefficient of fine (premium) α .

In practice, this means that to obtain a profitable (in the sense of the value of the objective function $\Phi_i(x_i, r_i)$) the decision of the object is the best to convey true information to the Center $S_i = r_i$ because the set $x_i[S(i)]$ does not depend on information i object. *Under such conditions, the system of internal financial control has responsible specified criteria if:*

- the head of the institution timely receives complete and reliable information for management decisions;
- the management decisions are made within its own powers and the requirements of the legislation, 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 has been ensured;
- prevention of financial violations has been provided, their consequences were minimized;
- resource management has been carried out economically, effectively - to achieve the goal of the organization;
- proposals have been made to increase the efficiency of the use of budget funds, state and municipal property, etc.

Thus internal financial control should provide:

- 1) assessment of budget funds management (including public financial audit);
- 2) the correctness of accounting and 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.

Thus, the basic principles of internal control by budget managers include:

- definition of principles and five elements of internal control (an internal environment, a risk management, a control measures, an information and a communication, a 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.

The organization of the process of internal financial control of expenditures of budgetary institutions can be significantly improved with the introduction of digital technologies, combining each element of new technologies (Table 7).

In order to improve the existing mechanism for the implementation of state policy in the relevant field and to solve the existing problems, in Ukraine, starting from 2020, the Review of the 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 the preparation of reports will be used information on the results of internal financial control, internal audit of expenditures of budgetary institutions.

Table 7. The effects of the introduction of digital technologies in the system of internal financial control of expenditures of budgetary institutions

Processes of internal financial control	Cloud	AI	Big Data	Blockchain
efficient storage and processing of large amounts of accounting and tax data	+		+	
automation of checking the movement of budget funds	+		+	+
cost forecasting	+	+	+	+
strengthening the fight against fraud and corruption	+	+	+	+
improving the audit and accuracy of regulatory reporting	+	+	+	+
assessment of tax risks with the exception of incorrect conclusions for regulatory authorities	+	+	+	+
control of transfer pricing in the context of preventing tax evasion		+		+
identification of types of tax behavior based on clustering of taxpayers through the study of their costs and tax characteristics		+		
automation of the process of control of taxation of complex taxes		+		
solving control problems based on the analysis of options offered by artificial intelligence		+		
ensuring fiscalization of settlement and cash transactions	+	+	+	+
keeping records, control and exchange of information in real time	+	+	+	+
fast and efficient ways of assessing and settling settlement of obligations	+	+	+	+
modernization of financial and tax management and counteraction to fraudulent technologies	+	+	+	+
real-time transactions by business entities will reduce the time between transaction reporting and payment of budget funds	+	+	+	+
cost administration	+	+	+	+
reduction of disputes between the supervisory authorities and the budgetary institution, as a significant part of them is based on the arguments of the parties regarding the historical aspect of the transactions carried out by the payer	+	+	+	+
increasing the transparency of transactions based on smart contracts that automate transactions under certain conditions, in particular, reducing prices below a given level	+	+	+	+
reduction of document flow, simplification of accounting and reporting	+	+	+	+
data integrity	+	+	+	+

5. Conclusions

In this study the main aspects of improving the internal financial control of expenditures of budgetary institutions are considered. The study was conducted on the basis of data from Ukraine. Internal control is a set of measures used 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. Expenditures of budgetary institutions as an object of internal financial control were considered. The analysis of control of expenses of local budgets has carried out. The analysis shows that in the course of planning the estimated budget expenditures of the united territorial communities have been determined separately for each of the budget sectors, taking into account the total resource of the community budget and the priority of expenditures. Monitoring has 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 has been 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 introduction of digital technologies is considered as a modern tool for improving the organization of the process of internal financial control of expenditures of budgetary institutions.

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