



## THE STRATEGY OF INSTITUTIONAL REFORM OF THE SUPREME AUDIT INSTITUTION: THE CASE OF UKRAINE

*Yulia Slobodyanik*

*Kyiv National Economic University named after Vadym Hetman,  
Ukraine*

*E-mail: yslobodyanik55@gmail.com*

*Lesia Kondriuk*

*State Agrarian And Engineering University In Podilya, Ukraine*

*E-mail: lkondryuk@ukr.net*

*Yuliia Haibura*

*State Agrarian And Engineering University In Podilya, Ukraine*

*E-mail: hayburay@gmail.com*

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### **ABSTRACT**

The paper aims to define the strategic goals of the Accounting Chamber of Ukraine's institutional reform. Comparative analysis, a desktop study of United Nations, INTOSAI, OSCE, Verkhovna Rada of Ukraine, the Accounting Chamber of Ukraine's documents, theoretical studies, statistical information, analytical data prepared by the state and non-state bodies became the methodological basis of the research. Desktop study of documents is combined with the processing the empirical data collected by the author during the questionnaire survey among experts in independent audit and state control area. The article deal with the developing a strategy for institutional reform of the Ukraine's supervisory system in the direction of public audit institution development. It was determined that successful implementation of the public audit institution is only possible subject to a high level of public credibility. The authors have proposed of the structure of strategic implementation plan of the public audit in Ukraine.



Given the current state of public audit institution transformation, highlighting the following four strategic goals is appropriate: shaping an entire system of public audit; adopting regulatory acts based on the harmonization with world standards; staffing the public audit system; information and technical support of public audit bodies functioning. As a result of the proposed strategy realization the transforming the control system according to world standards and good governance requirements must take place focused on economic development maintenance and Sustainable Development Goals achievement.

**Keywords:** public administration, trust, supreme audit institution, public audit, strategy

## 1. INTRODUCTION

Weakening the government control in economic and finance as well as its legal control uncertainty constitute a real risk to the economy and national interests of Ukraine. Last crisis phenomena and their consequences aggravate a problem of control system inefficiency that had to become a key to reforms realized performance and to combating of both law infringements in economic domain and corruption. However, trust-based collaboration between the society and the state is a cornerstone of democratic national development, crisis recovery guaranty and further social-economic achievements.

Public confidence is the index of people's attitude to a state and its ability to execute social security, promulgate general economic and human values. In the study "International practices on confidence-building measures between the state and civil society organizations" conducted by Organization for Security and Co-operation in Europe (OSCE) in 2010 it is noticed that public confidence is at the heart of both economic development and social solidarity, also it is considered to be an indicator of social capital of a country (OSCE, 2010).

From this perspective, the results of global inquiry "Voice of the people 2015" held by Gallup International Association are illustrative. The research was aimed to explore the citizens' attitude towards a state, to people in power and to how to implement powers of authority. Researchers had 56 countries in their sample, which included the vast majority of the worlds' population. It was established that in 2014 50% of population do not consider their countries go by their people's will. In the

same time in Ukraine only 31% of people believed that their country was ruled by the will of the people (GILANI, 2015).

However, democratic control cannot be successful in the society with incomplete public confidence (BLIND, 2007). As Hetherington (1998) states, low confidence in the government makes it difficult for political leaders to obtain success. Expectation gap of Ukrainian citizens and power resulted in civil dissatisfaction with low standards of living, lack of development and excessive corruption.

Crisis of confidence as to wide range of problems in economic, social, legal and cultural areas became a key reason of the Revolution of Dignity in 2014. As a result, the society's request for transparent and responsible community resource management, governance openness and fight against corruption became actual. Ukrainian society faced with need for deep institutional reformations (SHVEDA; PARK, 2016).

According to North (1990), institutions are a suite of formal and informal rules and standards determining moral and ethical conduct of people in a society. And while institutions may be changed quickly the informal standards are altered step by step, in view of historical changes. Thus, when performing any institutional transformations it is necessary to consider the impossibility of a direct borrowing of the political and economic laws that work effectively in other countries.

In addition, social interaction and confidence being a social capital basis is the key factor of a society's economic prosperity and sustainable development (FUKUYAMA, 1995). In other words, only with the confidence between members of a society at hand new effective institutes (both formal and informal) can be organized.

Pochenchuk (2015) emphasizes the current environment for institutional transformations in Ukraine is marked by total or partial dysfunctionality in institutional structure of economy newly created as a result of market restructuring; performing by some market institutions unusual functions that were not taken into account when planning their activities; strengthening transitional institutes as standing ones. An important insight is that creating new institutes cries for reform strategy development and providing the respective background to support them.

According to Mishchenko (2013), the enhancement of public confidence towards authorities may occur via increase in public awareness, reducing the

possibilities of manipulating the information, implementing e-governance that will strengthen the control over the authority actions, help to eradicate the corruption schemes, etc.

A public audit institution, which is an indispensable element of community recourse management in the countries with long traditions of democracy, liberalism and civil society, holds a special place in establishing effective social control over the authorities' activities. For Ukraine a public audit institution has become new one as is for other post-Soviet countries.

The new perception has become a social values system, which is based on a conceptual idea of the need for practical participation of citizens in control of state budget, property, intellectual and other community resources. Rooting this idea in the minds of citizens is concerned with changes in ideology, in ideas about the principles of relations between an individual, a society and a state.

However, public audit institution is able to guarantee and encourage national confidence towards authorities via determining economic feasibility, efficiency and effectiveness in a country's resource management and government control quality (HEALD, 2018). Such a conclusion is confirmed by positive experience of Western European countries, USA, Canada and others in this area.

Hay and Cordery (2018) emphasize that public sector auditing as it is currently known is old-established, dating from the 1860s, but also a living organism that continues to change. The authors draw parallels between independent audit and public audit and substantiate that there are many explanations that can be applied to examine the value of public audit, including agency, signaling, insurance, management control, governance and confirmation explanations (HAY, CORDERY 2018).

It should be noted that modification of the public audit concept is consistent with changes in the economy and public administration. Thus, in the 1990s, researchers analyzed the compliance of the Supreme Audit Institutions (SAIs) with the principles of the New Public Management (POLLITT; SUMMA 1997). But currently, authors insist that public auditors are more than watchdogs and they are able to make a significant contribution to good governance development (BUNN; PILCHER; GILCHRIST, 2018; MORIN; HAZGUI, 2016; HEALD, 2018; REICHBORN-

KJENNERUD; JOHNSEN, 2018). Furthermore, the scope of public audit should be expanded by adding to the classical three Es' (efficiency, economy and effectiveness) the fourth dimension – the ethical audit (BRINGSELIUS, 2018).

Recent studies confirm the existing link between transparency, the quality of budgetary management and public audit systems that positively affect the perception of corruption (BRUSCA; ROSSI; AVERSANO, 2017).

For instance, Avis, Ferraz and Finan (2018), based on the analysis the results of the Brazil's anticorruption program, which randomly audits municipalities for their use of federal funds, claim that being audited in the past reduces future corruption by 8%, while also increasing the likelihood of experiencing a subsequent legal action by 20%.

Simultaneously, viewpoint has become widespread that transparency the Supreme Audit Institutions decreases the level of confidence (BRUSCA; ROSSI; AVERSANO, 2017; HEALD, 2018). In other words, the more open information there is, the less citizens trust the government. However, Heald (2018) emphasized, that despite the fragile balance between transparency, trust and authorities legitimacy, theoretical and practical researches in this area should be continued.

Based on the deep analysis of scientific publications and history, Hay and Cordery (2018) conclude that further productive research should include comparative studies of Supreme Audit Institutions and their impact; examination of changing governance practices in the public sector and their impact on auditing. Regarding this, the researches based on a cross-national comparison are useful (BLUME; VOIGT, 2011; BOWERMAN, et al., 2003; JEPPESON, et al., 2017; MORIN, 2016).

Thus, creating a modern and efficient public audit institution in Ukraine should be based on the contemporary achievements of science and the best practice and requires forming a clear strategy of its development. In this connection, it is necessary to investigate the prerequisites of transformational changes in the state control system.

## **2. RESEARCH PROBLEM**

Transformation of financial control system in Ukraine started since the independence. The reforms were spontaneous, they were not mutually agreed and thought-out that was confirmed by further experience. Lack of the legally enshrined

concept of forming a single control system was the principal drawback. Although certain attempts to create relevant law were made repeatedly there is still no legislation to lay the foundation of public finance control system. During the independence years Ukraine has developed a practice when the government control prevails over the parliamentary one (KHMELOV, 2016).

It should be noted that the shifts that occurred in public finance control in recent years are fully justified by the policy that Ukraine pursues to move closer to the European Union. Ensuring the transparent and efficient public finance management which in turn requires modern control mechanisms is one of the key requirements of European community.

This study aims to form the strategy for the control system institutional reform of Ukraine towards the developing a public audit institution. To substantiate the strategy it is necessary to analyze the main factors that will condition the success of public audit institution functioning in Ukraine.

## **2.1. External background for public audit institution development in Ukraine**

In the early XXI century the humankind realized that the further existence is impossible without solving an economic growth problem subject to ensuring social inclusion, environmental protection and dealing with problems due to climate changes. Accordingly, in September 2015, the United Nations countries adopted an Agenda for sustainable development until 2030 which outlines 17 goals comprising 169 tasks covering the basic mankind problems at the present stage (poverty, hunger, education, health, inequality, energy, ecosystems, etc.).

It is impossible to achieve Sustainable Development Goals without consolidation of governments, civil society, private sector and other parties' concerned efforts. Ensuring the efficient, accountable, effective and transparent public administration is one of the main prerequisites in this process. A key role in the promotion of good governance is assigned to Supreme Audit Institutions (SAIs). In the relevant Resolutions the UN Assembly recommends to pay due attention to the development of institutional capacity and independence of SAIs.

According to the President of the SAI of the Netherlands, the President of EUROSAI Arno Visser (2015), combining efforts and sharing the best practices of



SAls in different countries will make a public audit a useful tool to improve management structures that will change our globalised world for the better.

The International Organization of Supreme Audit Institutions (INTOSAI) for more than 50 years of its existence contributed to the development and transfer of knowledge, best practices to ensure the institutional framework for the functioning of SAls member-states and to increase their professional potential.

The existence and proper functioning of SAI today has become a key to outside parties' trust towards governments. High standards maintenance in public audit meets the expectations of citizens, states, international institutions and supranational entities. That is what accounts for focus of key requirements of the international institutions, which put up money for Ukrainian reforms during last three years, on the expanding the powers of the Accounting Chamber of Ukraine that is a full INTOSAI member.

To conclude, for today in Ukraine the supreme control body acting on the basis of the ISSAI's fundamental international documents and standards should function. Only if this occurs independent external control for efficiency and effectiveness of the reforms put in place as well as for government transparency and accountability will be provided.

## **2.2. Internal background for public audit institution development in Ukraine**

Over the last years, Ukraine is going through crisis in economy, politics and social area which is due both to global challenges and internal problems that have an objective basis. Among the main external challenges is the impact of the global financial and economic crisis, Russia's external aggression aimed at the redistribution of modern-day Ukraine territories and obstructing the European integration process.

These problems were exacerbated by low living standards of population and social standards, lack of development, significant energy dependence on the aggressor and high energy intensity of the economy. In addition, for the first years of its independence, Ukraine faced the problem of internally displaced persons from Crimea and Donbas that as of July 30th 2018, according to Ministry of Social Policy of Ukraine, amounts to 1,516,246 people or almost 4% of the existing population.

Prominent overregulation of the economy provoked sharp national currency depreciation. Raising the utility tariffs to economically reasonable extent identified the failure of most people to pay them in full. The need to keep the country from defaulting led the Ukraine to resort to international institutions. At the same time, all the credits and loans received increase the already significant debt which burdens future generations of Ukrainians. A deep political crisis is also due to the gap in citizens' expectations from government. Hopes for fast reforms and crisis recovery were not realized. All these factors provoked a confidence crisis.

As Osifo (2014) puts it, causes of collapse in confidence towards the state may be different but in most cases they are directly related to government inefficiency and high levels of corruption which creates administrative, political and economic problems. The situation in Ukraine confirms this thesis in full. Thus, Ukraine ranked 130th for the level of corruption perception in the public sector out of 180 countries in 2017 (THE CORRUPTION PERCEPTIONS INDEX, 2017).

These factors cause extremely low confidence towards state authorities. According to results of the Razumkov Center' research held in June 2018, Ukrainians trust volunteers, the Church and the army best of all. They do not trust the President of Ukraine (80.6%), Verkhovna Rada of Ukraine (the Ukraine's parliament) (85.6%), the Government of Ukraine (80.7%), state apparatus (government officials) (85.3%), courts (84.3%) and political parties (80.0%). Table 1 presents the balance of trust (difference between the share of those who trust and part of those who do not trust) calculated based on the Razumkov Center.

Table 1: Balance of the Ukrainians' trust towards social institutions

No	Public institutions	Balance of trust, %
1	Volunteers	+44.0
2	Church	+35.1
3	Armed Forces of Ukraine	+23.4
4	The State Emergency Service of Ukraine	+16.6
5	National Anti-corruption Bureau of Ukraine	-46.0
6	President of Ukraine	-66.8
7	Government of Ukraine	-67.0
8	Political Parties	-69.7
9	Verkhovna Rada of Ukraine ( <i>the Ukraine's parliament</i> )	-75.3
10	Courts	-76.6
11	State apparatus (government officials)	-76.7

Source: data based on the Razumkov Center.

NOTE: Calculated based on the survey conducted by the Razumkov Center' sociological service from June, 1 till June, 6, 2018. 2018 respondents aged 18 and above were interviewed in all regions of Ukraine except Crimea and the occupied territories of Donetsk and Luhansk regions on the sample



representing adult population of Ukraine by main socio-demographic indicators. The sample survey was built as multistage and random one with quota selection of respondents at the last stage. Theoretical sample error (excluding design effect) does not exceed 2.3% with probability 0.95.

According to experts, such results are threatening to the political stability in the country and require immediate actions.

Some outstripping of legislative practice in the public audit against the small number of relevant theoretical developments is another equally important aspect of the problem. First thorough studies on the need to revise the paradigm of the country's control system that was not already at odds with current challenges emerged in the mid of 1990s (SHEVCHUK, 1998).

A significant increase in number of scientific studies on public finance control system transformation at the macro level took place only at the beginning of the XXI century. The relevant studies were done by a number of Ukrainian scientists (DROZD, 2004; SIMONENKO, et al., 2006; MNICH, et al., 2009).

The possibility to conduct an audit in the public finance control has been considered only in recent years (BARDASH, 2010; DYKAN, et al., 2011). The realization of the need to transform the role of the Supreme Audit Institution of the state is only now in place accompanied by increase in relevant scientific developments (NEVIDOMYI, 2016; PIKHOTSKIY, 2016).

Lack of civil society's awareness as to the SAI's functions and tasks is, to our opinion, a significant constraint in the development of a public audit institution in Ukraine. At the same time, any public audit institution's attempts to burgeon will not succeed without generating public confidence towards it.

Thus, developing an effective strategy for institutional reform of the Accounting Chamber of Ukraine as the Supreme Audit Institution should take into account the need to maintain social interaction and confidence (AVIS, et al., 2018; BLIND, 2007; BRUSCA, et al., 2017; HETHERINGTON, 1998) and the best foreign relevant practice (BLUME; VOIGT, 2011; BOWERMAN, et al., 2003; BRINGSELIUS, 2018; JEPPESON, et al., 2017; MORIN; HAZGUI, 2016; REICHBORN-KJENNERUD; JOHNSEN, 2018).

On the basis of the considerations above this study also aims to provide answers to such questions: (1) To what extent the experts in state control and independent audit in Ukraine are ready to implement public audit institution? (2)

What components must be included into strategic plan of public audit realization in Ukraine in order to ensure its effectiveness and efficiency?

### **3. DATA AND METHODOLOGY**

#### **3.1. Source of data**

Comparative analysis, a desktop study of United Nations, INTOSAI, OSCE, Verkhovna Rada of Ukraine (the Ukraine's parliament), the Accounting Chamber of Ukraine's documents, theoretical studies, statistical information, analytical data prepared by the state and non-state bodies became the methodological basis of our research. Desktop study of documents is combined with the processing the empirical data collected by the authors during the questionnaire survey among experts in independent audit and state control area.

#### **3.2. The sample**

For research purposes, we used survey method by personally interviewing respondents through open-ended questionnaire.

The first part of the survey was conducted among independent auditors. The sample included 104 independent auditors – representatives of audit firms and auditors-entrepreneurs of the 16 Ukrainian regions. In total, 1,488 auditing entities – 1,251 audit firms and 237 auditors-entrepreneurs – were registered in Ukraine as of 31.12.2013 (AUDIT CHAMBER OF UKRAINE, 2014). Consequently, our survey covered almost 7% of the representatives of the audit community in Ukraine.

The next part of the survey included 30 representatives of Accounting Chamber of Ukraine. As at 31.12.2014, 432 individuals worked at the Accounting Chamber of Ukraine. Consequently, our survey covered 6.9% of the public auditors. The research was carried out from March 2014 to September 2015.

#### **3.3. The essence of the interview**

As a result of the survey, the authors of the study planned to get an expert opinion on the need to implement the institute of public audit in Ukraine. Questions to the experts were designed as a questionnaire consisting in 10 open-ended questions and included expert opinion on the following: awareness of the existence of the institute of public audit and its role in modern society; opportunities to ensure the independence of the Supreme Audit Institution; the need to engage independent

auditors to conduct public audit; the effectiveness of the interaction between the government supervisory authority and the Supreme Audit Institution; the necessity and duration of training specialists to participate in various forms of public audit; the assessment of public confidence in the performance of the Supreme Audit Institution, etc.

The opinion of the experts was taken into account when developing the goals and tasks of the strategic implementation plan of the public audit in Ukraine.

## **4. RESULTS AND DISCUSSIONS**

### **4.1. The interview-based analysis**

To study the specialists' preparedness in the field of state control and independent audit to the public audit implementation, a questionnaire survey was applied. The first part of the research was carried out in March 2014 via the independent auditors inquiring. The aim was to obtain expert opinion as to the problematic aspects of public audit procedure as well as the necessity and possibility to involve independent auditors in this process. The basis for such a survey was the international experience of certain countries, in particular New Zealand, in attracting independent auditors to conduct a public audit.

97.1% of independent auditors felt the need for public audit, since the audit is more effective to determine transparency and efficient use of public resources. Consequently, 2.9% of respondents considered the state financial control in the form of audits and inspections sufficient. At that 98.1% of respondents approved the engagement of the independent auditors in public audit conduct saying about the ability to ensure transparent use of public resources (4.9%) and the audit service market expansion (2.9%) and also about the two reasons simultaneously (90.3%).

Given the purpose of the study, the set of issues concerning the preparation for the public audit and independent auditors' awareness with the International standards for Supreme Audit Institutions (ISSAI) has become important. Thus, 58.3% of respondents noted, they knew about the standards but they did not require them in the professional activity, 30.1% of respondents did not turn to these standards, 11.6% said they worked with the ISSAIs. However, the responses to the questions regarding the level of need for additional training of auditors to attract them to conduct a public audit were distributed as follows: 44.7% of auditors believed that

regular refresher courses up to 40 hours were sufficient, 27.2% were in favor of longer-term training (1–3 months) and 28.1% of the respondents were convinced that additional training was not necessary.

To confirm the latter thesis the respondents argued that the auditor's certificate is a higher qualification proof and requirements to auditor's experience may only be set (for example, "at least n years"). The respondents also said that there should be a test procedure and final document format.

Given that independence principle is a key characteristic of the audit, we proposed to assess the independence of the Accounting Chamber experts during their professional duties performance. Accordingly, 41.7% of auditors denied the independence of the Accounting Chamber as an opportunity, 43.7% believed legislative support for its independence possible, and 14.6% agreed with a partial independence which is influenced by factors such as governmental impact, threats of self-interest, lack of professional control over the Accounting Chamber.

In addition, respondents expressed the opinion concerning the possible independence problem solution through the formation of audit team consisting in the Accounting Chamber representatives and independent auditors in the 50/50 ratio, and the involvement of non-governmental organizations in monitoring the Accounting Chamber's operation.

The view was also expressed about the need to develop national standards on public funds auditing. In this case, the audit firms must receive appropriate training in these standards and accreditation, and the choice of an auditor should occur every time on a tender basis.

The results of the independent auditors survey show that the professional community of independent auditors aware of the importance and necessity of cooperation in the public audit. At the same time, the Accounting Chamber independence assessment on the part of experts reflected at large low support for its functioning in the modern Ukrainian society.

Questionnaire survey among the Accounting Chamber experts which took place in June 2015 and September 2015 prolonged our survey. As part of the survey, which was conducted on an anonymous basis, we received answers from 30 representatives of various Accounting Chamber's departments, namely: Department

of state budget revenues, Department of use of state budget funds in the regions, Department of banking and financial institutions control, Department of public debt, financial institutions and international activities, Department of legal support of the control activities of the Accounting Chamber, Department of public finance control, etc.

The questionnaire consisted of 10 open-ended questions. At that some questions were duplicated, namely: attitude towards public audit conduct by the experts of State financial inspection of Ukraine (for now – The State Audit Service of Ukraine); evaluation of the possibility to engage independent auditors to conduct a public audit; necessary level of training for independent auditors when engaging them to conduct the public audit; evaluating the independence of the Accounting Chamber's experts when they perform their professional functions.

Table 2 represents a comparative analysis of the responses to cross-questions. As the data show both independent auditors and the Accounting Chamber's experts have negative attitude towards public audit conduct by governmental supervisory authority pointing at the impossibility to ensure its independence, which is the key feature of an audit.

At that the Accounting Chamber's professionals noted that governmental supervisory authority may only conduct an internal public audit that meets the requirements of international standards in this area. Professional community also evaluates positively the engagement of the independent auditors to conduct a public audit.

The Accounting Chamber's experts among the advantages of such cooperation noted the following: the possibility to perform more proficient (at a professional level within the corresponding field) control measure; additional experience; the ability to understand the problem from a different angle; the possibility of using independent auditors as a specific knowledge source.

It is important, given the purpose of this study, that 26.7% of the Accounting Chamber's experts surveyed noted their partial independence pointing at the lack of leverage on the facility to be audited and at social protection against high risks and responsibility.

Table 2: A comparison of attitudes of independent auditors and the Accounting Chamber of Ukraine' experts

Questions	Answers, %	
	independent auditors	Accounting Chamber of Ukraine's experts
Negative attitude towards public audit realized by supreme supervisory agency (for now – The State Audit Service of Ukraine)	66.0	60.0
Positive attitude towards engaging independent auditors in public audit conduct	98.1	53.4
Necessity of additional training for independent auditors if they are engaged in a public audit conduct, in particular:		
- sufficiency of usual professional courses up to 40 hours;	44.7	26.6
- need for longer-term training (1–3 months)	27.2	40.0
Possibility to guarantee independence of the Accounting Chamber of Ukraine' experts when they perform their professional duties, in particular:		
- sufficient independence;	43.7	73.3
- fractional independence	14.6	26.7

Source: own compilation.

Concerning the body that is expedient to entrust the coordination of public audits with independent auditors involvement, 86.6% of the Accounting Chamber's specialists interviewed said that it should be the Accounting Chamber. At the same time, the opinions of independent auditors on this issue are divided – 32.0% were convinced that it should be the Audit Chamber of Ukraine, 23.3% of the respondents believed that the Accounting Chamber of Ukraine should act as a coordinator because, according to current legislation, the ACU has an impact on auditors because it performs quality assurance check and regulates auditing activities, which can limit the audit independence.

However, 44.7% of the independent auditors express their own attitude to the coordination of engaging the independent auditors to conduct a public audit that should be carried out by other authority or in collaboration, namely: a public control organization; Ministry of Finance of Ukraine and Audit Chamber of Ukraine; a collegian body including the representatives of independent professional organizations; public Union of auditors which is independent one; jointly the Accounting Chamber, the Audit Chamber of Ukraine and the Union of auditors of Ukraine; the newly created Supreme authority of financial control as a public organization.

The opinions of the Audit Chamber's experts and independent auditors about the need for training the latter in case of engaging them to conduct the public audit



varied. So, 40.0% of the Accounting Chamber's experts insist upon long-term training (1 to 3 months) against 27.2% of independent auditors who overestimate their own training for the public audit. 13.3% of the Accounting Chamber's experts note the need for special education and practical expertise of an auditor in a certain area.

It is our opinion that the answers of the Accounting Chamber's experts to the questions on the institutional capacity of the Chamber are important. Thus, 53.4% of the experts, to a question on the assessing the possibility to implement the ISSAI standards, responded that the implementation is possible at the 3rd standard level (Fundamental auditing principles), 33.3% believed that implementation is possible only at the first two standard levels (Founding Principles and Prerequisites for the functioning of SAls). At the same time, 13.3% of respondents were not able to answer the question justifying it by their own ignorance of the ISSAI standards contents.

To the question regarding the possibility to cover the full reports on the results of the control measures of the Accounting Chamber (in compliance with confidential and secret information) only 6.7% of respondents replied in the negative, pointing that declared results of a small volume are sufficient (4–6 pages). Other 93.3% of the Accounting Chamber's specialists take a positive attitude towards the publication of the full texts of the reports.

At last but not least, in regard to social confidence level that the Accounting Chamber has at the present day the ACU's experts replied in the following way: 6.7% – high level of confidence; 20.0% – middle level (due to lack of education of some social groups and scant confidence); 46.7% – low level (weak public awareness of the Chamber's work, the low effectiveness of control measures); 26.6% – it is difficult to answer the question due to lack of data. The answer to this question (received from professionals) confirmed our hypothesis about the lack of information to ensure the confidence and support of public audit institution functioning in the Ukrainian society.

#### **4.2. Developing a strategy for institutional reform of the Accounting Chamber of Ukraine**

Given the above, we denote the conceptual approach to working-out the strategy of the public audit establishment and development in Ukraine. When formulating the basic components of a strategy for SAI's institutional reform the requirements of the following documents should be taken into account: Transforming our world: the 2030 Agenda for Sustainable Development (2015), The Abu Dhabi Declaration (2016), INTOSAI Strategic Plan 2017–2022 (2016), International framework: good governance in the public sector (2014), Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening Supreme Audit Institutions (2014).

The aim of the strategy is to establish an independent public audit institution that will provide community with lawful, effective and transparent public resources management and to give complete, timely and accurate information on this. Independence, objectivity, consistency, integrity, competence, transparency and efficiency will be the basic principles that meet the world standards and should form the basis for the public audit development (Figure 1).

Given the current state of public audit institution transformation, highlighting the following four strategic goals is appropriate.

- **Goal 1.** Shaping an entire system of public audit. Involves the following tasks:

1.1. Scientific rationale, generalization and determination of definitions that are used in public finances control, namely the distinction between the concepts:

- a) public audit and audit as type of business activity;
- b) public audit and public internal financial control;
- c) internal and external public audits;
- d) types and forms of public audit.

1.2. Developing the organizational and functional structure of public audit:

- a) assigning the status of the Supreme body of public audit to the Accounting Chamber in the Constitution of Ukraine;
- b) expanding the network of territorial business units of the Accounting Chamber of Ukraine to guarantee performing its corresponding functions;

c) developing the system of public internal financial control and audit headed by The State Audit Service of Ukraine;

d) improving the internal public audit services in government agencies, budgetary institutions and public utility services;

e) development of functional interactions between the public audit bodies and other state regulatory agencies (National Bank of Ukraine, Antimonopoly Committee, State Fiscal Service of Ukraine, Security Service of Ukraine, etc.).

1.3. Determining the level of the ISSAI standards adoption and scientifically grounded development of regulatory and methodological support of public audit that will include:

a) external and internal public audit standards;

b) codex of professional ethic for public auditors;

c) data confidentiality;

d) avoiding conflict of interests;

e) methodological recommendations as to SAI operation planning given the necessity to consider the issues outlined in The 2030 Agenda for Sustainable Development;

f) methodological recommendations as to conducting financial audit, performance audit and compliance audit in different areas;

g) methodological recommendations as to audit reports preparation and completion, etc.

1.4. Introducing new types and forms of audit taking into account the best world experience and practical expertise in this area.

1.5. Developing criteria for assessing a public audit effectiveness.

1.6. Developing theoretical and methodological as well as organizational support of public audit functioning.

- **Goal 2.** Adopting legal and regulatory acts based on the harmonization with world standards in this area:

2.1. The preparation and adoption of strategic legislative acts: on the system of public finance control; internal and external public audit.

2.2. The preparation and adoption of amendments to the Constitution of Ukraine and to the Law of Ukraine “On the Accounting Chamber” as to the recognition of the Accounting Chamber of Ukraine the Supreme Audit Institution and defining its powers regarding the control of receipts and expenditures of both state and local budgets.

2.3. Development and approval the legal framework regarding both external and internal public auditors independence.

2.4. Development and implementation of an effective mechanism to ensure quality control of public audits and the Accounting Chamber activity as a whole.

2.5. Development and implementation of effective mechanisms to ensure timely response to violations identified by the Accounting Chamber.

- **Goal 3.** Staffing the public audit system.

3.1. Creating educational basis for relative specialists training:

a) introduction in educational institutions of III-IV levels of accreditation of separate master programs in “Accounting and taxation”, “Finance, banking and insurance”, “Law”, etc.;

b) advanced training for public auditors according to special programs and with the assistance of practicing public auditors;

3.2. Creating scientific-research basis for public audit specialists training:

a) development of training standards;

b) processing the programs of public auditors’ professional development;

c) introduction of external public auditors’ certification;

d) development of the certification training;

e) preparation and conduction of educational-methodical and scientific-practical seminars on the public audit;

f) development and maintenance of continuing education for government auditors, etc.

- **Goal 4.** Information and technical support of public audit bodies functioning:

4.1. Creation of information-analytical database on the control activities carried out, their results as well as decisions and steps taken on their basis.

4.2. Development of an annual unified national plan of control measures based on the concept of state control bodies' activities coordination.

4.3. Ensuring timely, transparent and full disclosure of relevant information on the main aspects of the Chamber's activity.

4.4. Ensuring information exchange via The Knowledge Sharing Committee of a Community Portal to facilitate the knowledge sharing.

The results of delivering the strategy of public audit formation and development must be translated into:

1) creating a unified system of public audit in accordance with international standards and the requirements of the Ukraine's state-of-the-art;

2) ensuring the effectiveness and efficiency of the control over the public resources accumulation and use as well as their management;

3) improving the transparency and timeliness of information disclosure relative to both the target and efficient use of budgetary resources and managerial decisions;

4) increasing responsibility of heads of state and public sector bodies for the decision-making, ensuring compliance with the principles of good governance (GARCÍA, 2015);

5) assistance in the implementing an anti-corruption strategy of the state;

6) reducing costs and improving efficiency in the use of funds for the public finance control.

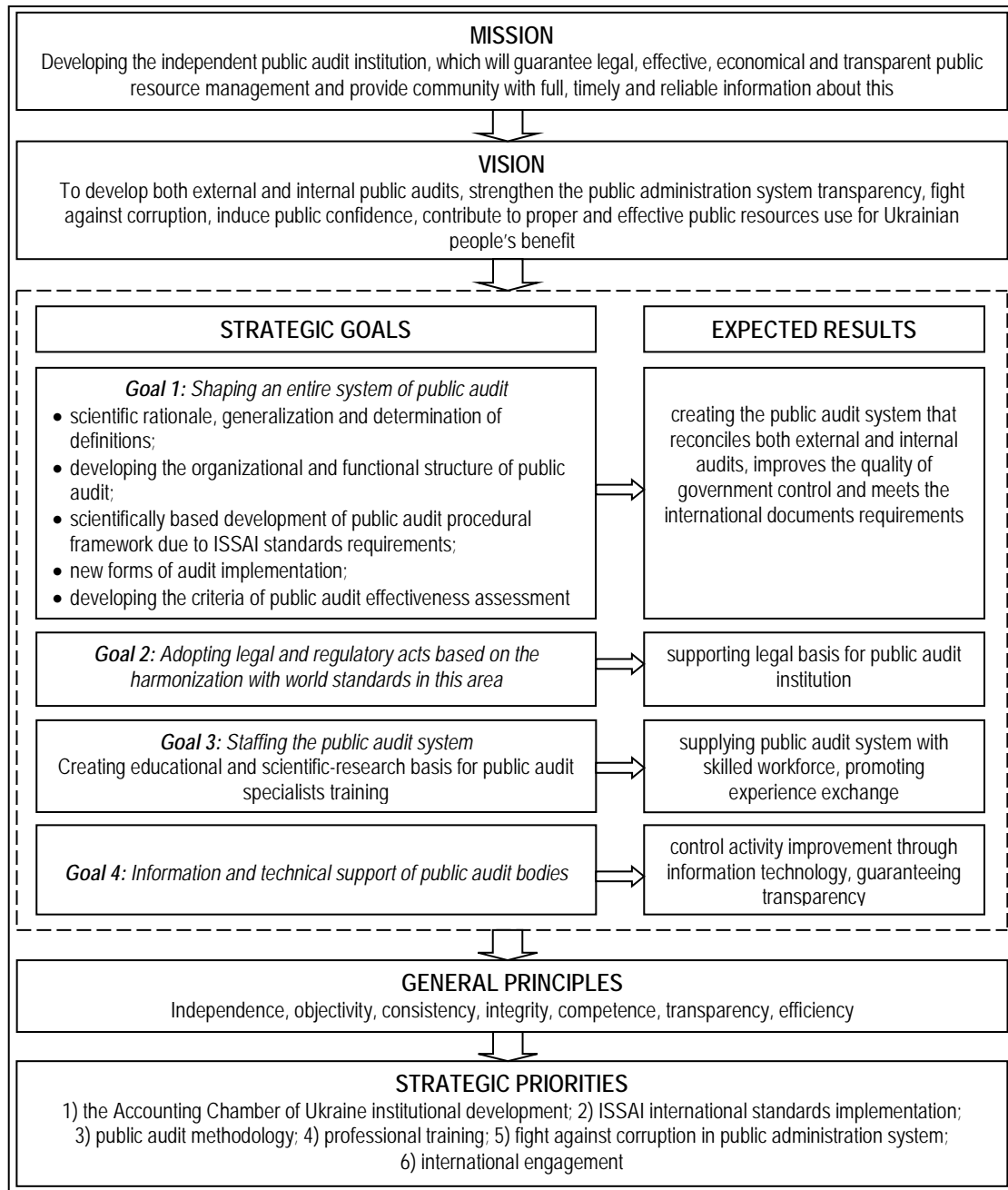


Figure 1: The structure of strategic implementation plan of the public audit in Ukraine  
 Source: own results.

## 5. CONCLUSIONS AND RECOMMENDATIONS

The aim of the research was to justify the developing a strategy for institutional reform of the Ukraine's supervisory system in the direction of public audit institution development. To this end the key external and internal factors influencing this process in Ukraine at the present stage were analyzed. It was determined that successful implementation of the public audit institution is only possible subject to a high level of public credibility.



Otherwise its functioning will be impossible. In addition, the task was to find answers to questions concerning: (1) the awareness level of Ukrainian state control and independent audit specialists of the public audit institution implementation; (2) components of effective and efficient strategic plan for the public audit implementation in Ukraine.

The research methodology was based on obtaining empirical data for comparative analysis of the Accounting Chamber experts' and independent auditors' attitudes towards the public audit institution implementation in Ukraine. The total number of questionnaires processed was sufficient as it was aimed at experts of rather narrow sphere. Documents and statistical data used in the study are accurate and reliable because they were obtained from official public sources.

The results of the study made the following conclusions.

- 1) The public audit institution has been known for a long time and is a traditional effective instrument of parliamentary control in many countries. Currently, public audit is able to support national confidence towards authorities via determining economic feasibility, efficiency and effectiveness in a country's resource management and the quality of the fight against corruption.
- 2) New institutions in Ukraine created as a result of market reform are marked by full or partial dysfunctionality and performing unusual functions for them. The reason was the lack of a systematic approach to developing a reform strategy and ignoring the need to create appropriate conditions for their support. Public audit institution is no exception.
- 3) The modern Ukrainian society has a latent request for a public audit, formed under the influence of the socio-political and economic situation in the country and under the pressure of international institutions. Despite the fact that the institutional framework of government audit in Ukraine is now laid down it has not a real support on the part of the society. This situation is due to low public awareness of the Accounting Chamber activities and the lack of effective response mechanisms as to violations identified.
- 4) The results of the questionnaire surveys of Ukrainian experts in state finances control conducted by the authors confirm the need to reorient the current control system for the implementation of the public audit, which is able to

provide independent and effective control of public resources and the government control quality.

- 5) The proposed structure of the strategic implementation plan of the public audit in Ukraine meets the requirements of the UN and INTOSAI fundamental documents in this area. The practical implementation of the proposed strategy is aimed at forming the public confidence towards the public audit institution, which will ensure its future efficiency and legal competency. At the same time, its further development depends on creating the necessary conditions, providing the scientific rationale for the development and implementation of legislative and normative acts, studies and balanced transfer of international best practices in the public finance control area. This will culminate in the control system transformation in accordance with the international standards requirements and domestic needs of the governmental control development.

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