

RESULTS OF STATE FINANCIAL INSPECTION IN POLTAVA REGION**Victoria Gladka**

Ph.D student

Department of Economics and Management

Poltava State Agrarian Academy

Ukraine



Abstract. The author analyzes the content of State Financial Inspection main tasks in Poltava region. We describe the financial system performance criteria as a whole. The manuscript presents State Financial Inspection activity analysis in Poltava region based on the reports from 2013 and 2014. The author analyzed the indicators of financial violations' dynamics and the level of financial and material resources loss compensations, including the state budget. In the article the overview of financial discipline violations of state enterprises, institutions and organizations in Poltava region was made. The main reasons of financial infringements during the study period were researched. Violations types of fiscal discipline were grouped by different categories. The author suggests system of state financial control based on the causes of financial irregularities elimination.

Keywords: financial control, State Financial Inspection in Poltava region, control measures, financial resources, violations, financial discipline, the level of punitive damages.

1. Introduction

According to the Cabinet of Ministers of Ukraine resolution "About formation of financial inspection territorial bodies" from 20.07.2011 p. № 765 [4] the State Financial Inspection (SFI) has been established in Poltava region as a legal entity of public law by converting from the territorial Main Control and Revision Office called Audit Office in Poltava region.

The main SFI objectives in the Poltava region are: the state financial control over public funds, floating and other assets use and preservation, the accurate need determination for budgetary funds and commitment, effective use of facilities and equipment, condition and authenticity of accounting and financial reporting in the ministries and other executive bodies, state funds, mandatory state social insurance funds of budget institutions and entities in the public sector, as well as enterprises, institutions and organizations that receive (or have received in the period, which is currently verified) funds from the budgets of all governmental levels and state social security funds or used (have used in the period, that is currently verified) state or municipal property, together with legislation at all stages of the budget process on state and local budgets; compliance with public procurement legislation; business entities activities regardless of ownership type, that are not included by laws to controlled entities, or considered by the juridical decision on the basis of the prosecutor or investigator work for criminal investigation [1].

2. Materials and methods

Financial control includes industrial, commercial and estimated financial transactions examining, based on the reliability criteria, appropriateness, legality and efficiency. It allows us to follow the rules on settlement and financial discipline between objects of management.

The control can be considered effective only if it achieves outlined objectives at the lowest cost. Today there is no clearly defined financial control performance criteria, but

it is possible to assume that the main aim of financial system is control to reduce the number and amounts of financial irregularities [5, p. 193].

The researchs' purpose is to build theoretical and methodological foundations of state financial control at the regional level and identify its reform.

During research we used such methods as the analysis of the financial irregularities of SFI structural and territorial divisions in Poltava region, method of horizontal analysis in identifying financial and material resources elimination trends.

3. Main results of the research

The SFI activities in Poltava region during 2014, as in previous years, was formed to ensure an adequate level of fiscal discipline in the region and state. During 2014 SFI structural and territorial divisions in Poltava region conducted 376 control measures that is 145 events (38.6%) more than in 2013 year. The increase in this indicator compared to the previous year is due to carrying out by SFI units in Poltava region the implementation of the Cabinet of Ministers of Ukraine from March 1, 2014 № 65 "About budget savings and loss budget prevention" [3] significant number of audits. The number of the public procurement audits results in 2014 was 565. During this review there were discovered financial violations of 215 enterprises, institutions and organizations.

The dynamics of this trend in the terms of SFI units activities in Poltava region are shown in Table. 1.

The SFI results in Poltava region showed that there remains widespread negative practice of illegal, inappropriate spending of public resources. Such violations of financial and economic discipline in 2014 were found almost in every tested control objects. Overall during 2014 were revealed violations that led to the loss of financial and material resources in total more than 207.9 million USD. This is 5.4 times more than in 2013.

Table 1.

Financial violations results discovered by SFI units in Poltava region, 2014

The name of unit	Funds deficiency		Illegal, non-target expenses and lack of resources	
	Amount, thousands, UAH	%	Amount, thousands, UAH	%
1. Kremenchuts'ka incorporated SFI	1109,40	3,4	168799,42	81,2
2. Lubens'ka incorporated SFI (includes Lohvyts'ka SFI)	3694,32	11,5	3159,98	1,5
3. Myrhorods'ka incorporated SFI	647,44	2,0	929,24	0,4
4. Poltav'ska inter-regional SFI (includes Karlivs'ka and Kobelyats'ka SFI)	3756,50	11,6	2663,65	1,3
5. Management personnel	23045,29	71,5	32364,00	15,6
Together in Poltava region	32252,95	100,0	207916,29	100,0

Source: developed by author according to SFI reports in Poltava region in 2014

The highest ratio of spent financial resources (71.5%) was found in 2014 by regional financial inspectors. Regional governmental structure includes 6 SFI structural units in Poltava region, among them 5 departments and inspection sector in the sphere of material production and financial services. The leader in detecting illegal, inappropriate spending and lack of resources was incorporated Kremenchuts'ka SFI, which detected 81.2% of financial irregularities discovered in Table. 1. The high proportion of financial authorities, which are leaders in terms of identifying financial irregularities, is due primarily to industrial-size activities of controlled enterprises, institutions and organizations, as well as the level of SFI personnel training.

The main violations of fiscal discipline in the state are:

- Budget Code violation in the part of public funds inappropriate use;
- Unauthorized funds use as a result of excessive payment volume and value of work performed and services rendered, goods purchased;
- Payments from budget to individuals who have no rights for it, or because of overestimated corresponding calculations;
- Illegal transfer of state and municipal property to non-governmental structures;
- Shortfall in financial resources due to disturbances in the rental property transfer;
- Failure to comply with the law during public procurement, etc. [5, p. 195].

The most common financial violations in Poltava region is increased construction works value and services overstating, free natural resources, products sale at low prices, understating of rent amount, illegal transfer of governmental and municipal property to non-governmental structures, unreasonable cancellation and no taxing of funds and values [2]. The main causes of these disorders are low quality of internal control and irresponsible attitude of many procuring entities and business leaders, institutions and organizations [5, p. 196].

In particular, during 2014 financial inspectors found 207.9 million USD shortages on 175 enterprises, institutions and organizations. Illegal and inappropriately spent costs and shortages of material and financial resources are 5.4 times more than in 2013 year. Budget resources were found

in amount of 24.6 million USD in 2014 comparing to 23.0 million in 2013. The growth rate was 6.8%.

Currently, there is a tendency in amounts decrease of non-target costs and resources shortages, which in 2014 compared to 2013 decreased by 48.65% and 4.15% respectively. However, the amount of money spent illegally from state budget increased by 6.6 times compared to last year.

During 2014 SFI in Poltava region provided compensation and restoration of illegal and inappropriately conducted costs, lack of financial and material resources totaling over 28.5 million USD, where 10.4 million USD., were submitted to the government (Table. 2).

Table 2.

Information about financial and material resources elimination level provided by SFI departments in Poltava region during 2013-2014, %

Financial violations	Years		Absolute deviation, (+; -)
	2013	2014	
Illegal spending	61,39	11,10	-50,29
No-purpose spending	27,22	188,95	161,73
Cash shortage	75,35	40,59	-34,76
Funds shortfall	62,2	29,0	-33,2
Intermediate level of removal	56,54	67,41	10,87

Source: developed by author according to SFI reports in Poltava region during 2013- 2014

As a result of the SFI departments activities in the Poltava region during 2014, there were recovered consequences of financial irregularities in total nearly 37.9 million USD, which is 1.8 million. (4.7%) less than in 2013 year.

SFI has provided compensation for financial irregularities that led to the illegal, inappropriate costs and shortages of resources totaling over 28.5 million USD, which is 6.5 million more compared to the previous year. It is 13.72% of the total shortage detected.

Budgetary resources in 2014 received indemnification over 21.5 million USD. It is 9.9 million USD (85.6%) more than in 2013. The level of compensation also increased. And in 2014 it reached 87.56%, which is 37.15% higher than in 2013.

The most common violation of fiscal discipline is represented in Table. 3.

Table 3.

Review of fiscal discipline violations in the Poltava region, that were identified by SFI units in 2014

Violations' type	Name of the company, institution or organization	Violation content	Amount, thousand, hryvnas
No-purpose state funds spending	Executive Committee of Kremenchug city council	At the expense of the city budget there were no-purpose state funds spending on public utility "Kremenchug City Center for International Relations and Economic Development" Kremenchug Invest" (salaries payment and payroll taxes)	461,6
Illegal charge-off	Department of Emergencies and Population Affairs in Protection from Chernobyl Catastrophe Consequences in Poltava Regional State Administration	Payment for services in the boundaries changing on the territory of nature reserve fund, was made not in a full amount	1000,0
	Department of education, family and youth of Hlobyns'ka State Administration	Food payments without their actual receiving	264,1
Excess payments for work as a result of value or volume overstatement	Road Service Department in Poltava region	Performed works by contractor on current repair and roads maintenance that were not covered by accepting suggestion of competitive bidding and contractual	1300,0
	Department of Housing and Utilities of the executive committee of Kremenchug city council	Cost and work volume overstatement performed by contractors on current and capital repairs of road network and quarterly internal passages, reconstruction (insulation) of residential buildings, external walling, shelter maintenance in Kremenchug city	1100,0
	Karlivs'ka Production Department of Housing and Utilities of the Gorlovskoy City Council	Cost and work overstatement performed by contractors for the Karlivka city improvement	532,1
	Kozel'shchans'ka central district hospital of Kozel'shchans'ka District Council	Cost overstatement of completed construction works on the maternity department reconstruction by contractor «IBK «SITI-SKS» Ltd.	440,5
	City Hospital #3 in Kremenchug	Cost overstatement of completed construction works on the anesthesiology department reconstruction by contractor "Soyuzrembud"	274,0
	Department of Capital Construction in Poltava Regional State Administration	Cost overstatement of completed works on heat system reconstruction of neighborhood #15 by contractor "Lehbudproekt" Ltd.	244,0
Cash shortage	Karlivs'ka Production Department of Housing and Utilities of the Karlivka City Council	Wrong calculation in determining work value on city lighting, roads cleaning, urban greening, urban cemetery maintenance	528,3
	Department of Financial management of Kremenchug city council executive committee	Rent payments failures of 13 leasers according to the contract regarding the term of rent payment	161,3
	Hlobyns'ka District State Veterinary Hospital	In violation of the existing legal standards there was not held recalculation of rendered services cost from veterinary certificates issuing for livestock and crop production export in the amount of 9975 pieces	128,6
	Public utility company «Lubny-vodokanal» of Lubens'ka City Council	Wrong services price calculation for lack of control over water use	122,6
Resources shortage	Mykhnivs'ka village council	Lack of special purpose vehicle (garbage truck)	345,0
	Public utility company «Haleshchyna» Novohaleshchyns'ka village council	Lack of vacuum car	251,0

Source: developed by author according to SFI reports in Poltava region in 2014

Particular attention of SFI units in the Poltava region in 2014 was paid to personal responsibility of financial discipline violators:

- For violations of fiscal legislation 764 officials were fined;
- Disciplinary charges were brought against 181 people;
- In order to properly respond and take appropriate actions against financial discipline violators the police has received 96 results of audits and inspections;

- Law enforcement authorities initiated 101 pre-trial investigations on the control measures materials;

- Law enforcement authorities realized the right to apply to state court. There were 37 lawsuits filed regarding compensation for financial and material resources loss in total 6172.63 thousand hryvnas.

- Law enforcement authorities initiated 56 civil lawsuits before the prosecutors, control objects or management body, other government authority.

By the results of the 2014 control measures there were applied financial sanctions against fiscal discipline violators: in 32 cases there were suspended budgetary allocations; in 142 - suspended operations budget funds and 54 administrators were reduced in budget allocations in total nearly 4.4 million USD.

The audits of 2014 found law violations, and based on them were adopted 240 resolutions, decisions and orders.

4. Conclusions

Analyzing the data, we note that the most common disorders of fiscal discipline at the regional level are:

- Irresponsible and illegal budget funds use due to excessive volume payment and overestimated value of performed work and services rendered;
- Purchase of furniture, equipment, vehicles and other property by the budget funds in excess of the regulatory limit value, and the maintenance of vehicles in limits excess;
- Transfer of state and municipal property to non-state entities without legal justification;
- Failure to comply with the mandatory procurement procedures (ignoring them, facilitation);
- Undervaluation of assets due to the indexation failure and surplus inventory.

The main reasons for the above violations are the poor quality of internal control and irresponsible attitude of the number of budget managers.

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Information about author:

Victoria Gladka, Ph.D student, Department of Economics and Management, Poltava State Agrarian Academy, Skovorody str., 1/3, Poltava, 36003, Ukraine, email for correspondence: victoriagladka@gmail.com