

THE SOCIAL FINANCIAL CONTROL DEVELOPMENT IN UKRAINE



Petruk A.M.,

Doctor of Economics, Professor, Head of Department of Finance Zhytomyr State Technological University



Vygovska N.G.,

Doctor of Economics, Professor, Professor of Department of Finance Zhytomyr State Technological University

- ▣ Article deals with the nature of social financial control examination and the possible implementation options analysis nowadays. Possibility of social financial control embedding being done by the state-public associations is suggested thus facilitates solution the problem of alienation members in society from the ones hired to manage state.
- ▣ Social financial control, formal control, informal control, the official society structure.

РОЗВИТОК СОЦІАЛЬНОГО ФІНАНСОВОГО КОНТРОЛЮ В УКРАЇНІ

Петрук О.М.,

д.е.н., професор, завідувач кафедри фінансів Житомирського державного технологічного університету

Виговська Н.Г.,

д.е.н., професор кафедри фінансів Житомирського державного технологічного університету

- ▣ Стаття присвячена дослідженню сутності соціального фінансового контролю та аналізу можливих варіантів його реалізації на сучасному етапі. Авторами запропоновано можливість запровадження суспільного фінансового контролю, який здійснюється державно-суспільними об'єднаннями, що сприятиме вирішенню проблеми відчуження членів суспільства від найманої для управління держави.
- ▣ Соціальний фінансовий контроль, формальний контроль, неформальний контроль, суспільно-державна структура.

РАЗВИТИЕ СОЦИАЛЬНОГО ФИНАНСОВОГО КОНТРОЛЯ В УКРАИНЕ

Петрук А.М.,

д.э.н., профессор, заведующий кафедрой финансов Житомирского государственного технологического университета

Выговская Н.Г.,

д.э.н., профессор кафедры финансов Житомирского государственного технологического университета

- ▣ Статья посвящена исследованию сущности социального финансового контроля и анализу возможных вариантов его реализации на современном этапе. Авторами предложена возможность внедрения социального финансового контроля, который осуществляется государственно-общественными объединениями, что содействует решению проблемы отчуждения членов общества от нанятого для управления государства.
- ▣ Социальный финансовый контроль, формальный контроль, неформальный контроль, общественно-государственная структура.

Introduction

Discussion over social control goes on for many years, but the biggest interest is drawn at the present stage of social development. Nowadays the public financial control development turns to be of special importance. According to Article 1 of Lima Declaration of Guidelines on Auditing Precepts adopted at IX Congress of the International Organization of Supreme Audit Institutions (INTOSAI) in 1977, the control organization is a mandatory element of the public financial resources management, since the result of such management is responsibility to society. Low efficiency of public financial control, conflicts between the internal and the state financial control systems, the

public initiatives arising and civil society establishment require further improvement of the social control system. Society control is the main tool for law and discipline ensuring in country, and one of the most important social control elements. It is one of the main factors resolving social contradictions, because it has to regulate and consolidate all social members' activities.

However, the social control system can not function effectively today for several reasons, including: lack of long-term social strategy for society development; dispersion in various forms of governmental (parliamentary, presidential, prosecutors, financial, institutional, etc.) control that generates lack of

coordination among different regulatory bodies; reasons of financial nature (significant shadow economy, low standard of living, unemployment, etc.).

Relevance of the study is determined by need for the social control formation and development as a basis for state of law establishment, designed to protect rights and interests for citizens.

The social control creation issues are discussed in papers of the following national and foreign authors: V.V. Burtsev, V.G. Eremenko, N. Stefanov, G.G. Fetisov, A.G. Hudokormov, V.O. Shevchuk, P.P. Shlyahtun. However, in majority of papers social control was studied as an aspect of political science, philosophy, sociology without disclosing financial component of such control.

Purpose

Aim of article is to study the social financial control nature and to analyze implementation options for it today.

Discussion

The Ukrainian society transformation peculiarity makes it hard to determine general features of the social organization model, according to which gradual society development goes on, and progressive social transformation is reached. In order to identify approaches for the new social control model formation, suitable for the democratic society conditions, one should start with new concept of the individual, the state and the law interaction. That defines individual freedom as basic social purpose, and state as guarantor of this purpose. The main prerequisites for the public financial control development are: need for public to

obtain realistic and reliable information about public resources usage, and the civil society development.

Public participation in controlling is a process of civil society and government interaction, based on agreement about implementation the legitimate rights and interests of citizens and social groups in control process.

Today Ukraine is building a democratic society, basic postulates of which are described in Figure 1. However, the above-mentioned postulates are not fully applied nowadays. Today social relations shadowing in Ukraine spreads from economic to political sphere and makes a serious obstacle for the political system creation and total democratization of society. For example, according to tax service estimations, published during presentation of the tax system reforming concept, shadow sector of Ukrainian economy is at least 350 billion USD per year. However, these figures could be reduced greatly. If we recall that according to the latest published official government data shadow sector in 2010 was about 38% of official GDP, having increased after crisis start for more than ten percentage points. For example, recent World Bank estimations were even less optimistic: according to experts, share of informal economy in Ukraine was about 50% [1].

Main causes of shadow economy and corruption are of economic and legal origin, due to lack of institutional counterweight system for fiscal and regulatory authorities in Ukraine [2]. Due to mentioned above, topic of necessary development of an effective social control system in socially oriented economy is increasingly discussed in literature.

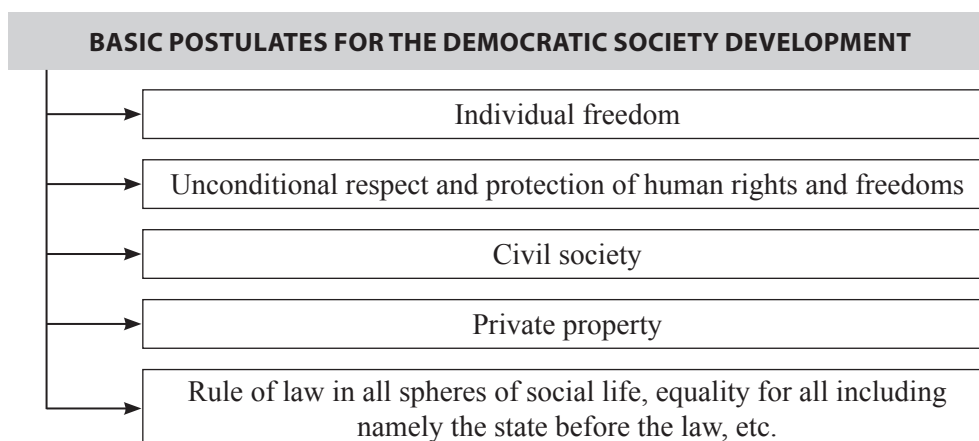


Figure 1. Basic postulates for the democratic society development

Control in socially oriented economy we understand as a way of society self-regulation that ensures dominant type of social relations and social structures reproduction, following societal norms by members that represent certain limits of permissible behavior for

individuals, groups and social organizations [3, p. 198]. This control is exercised by regulatory behavior and enforces social norms. It is a system of processes and mechanisms that ensure the socio-economic system functioning as a whole.

Essence of control in society implies that there is mechanism in the state according to which society and its affiliated parties (groups or organizations) can ensure compliance with certain rules (conditions), violation of which harms the entire social system functioning. These rules are practices, legal and moral norms, laws, administrative decisions. Control's social nature is reduced mainly to the use of various restrictions against social structure violators. Main controlling purpose is to create conditions for the social system stability, and at the same time - for positive change. This requires higher control flexibility and ability to detect deviations from the activities' social norms.

Controlling as a support mechanism for social equilibrium and self-regulation processes in society, improves along with social changes taking place in society. It aims to consolidate and regulate all social members' activities in society, ensuring its stable functioning and societal development. Effective social control results in optimizing the whole societal system's functioning within the subject relations

implementation, enshrined at all levels of the social systems functioning, starting from legal and ending at the individual's identity level as a society member.

Control's social nature has been examined historically from the property and power standpoint. Privacy policy stipulates right of certain assets possession, use and disposal. Guaranteed ownership means that property owner may do whatever he wants with it, if this does not violates the other members of society interests. However, current practice shows that often capital interests are above those of other society members.

Control is not just a priority for state - it is the right for anyone who is endowed with governmental powers. Social processes of democracy affect nature and characteristics of control process as a whole. Under democracy development, each citizen has the right to show his opinion on these issues for specific phenomena, processes and actions.

Depending on how sanctions are imposed - collectively or individually - social control can be external (formal societal control) or internal (informal societal control) (Fig. 2).

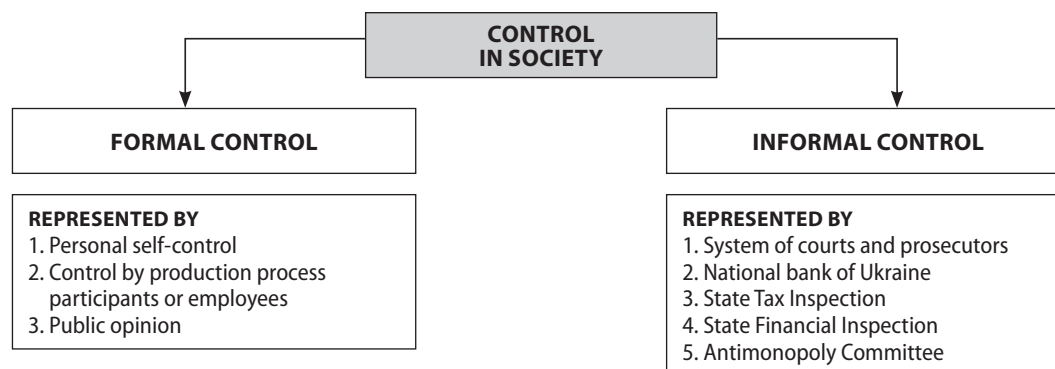


Figure 2. Social control types

Informal control includes the mutual controlling process with any process members, for example, buyers and sellers, employees, as well as personal self-control. Formal control is associated with established state regulatory agencies, implementation of social control functions by various government organizations and institutions (the judiciary and prosecutors, NBU, State Tax Inspection, State Financial Inspection, Antimonopoly Committee, public control authorities (consumer protection, trade unions, NGOs), etc.).

Experts believe that societal control is a part of non-public control - research is aimed at informal control as a mechanism for eliminating contradictions between state's financial and enterprises' internal control systems.

Public financial control models implementation today are the following:

- public financial control model based on state regulation (a formal societal control);

- informal societal control model;
- social control model for public-societal associations.

Let's analyze implementing possibility of the above models in Ukraine. We know that market does not provide social security and is unable to neutralize excessive differentiation in resources and income distribution, since it generates incomplete and imperfect information, which breaks members' ability to take optimal decisions in market relations – for both producers and consumers. Many people believe that government can or should solve all problems and correct deficiencies arising in different society areas [2]. There is a widespread idea that government regulation policy can solve any societal issues.

In our opinion, today excessive hope for possibilities of formal societal control is not fully justified, because state is a form of political organization within which social relations members decide and implement appropriate activities,

interacting with each other. In addition, there are no guarantees that public policy adopted by majority of elected representatives for the people, certainly should contribute to economic progress and social welfare growth. First, even under stable democracy and market economy state authorities do not always take decisions according to majority's interests. Second, state can not always significantly improve economics and enhance social relations, if market economic mechanisms are not in action.

Considering possibility of second model (informal societal control) we can state the following. Since civil society structures are in their infancy, groups of interests if already began to form but are not yet consolidated, and national (public) interests' concept is missing in country. Therefore, private interest prevails over the state's one, indicating inability of this model nowadays.

Today social control began to emerge in political relations area [2]. In order to create organizational conditions for citizens and their associations' rights realization, business entities to participate in state regulatory policy implementation today - more than 50 associations of entrepreneurs at nationwide and regional levels united in Public control Committee and signed Charter of public organizations of Ukraine, designed to establish and maintain participation mechanisms for public in regulatory policy procedures by executive authorities of central and local governments [4]. Purpose of the Public control Committee under Charter framework is to establish a permanent information exchange between public and authorities, legal and economic policy expertise, issues analysis, public comments and proposals collection, compilation and lobbying public interest in government. On the one hand, this would increase government transparency, on the other hand, – will provide socio-economic foundation for draft regulations development, approval and performance tracking together with entities that conduct specific regulatory standards and have objective information about real consequences of their impact on socio-economic relations.

We believe that similarly, public control should be transferred in economic relations area. This will be a permanent measure of socio-economic efficiency with single criterion - society interests.

However, in modern terms formal and informal control combination is necessary, as well as creation of public-societal control authority to eliminate contradictions between systems of public financial control and internal control.

It is possible to do this in practice by creating societal-state control agency. This agency should

work under President and general public regulation. Also a close connection should be provided for new entity with Accounting Chamber of Ukraine. Internal and external auditors should be hired as independent experts, who will directly supervise all levels of government and management in terms of control. Simultaneously this structure will report to President and public (through media). Information obtained through social and state control should be discussed in media (television, radio, newspapers, journals, newsletters, etc.), i.e. publicity should ensure government transparency.

The new control bodies' establishment always results in active discussion, since any new state structure causes excessive pressure on state budget. But according to proposed mechanism, - organization financing could be resolved in creating public funds with contributions from the most competitive domestic enterprises, which are more interested in providing financial security through social control.

One of conditions for effective societal control is presence of independent external and internal auditors in its activities, since they have qualifications required for the complex financial systems control. Joint efforts of public and audit control systems are not only to solve personnel problem of social control, but also to contribute to new effect emergence in public resources control. Auditing organizations having accumulated considerable experience in financial stability inspection and analysis for various companies and organizations are able to identify financial problems and prevent them properly and timely.

Idea of societal-state control is not only to solve conflicts between systems of public financial control and enterprises' internal control, but also an issue for members hired to manage state's alienation from society. Creating societal-state control organizations in future will support democratic government developing in Ukraine to ensure real independence from state bureaucracy.

We should detect certain control areas for new public-state organization, which determines public resources' formation, distribution and usage:

1. Control of state and local budgets performance.
2. Control of funds and property formation and usage, which is under state and municipal property.
3. Controlling effectiveness of state and municipal shares in joint stock companies and financial institutions.
4. Controlling facilities management effectiveness, according to interests of which state and local governments provide exemptions or guarantees.
5. Controlling usage of EU funds, as well as loans, credits and grants from international organizations

- that are available for entities under support and development principle.
6. Control for privatization processes and operations with objects leased under state and municipal property rights.
 7. Control for social insurance funds and pension funds budgets performance.
 8. Control for public lotteries funds.
 9. Control for public institutions', charities', trade unions' and political parties' funds and property.
 10. Controlling natural monopolies effectiveness.
 11. Control over funds of voluntary and compulsory insurance (insurers).

Given global control development trends, an offered control area considers improving stage of national social control system through subjects' control powers for special competence in law to achieve openness and transparency in the state public resources management.

In order to improve public financial control efficiency we should: conduct public examination of draft regulations, policies, and programs on financial control and consider their conclusions; to invite media for participation in financial control issues of following

forms: publications with detailed discussion of projects and legislation, inviting journalists involved in financial control to participate in various commissions to improve legislation in control area.

Societal-state control idea should be operated by Accounting Chamber of Ukraine. We believe that new control body could be able to participate directly in development and tactics to ensure economic security.

Conclusion

Emergence and development of social financial control will enhance the state of law strengthening, designed to protect rights and interests of its citizens, effective cooperation and coordination of state, auditor and internal audit bodies, significantly optimizing control procedures for financial resources allocation and usage, - both public and private. This makes it possible to conclude that development of adequate interaction systems, undertaken by various financial control bodies is becoming more important.

In future, social control should gradually shift from direct government influence area to the area of indirect exposure through civil society regulatory mechanisms.

1. STSU: "Shadow economy is at least 350 billion per year [electronic resource]. - Access: <http://www.rbc.ua/ukr/top/show/gnsu-obem-tenevogo-sektora-ekonomiki-sostavlyayet-ne-menee-19082012162000>
2. Kuzhel O. Forming parity interests / O. Kuzhel – K.: 2004. – 188 p.

3. Shlyahun P.P. Politics (theory and history of political science). – K.: "Lybid", 2002. – 574 p.

4. What is the Public Control Committee? [Electronic resource]. - Access: http://www.academia.org.ua/?page_id=1067

Дата подання рукопису: 06.08.2012 року.