

**Сприяння реформі соціальних послуг в Україні  
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**Developing policy and practice frameworks for the Accounting  
Chamber in the Context of Reforming Social Services**

**Summary Recommendations  
Derived from  
National Level Round Table**

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Responsibility for the contents of this document lies with the Project Director and the authors.

# **Developing policy and practice frameworks for the Accounting Chamber in the Context of Reforming Social Services**

## **Summary Recommendations**

### **Foreword**

A considerable item of State Budget expenditures is planned for social services provided by local residential institutions. In this context, introduction of the control system for the legitimate and efficient use of state budget funds takes on especial importance. Financial control in Ukraine, like in other countries, including in the social services sector, is exercised by internal financial control bodies (control and inspection services in the system of executive power) and an independent body of external financial control – the Accounting Chamber. Since the Accounting Chamber does not depend, by its nature, on the executive power, it should play a key role in estimating the efficiency of public expenditures for social services. Therefore, proper legislative frameworks have to be established for the operation of the Accounting Chamber.

This document analyzes the factors that inhibit the Accounting Chamber from public funds auditing, including control over the legitimate and efficient use of public funds for social services provision, as well as the recommendations for strengthening the role of the Accounting Chamber in controlling legitimate and efficient use of public funds for social services.

### ***General recommendations for strengthening Accounting Chamber's control over financing of social services***

#### **1. Promotion of Accounting Chamber Independence**

The existing degree of Accounting Chamber independence partially complies with the principles of independence set by the Lima Declaration of Guidelines on Auditing Precepts.

Firstly, according to the Law “On Accounting Chamber”, the Head of the Accounting Chamber may be dismissed in case of infringement of the Ukrainian *legislation*, but not the Law. Secondly, the provisions of the Law “On Accounting Chamber” saying that “basic pay of Accounting Chamber employees shall be 30% bigger than relevant pay of public servants” have not been put into practice that does not contribute to strengthening staff potential of the Chamber. Thirdly, over the past years there have been significant disproportion in the financial support to the Accounting Chamber's activity – funds were allocated in the last days of a month or a quarter that didn't make it possible to finance expenditures in due time or in full. Irregular financing of the Accounting Chamber's activity makes it dependent upon executive bodies. Fourthly, the Accounting Chamber is not operationally independent – according to Article 15 of the Law “On Accounting Chamber” it “must take control measures in response to the appeal of 150 members of the Parliament, resolutions and protocol tasks of the Parliament, requests and appeals of committees and people's deputies which are subject to Verkhovna Rada's decisions. These provisions of the law have a negative impact on planning the Accounting Chamber activity.

In view of the above-mentioned it is important to:

- specify the grounds for pre-term dismissal of the Head of the Accounting Chamber only in cases envisaged by the Law, not by legislation;
- increase salaries for non-managerial staff of the Accounting Chamber and provide the fulfillment of the provisions of Article 39 of the Law “On Accounting Chamber” envisaging 30-percent increase in basic payment compared to relevant pay of public servants;
- introduce amendments to the Law “On Accounting Chamber” in order to enhance operational independence of the Chamber, especially, in terms of mandatory consideration of the proposals forwarded by the Parliament and its bodies, mainly at the stage of annual plan development rather than at the stage of its implementation.

## **2. Extension of scope of Accounting Chamber competence, specification of its power and cooperation with other financial control bodies**

At present, the scope of control competence of the Accounting Chamber does not comply with the Lima Declaration of Guidelines on Auditing Precepts. Thus, the Accounting Chamber can't control the use of public funds which are not envisaged by the State Budget of Ukraine (extra-budgetary funds, state-run enterprises). The frameworks for relationship between the Accounting Chamber and other financial control bodies are not clearly provided, especially in terms of financial audits. The current Law "On Accounting Chamber" does not clearly define the authority of the Accounting Chamber to perform control functions. In particular, the Law does not specify whether the Chamber is entitled to examine the documentation which does not relate to the use of budget funds, and to evaluate full efficiency of finance management and administration system of audited institutions. The provisions of a new wording of Article 98 of the Constitution of Ukraine that enable the Accounting Chamber to exercise control over national budget receipts have not been further developed at the legislative level.

In order to settle these issues it is advisable to:

- introduce amendments to Article 98 of the Constitution of Ukraine and outline the scope of competence of the Accounting Chamber in compliance with the Lima Declaration of Guidelines on Auditing Precepts. This will entitle the Chamber to exercise not only a budget control, but to perform external audit of the whole system of public funds;
- submit the provisions of the new wording of Article 98 of the Constitution of Ukraine (entitled the Accounting Chamber to exercise control over the state budget receipts) to the Law "On Accounting Chamber", define the powers to meet the related constitutional requirements;
- specify frameworks for cooperation between the Accounting Chamber and other financial control bodies, in particular, in terms of Chamber's control over state budget receipts (State Treasury, State Taxation Administration, State Customs Service, Control and Inspection Department etc);
- determine the scope of competence of the Accounting Chamber more clearly to control the provision and use of public funds.

## **3. Encouragement of Cooperation between the Accounting Chamber and Verkhovna Rada**

Today the potential for interaction between the Accounting Chamber, the Verkhovna Rada and its bodies is not exploited to the full. To promote cooperation between the Accounting Chamber, the Parliament, its factions and parliamentary committees it is expedient to:

- ensure practical implementation of Chamber's findings and recommendations;
- orient the Accounting Chamber audit methodology to audit efficiency;
- entitle the Accounting Chamber to provide mandatory expertise of draft laws not only in the financial and budget sector, but in other areas if the adoption of these drafts could affect national budget revenues and expenses.

## **4. Improvement of Accounting Chamber Activity**

Key powers within the Accounting Chamber competence are concentrated in the Accounting Chamber Board; this overburdens the Chamber leadership with secondary functions. Contrary to the Control and Inspection Department, territorial offices of the Accounting Chamber have not been established in all regions – 8 offices are being in operation now covering several oblasts. Besides, oblast offices of the Chamber are not operationally independent – interaction between the Control and Inspection Department and the Chamber is provided at the level of central offices of the Main Control and Inspection Department and the Accounting Chamber Board. Meanwhile, it is necessary to encourage functional independence of territorial offices which could play a key role in conducting future audits and taking control measures.

Therefore, there is the need to:

- enhance the establishment of 27 territorial offices of the Accounting Chamber in every oblast, the Autonomous Republic of Crimea, the cities of Kyiv and Sevastopol;
- in the short-term future – strengthen the role of Chamber’s structural units in planning, auditing, and monitoring of its results through delegating a great part of functional authority of the Accounting Chamber Board to the related structural units;
- in long-term future – strengthen the role of Accounting Chamber’s territorial offices in auditing and monitoring the implementation of audit findings; clearly differentiate functions between central offices of the Chamber and its territorial representations (in future the activity of central offices of the Chamber should be focused on planning, conducting of analytical events, improving audit methods, monitoring the operation of territorial offices, whereas territorial representations should perform direct financial audits and monitor implementation of audit findings).

#### **5. Enhancement of Accounting Chamber’s staff potential**

Today the Accounting Chamber has employed less staff than other European Supreme Audit Institutions, especially, in Germany and Poland. There is no comprehensive staff training system for the Accounting Chamber – improvement of staff qualification is provided through the training programmes financed by international and overseas organisations (TACIS, INTOSAI, UNDP) that cover only 2/3 of the Chamber’s personnel.

Therefore, the following should be taken into account to:

- enhance the level of staff support to the Accounting Chamber by increasing staff potential of its territorial offices to be entitled to conduct financial audits in future;
- encourage the Accounting Chamber to develop its own system for training and improvement of staff qualification (especially for senior executives), as well as its own professional auditor assessment system in contrast to the state attestation of public servants;
- increase expenditures for research and developments, professional training, and improvement of Accounting Chamber staff qualification.

#### **6. Redirection of Accounting Chamber activity to efficiency audit**

The main type of performance audit today is legality audit. The Accounting Chamber does not provide regularity audit of financial reports of each state institution, as well as the conclusions on government’s financial reports and audits of the performance results. Unlike the Control and Inspection Department, the Accounting Chamber has not employed effective audit methods. The official web-site of the Accounting Chamber has published only one document concerning auditing procedures – the Standard for Preparing and Conducting Inspections that is more general and less detailed than INTOSAI standards.

The above-mentioned produces the following recommendations:

- The Accounting Chamber should focus on developing methods of legality, efficiency and regularity audits in order to detail general provisions of the Standards for Preparing and Conducting Inspections;
- The Accounting Chamber should gradually shift key points in auditing and focus on efficiency and regularity audits;
- The Accounting Chamber and the Control and Inspection Department should refine the regulatory cooperation frameworks in planning, auditing and evaluating the outcomes of the control measures.

#### **7. Efficiency Improvements of Accounting Chamber Findings**

In practice the Accounting Chamber has not efficient instruments to ensure consideration and implementation of its recommendations by audited institutions. Its ability to influence the activity

of the audited institutions is limited to keeping these institutions, law-enforcement bodies and the Parliament informed about revealed violations, recommendations for their elimination and the results of considering the relevant ones. The reasons behind inefficient recommendations of the Accounting Chamber are in their general nature (non-specific provisions), lack of assessment criteria and control (monitoring) system to follow the recommendations.

To maximize the efficiency of findings and recommendations the Accounting Chamber should:

- be entitled to file lawsuits with the administrative courts in the interests of the state in order to repeal illegal acts of the audited institutions; to specify the rights of the Accounting Chamber in the administrative procedure for examining the lawsuits brought by the Accounting Chamber in the interests of the state;
- ensure practical implementation of the findings and recommendations based on the results of the control measures in transition from identification of gaps in legal regulation and evidence-based violations to the development of detailed recommendations, consultations with the Verkhovna Rada, Government and audited agents;
- establish definite criteria for the assessment of the recommendations carried out by audited agents. These criteria should be based on relevant economic figures (the amount of money saved following recommendations, the amount of money channeled to the State Budget after auditing);
- create a short-term and long-term monitoring system for the fulfillment of recommendations by audited agents.

#### **Proposals outlined by the round table discussion**

#### **“Developing policy and practice frameworks for the Accounting Chamber in the Context of Reforming Social Services”**

- Enhance operational, organizational and financial independence of the Accounting Chamber by:
  - 1) specifying in the Constitution of Ukraine or in the Law the basis for pre-term dismissal of the Head of the Accounting Chamber;
  - 2) increase salaries of Accounting Chamber’s non-managerial employees;
  - 3) envisage mandatory consideration of the proposals submitted by the Verkhovna Rada and its bodies at the stage of planning the activity of the Accounting Chamber, rather than at the implementation stage.
- Specify the scope of Accounting Chamber’s competence by:
  - 1) introducing amendments to Article 98 of the Constitution of Ukraine in order to allow the Accounting Chamber to exercise control over all public funds, not only State Budget funds;
  - 2) defining in the Law “On Accounting Chamber” specifications for monitoring national budget receipts;
  - 3) removing the public procurement management function of the Accounting Chamber, that is not specific for the external financial control body;
  - 4) formulating in the Law “On Accounting Chamber” the principles of cooperation between the Accounting Chamber and other financial control bodies – the State Taxation Administration, the State Customs Service of Ukraine, the State Treasury etc.;
  - 5) identifying the scope of competence of the Accounting Chamber in auditing and taking control measures directly at audited institutions.
- Enhance the establishment of 27 territorial offices of the Accounting Chamber in every oblast, the Autonomous Republic of Crimea, the cities of Kyiv and Sevastopol;

- Strengthen the role of Chamber's structural units in planning, auditing, and monitoring of its results through delegating a great part of the functional authority of the Accounting Chamber Board to the related structural units (departments);
- Gradually strengthen the role of territorial offices of the Accounting Chamber in conducting audits and controlling implementation of the recommendations of audit findings; clearly differentiate the functions between the central offices of the Chamber and its territorial representations;
- Enhance the level of staff support to the Accounting Chamber by increasing staff potential of its territorial offices to be entitled to conduct financial audits in future;
- Adopt in the Accounting Chamber its own the system for training and improvement of staff qualification and professional auditor assessment system in contrast to the state attestation of public servants;
- Increase expenditures for research and developments, professional training, and improvement of Accounting Chamber staff qualification;
- The Accounting Chamber should focus on developing methods of legality, efficiency and regularity audits in order to detail general provisions of the Standards for Preparing and Conducting Inspections;
- The Accounting Chamber should redirect its activity from legality audits to efficiency audits;
- The Accounting Chamber and the Control and Inspection Department should refine the regulatory cooperation frameworks in planning, auditing and evaluating the outcomes of the control measures taken;
- The Accounting Chamber should be entitled to file lawsuits with the administrative courts in the interests of the state in order to repeal illegal acts of the audited institutions, to specify the rights of the Accounting Chamber in the administrative procedure for settling the lawsuits brought by the Accounting Chamber in the interests of the state;
- Establish definite criteria for the assessment of the recommendations carried out by audited agents. These criteria should be based on relevant economic figures (the amount of money saved following recommendations, the amount of money channeled to the State Budget after auditing);
- Develop and apply a short-term and long-term monitoring methodology for the fulfillment of the Accounting Chamber recommendations by audited agents.