

# AN EVALUATION OF THE DOMESTIC FINANCIAL SUPERVISORY AUTHORITIES IN LAND RELATIONS IN UKRAINE

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**Abstract.** *The purpose of the article is to study the efficiency and quality of the state financial control of land relations in Ukraine and to identify problems. Methodological basis of the research is general scientific and special methods of knowledge of phenomena and processes in the system of state financial control. The method of expert estimations was used during the identification problems of functioning of the state financial control system in the field of land relations. System and structural-functional approaches are used to analyse the possibilities of organization and functioning of the state financial control system in Ukraine. Results* The article analyses the level of economic crime in enterprises, institutions, organizations working in the land relations field. The main tasks of the state financial control over the land use and protection and the characteristic schemes of committing crimes in the field of land relations are determined. Government Financial Control (GFC) problems in the field of land relations are consolidated and underscored on the basis of research on the crime indicators and the losses incurred by the state. *The practical value of the research is the possibility of using its results in improving the activities of the state financial control bodies in Ukraine at the state and local levels, as well as in teaching relevant professional disciplines.*

**Key words:** land relations, state financial control, material losses, economic crime, agricultural land.

**JEL Classification:** O10, Q15

## 1. Introduction

State financial control is a priority area of financial relations development as an instrument for ensuring the most complete amount of funds to the state budget, their rational use, and management of state property. In modern conditions, a number of systemic problems in the state financial control system have been formed due to the existence of shortcomings in the regulatory, organizational, technical, information, and personnel provision, that lead to inefficient management of state property and the use of budgetary resources. As a part of the types of control measures of state financial control, audits of a certain complex or separate issues of financial and economic activity prevail, which does not provide a preventive in nature of the state financial control in Ukraine.

The problem of an establishment of an effective system of state financial control in the system of land relations has an important place in scientific researches of scientists-economists, namely, in the works of scientists: N. M. Davydenko, V. S. Diesperov, A. G. Martin, D. A. Mishchenko, P. I. Pushkarenko, O.P. Svetlichny, V. Slauta, M. M. Fedorov.

The systematization of scientific literature makes it possible to conclude that there is a thorough theoretical basis associated with the development of land tenure and its regulation. At the same time, an insufficient attention is paid to issues of state financial control of land

relations as an important function of state regulation, which generates a significant number of budgetary irregularities in this area.

In the field of land use, control is seen as a way of rule of law in the land use. The main tasks of the state financial control over land use and protection are the following:

- law enforcement by the state authorities, local self-government bodies, natural and legal persons of the land legislation of Ukraine;
- ensuring the implementation of state policy in the field of protection and rational use of land;
- prevention of violation of Ukrainian legislation in the field of land use and protection, timely detection of such violations and taking appropriate measures to address them;
- enforcing standards and regulations in land use and protection by landowners and land users, prevention of land contamination and soil fertility reduction, deterioration of the state of flora and fauna, water and other natural resources.

## 2. Evaluating the level of economic crime in the field of land relations

The high level of economic crime in Ukraine and, in particular, in the field of land relations allows us to conclude that the system of implementation of state

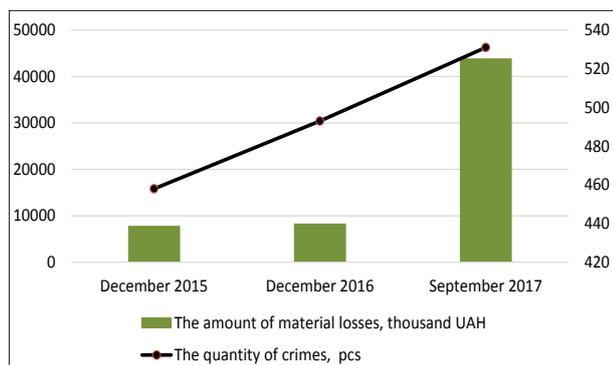
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financial control is imperfect, as evidenced by the following data (Table 1).

In analysing the trend in the indicators of crime in the field of land relations during 2015 – September 2017, identified that the total number of crimes committed amounted to 1482. This suggests that crime in the field of land relations has assumed alarming proportions for society. It is worth noting that there is a constant increase in crimes in absolute terms, indicating the existence of legal defects in land legislation, which is used by criminals. As for the amount of material damage, there is a more negative situation, especially at the end of September 2017, namely, the amount of losses has increased by more than 5 times. The dynamics of crime and losses are presented in Fig. 1, where it is possible to clearly observe a significant increase in the number of criminal offenses (107.71%) and the amount of losses incurred (525.95%) in the system of land relations, which indicates the high price of the committed violation in the field of land relations. So the average damage for 1 crime in 2015 and 2016 amounted to 17.15 thousand UAH and 16.93 thousand UAH respectively, and at the end of September 2017 – 82.71 thousand UAH. It is also worth noting that one-third of criminal offenses in the field of land relations in Ukraine constitute violations of land privatization.



**Fig. 1. Dynamics of crime and losses incurred in the field of land relations in Ukraine**

Written by: [Reports of the General Prosecutor's Office of Ukraine for 2015 – September 2017]

An assessment of the level of economic crime in the field of land relations makes it possible to determine that the characteristic patterns of crimes in the field of land relations are:

- abuse of officials in the registration of land plots;
- land-grabbing;
- illegal transfer of agricultural land to other categories:
- urbanization of agricultural land;
- lower rates of rent payments, illegal land lease;
- alienation of agricultural land by peasants at a price much lower than economically justified;
- inefficient and inappropriate land use, which does not contribute to the restoration of agricultural land.

The presence of such a high level of economic crime, which is present in the field of land relations, makes it possible to distinguish the following reasons of their appearance: the lack of a comprehensive solution to the problems of the formation of new land relations (Busyok, 2010), (Svitlychny, 2011), the lack of perfect instruments for regulating the land market (Fedorov, 2009), (Mishchenko, 2011), high level of speculative actions with land (Mishchenko, 2011); outdated economic mechanism of regulation of land relations (Fedorov, 2009), conflict of interests of different layers of society (Davidenko, 2016); undeveloped automated system of state land cadastre management; the lack of a mechanism for economic incentives for the land use and protection (Pushkarenko, 2010).

### 3. Implementation of the state financial control in the field of land relations in Ukraine

By providing control in the field of land relations with the use of budgetary funds, the state of public and communal property, the state financial control bodies, within the limits of the powers granted to them by the law, investigate the main tendencies in the management of public property, the realization of transactions with state property and funds.

The state financial control of land relations by allocating and using budget funds at the level of the

Table 1

#### The crime indicators at enterprises, institutions, organizations working in the field of land relations

Crimes committed at enterprises, institutions, organizations	As of	Criminal offenses reported in the reporting period, pcs	Established amount of material losses (in ths. UAH)	Repayment is provided (in ths. UAH)	
				refunded	arrested on property
Total:	31.12.2015	52687	705789,54	389256,65	25786,56
	31.12.2016	47833	630977,74	405885,62	264429,49
	30.09.2017	42976	8 522 606,16	225 650,12	223 090,65
related to land relations:	31.12.2015	458	7856,57	201,57	7089,75
	31.12.2016	493	8350,67	214,00	7194,23
	30.09.2017	531	43 920,74	972,12	35 224,72
including privatization of land	31.12.2015	181	5896,45	103,05	6587,58
	31.12.2016	188	6103,86	214,00	5429,23
	30.09.2017	205	5 118,70	0,00	5 491,11

Written by: [Reports of the General Prosecutor's Office of Ukraine for 2015 – September 2017]

Ministry of Agrarian Policy and Food and at the level of the State Land Agency is carried out by the bodies of the State Financial Intelligence, Treasury of Ukraine, the Accounting Chamber and internal audit departments (departmental control) (Svitlychny, 2011).

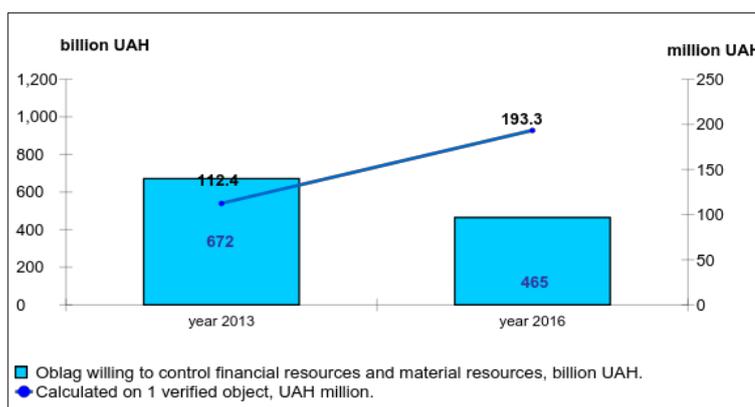
Thus, in 2013–2015, by the State Service of Intelligence (SSI) inspections averaged 826.5 billion USD of financial and material resources, and in 2016, it was checked to use almost 465.4 billion UAH. In the calculation of this indicator per one checked facility, the corresponding indicator grew 1.7 times – from 112.4 million UAH in 2013 to 193.3 million UAH in 2016.

In particular, revisions of certain issues of financial and economic activity in the field of agroindustrial complex of the National Academy of Agrarian Sciences of Ukraine and 102 enterprises and institutions under its management, the activities of the Public Joint Stock Company “Agrarian Fund”, State Enterprise “State Standby Seed Fund of Ukraine”, State Enterprise “State Committee of Ukraine”, Ministry of Ecology and Natural Resources of Ukraine, Public Joint Stock Company “State Food and Grain Corporation of Ukraine”, and PJSC “Agrarian Fund”, State Specialized Budget Establishment “Agrarian Fund” are conducted.

The question of the legality and effectiveness of the use of budget funds and property by the NJSC “Ukragrroleasing”, as well as activities of enterprises, institutions, and organizations belonging to the sphere of management of the State Agency of Water Resources of Ukraine, Ministry of Agrarian Policy and Food of Ukraine, State Service of Geology and Subsoil of Ukraine covered by the control.

The most scale and widespread financial violations that resulted in the loss of resources are the following (Reports of the State Audit Office of Ukraine for the 2013–2016 years):

- the sale by economic entities of goods, works or services (except for the use, rent) free of charge or at low prices – almost 351.8 million UAH;
- illegal expenses due to the payment of overvalued costs of performed works and/or services rendered, as well as exceeding the amount or value of purchased goods – 264.6 million UAH;
- non-payment and non-transfer (incomplete transfer) of revenues to the general and special (except for the special fund of budget institutions) budget funds – almost 206.6 million UAH;
- non-payment and non-transfer of a part of the profit to the budget by state and municipal enterprises by more than 156,9 million UAH;
- illegal payments to individuals (compensation, benefits, privileges and subsidies, pensions, scholarships), including those who did not have the



**Fig. 2. The volumes covered by the control of financial and material resources in 2013–2016**

Written by: (Reports of the State Audit Office of Ukraine for the 2013–2016 years)

right to receive them or in excess of over 148.9 million UAH;

- non-targeted expenses – almost 140,1 million UAH;
- the write-off of funds for expenditures/expenses without obtaining goods, works or services or in volumes higher than their actual value – more than UAH 138.6 million;
- illegal (extra) wage payments – more than 111.7 million UAH;
- lack of resources and property values – 80.1 million UAH;
- non-payment and/or taking no measures for collecting amounts of penalties stipulated by the terms of the agreement – 71.3 million UAH;
- illegal alienation of property – 68.3 million UAH;
- the unreasonable covering of expenses of individuals or legal entities, including in the absence of accounts receivable – more than 58.6 million UAH;
- loss of income due to the write-off of accounts receivable – almost 55.4 million UAH;
- excessive allocation (receipt) of budget funds to legal entities, recipients as a result of an overstatement of relevant calculations or those who did not have the right to receive them – 51.4 million UAH;
- liquidation (destruction, disassembly) of property, conducted contrary to the legislation – more than 51.3 million UAH;
- coverage at the expense of the general fund of the cost estimate of the special fund (without the restoration of cash fund expenditures of the general fund) – almost 46.0 million UAH;
- payment of contributions to the state target funds for illegal sums for the remuneration of labour or at an excessive rate of collection – almost 42.7 million UAH;
- lack of income from the sale of free-of-charge goods and services by budget institutions – over 29,0 million UAH;
- overdue write-off for an accounting of intangible assets that are not available – 23.4 million UAH;
- lack of proper receipt by the entities of the property received for the use, lease – 22.7 million UAH;

- implementation of expenses for the charitable, sponsorship, and other non-repayable assistance exceeding specified volumes or exceeding the maximum amount – 22.6 million UAH;
- implementation at the expense of the budget of one level of expenditures, which, in accordance with the budget law, should be carried out from the budget of another level – 22.4 million UAH, etc.

The main reasons for such violations are the poor quality of internal control and the irresponsible attitude of many spending units and managers of enterprises, institutions, and organizations.

#### 4. Problems in the work of domestic bodies of state financial control

State financial control is one of the most important functions of public administration; it provides an objective assessment of the financial system reality and the impact on financial management through detecting deviations from accepted legal standards regarding the management of financial resources and individual state-owned objects; it analyses the financial conditions and, in the case of derogations, develops and applies appropriate corrective and preventive measures in a timely manner.

The effectiveness of public financial control cannot be measured by the number of inspections or the number of objects subject to control or the number of decisions taken under the control. And even the amount of imposed sanctions cannot be the basis for the recognition of effective and functioning control. The main criteria are the real results achieved – the normal, proper functioning of the controlling object in the future, preventing them violations of financial discipline.

The main areas of efficiency improvement are not only reducing the number of inspections but also improving their quality, efficiency, complex inspections. In this way, financial control bodies must evolve.

The ineffectiveness of state control in the field of land relations is also complicated by the unclear delineating of communal, state, and private property. At the same time, state institutions that have to implement the state policy on land reform issues redirect responsibility to each other (Davydenko, 2016).

#### 5. Conclusions

Repeated organizational changes in the system of central bodies whose powers include, in particular, the implementation of state policy in the field of land relations, the land use and protection, as well as the reorganization of the central body that forms such a policy and coordinates its implementation, did not contribute to the proper implementation of land reform and providing appropriate internal control, which leads to increasing the level of economic crime in enterprises, institutions, organizations that work in the field of land tenure.

In general, the current state of control institutions is characterized by the fact that the formation of a GFC system that meets the requirements of economic development and the system of government of the country has not yet been completed. There is not enough a legal control base. The state control does not cover all of its proper means, especially in terms of their use.

The organization of control is characterized not by the orderliness, duplication of audits and inspections. Lists of financial violations in existing classifiers are poorly justified economically and legally. There are no violations that caused a real loss of the budget or the budget recipient. In such circumstances, GFCs cease to be an effective tool in the fight against corruption.

The practical value of the research is the possibility of using its results in improving the activities of the state financial control bodies in Ukraine at the state and local levels, as well as in teaching the relevant professional disciplines. The direction of further research is the development of a holistic mechanism for the implementation of state financial control in Ukraine, taking into account current transformations.

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## **Аня ИВАНОВА**

### **ОЦЕНКА ГОСУДАРСТВЕННЫХ ОРГАНОВ ФИНАНСОВОГО КОНТРОЛЯ В СФЕРЕ ЗЕМЕЛЬНЫХ ОТНОШЕНИЙ В УКРАИНЕ**

**Аннотация.** *Целью статьи* является исследование эффективности и качества государственного финансового контроля земельных отношений в Украине и определение проблем. *Методологической основой* исследования является общенаучные и специальные методы познания явлений и процессов в системе государственного финансового контроля. При обнаружении проблем функционирования системы государственного финансового контроля в сфере земельных отношений применен метод экспертных оценок. Системный и структурно-функциональный подходы использованы для анализа возможностей организации и функционирования системы государственного финансового контроля в Украине. *Результаты.* В статье проведен анализ уровня экономической преступности на предприятиях, учреждениях, организациях, осуществляющих деятельность в сфере земельных отношений. Определены основные задачи государственного контроля за использованием и охраной земель и характерные схемы совершения преступлений в сфере земельных. Выделены и обобщены проблемы ДФК в сфере земельных отношений на основе исследования состояния преступности и понесенных государством убытков. *Практическое значение* проведенного исследования заключается в возможности использования его результатов в ходе совершенствования деятельности органов государственного финансового контроля в Украине на государственном и местном уровнях, а также при преподавании соответствующих профессиональных дисциплин.