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## **The Contribution of Supreme Audit Institutions to Good Governance and Sustainable Development: the Case of Ukraine**

### **Introduction**

The acceptance in September 2015 by UN member countries of the Agenda for sustainable development up to 2030 gave governments a task to develop and execute the strategies that have to combine economic growth promotion, social inclusion, environmental protection and handling the problems driven by climatic changes. The Agenda represents 17 goals that include 169 targets encompassing the main problems of humankind at the present stage (poverty, hunger, education, health, disparity, water resources, energy, ecosystems, etc.).

Achieving goals for sustainable development entirely depends on efforts made by states that agreed upon them as well as on the effectiveness of strategies, plans and programs developed. Apart from substantial financial resources, this will require concerted action of governments, civil society, private sector and other parties concerned. Hence, one of the fundamental premises of achieving Sustainable Development Goals is insuring of an effective, accountable and transparent government control.

UN recognizes the prominent role of Supreme Audit Institutions (SAIs) in this process. In appropriate resolutions the General Assembly of the UN recommends to pay great attention to institutional potential development and independence of SAIs and recognizes their role in encouraging good governance, improving accounting systems in the public sector, and promoting knowledge and best practices related to public accounting and auditing.

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According to the president of EUROSAI Arno Visser (2015), joining efforts and exchanging best practices of SAIs of different countries could enable to make public audit a useful tool to improve management methods and structures that will change our globalized world for the better. Thus, conducting the research and exchanging best practices in public audit development are currently important tasks for all UN member countries.

The object of the paper is to analyze the institutional capacity of Accounting Chamber of Ukraine at present and to estimate its potential contribution to good governance and sustainable development.

## **1. The institutional capacity of the Accounting Chamber of Ukraine**

### **1.1. Transformation of control system**

The functioning of any public finance supreme control body depends largely on government control system and on the socio-economic system of a state. Ukraine as well as most post-soviet countries have some special aspects of supreme control body formation and functioning. The modern public finance control system is based on peculiarities of the control system that Ukraine got from the former USSR. The lack of private ownership in the USSR discouraged proper audit development as it was in other countries. State planning and regulatory bodies governed the economy and they controlled all economic agents.

Objective lack of demand for other types of control not only discouraged the practice but also the theory of audit. As a result, Ukrainian specialists were unprepared to implement new types and forms of control after the declaration of independence and switch to market conditions of economic management. Remoteness from world developments made it impossible to use the experience of leading foreign specialists and other countries' experience in this area. This resulted in theoretical and practical backwardness in control and audit.

The fundamentals of independent outside control of public finance in Ukraine were established in 1996 when the Constitution of Ukraine was approved. The fundamental law determined principles of equitable and impartial social wealth distribution between citizens and communities on which the budgetary system is built and assured publication of government budget income and expenses. In 1996 the Accounting Chamber was also formed and it became the public finances outside control standing body.

In the mid 1990's thorough investigations appeared which suggested the need to reconsider the control system model of the country that was inconsistent with current challenges (Bilukha 1994; Shevchuk 1998). In the early 21<sup>st</sup> century the number of research studies on the internal (corporate) control organization and methodology (Napadovska 2000; Kalyuha 2002) as well as on public finance control system at the macro level (Drozd 2004; Simonenko et al. 2006; Mnich

et al. 2008) increased. However, the chance to perform an audit in the area of public finances began to be examined only in recent years (Bardash 2010; Dykan 2011; Mnich et al. 2015). This was due to the fact that public audit was a newness for Ukraine as well as for other post-soviet countries. Social values system based on the idea of citizens-taxpayers' participation in public budget management, property management, intellectual, natural and other assets management is new and sometimes difficult to accept. But public audit is in line with independence and objectivity principles, it distributes important and impartial information among general public, providing public control over state administration. That's exactly why public audit cannot be dependent on executive government authorities which directly control community resources.

Instead of this, during the first independence years government control prevailed over parliamentary one. Laws and statutory instruments in this area were initiated or settled under governmental control, and most control functions were performed by governmental bodies, which compared with the Accounting Chamber have essential advantage in number of staff, spatial coverage and number of control actions taken (Khmelkov 2016). In addition to this, domestic research on public finance control relied on customary for Ukraine strong government control, exaggerating its role and capabilities in public finance control (Mnich et al. 2009; Sukhareva et al. 2013).

## **1.2 Development of the Accounting Chamber as a Supreme Audit Institution**

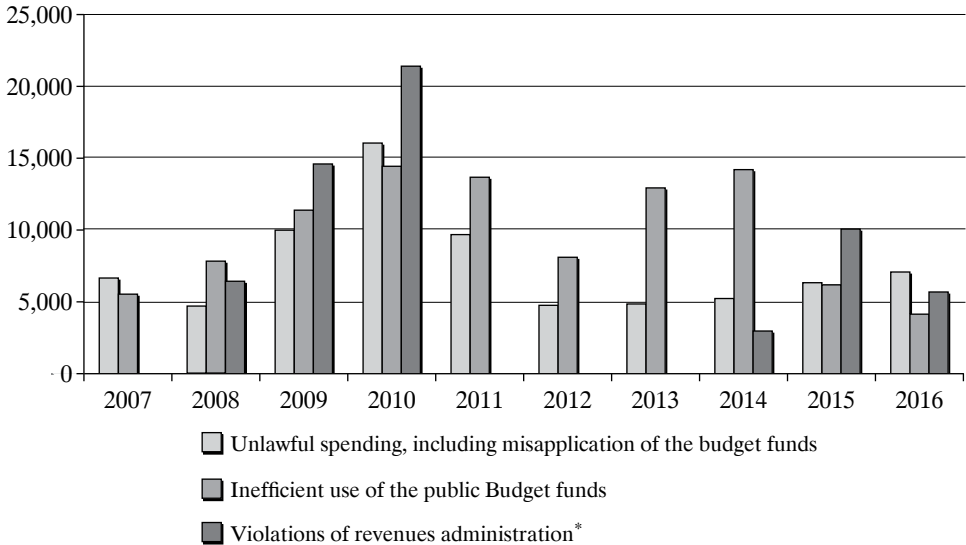
Public audit in the world has a very long history and its institutional development is associated with the creation of the International Organisation of Supreme Audit Institutions (INTOSAI) in 1953. The organization incorporated supreme control bodies to encourage the exchange of ideas, knowledge and experience under the slogan: *'experientia mutual omnibus prodest'*. By now INTOSAI includes 192 full and 5 associated members, has special consultative status with the Economic and Social Council of the United Nations. In 1998 Ukraine became full member of this organization.

Legal fundamentals of the Accounting Chamber of Ukraine (ACU) functioning were defined in the relevant law in 1996. Over the last two decades many amendments to this law have been introduced, with alternations both extending and constricting the Accounting Chamber authority. Public budget revenues control is the central question that was reconsidered several times. The analysis of the Accounting Chamber control performance (Figure 1) shows that public budget revenues management was exercised with many violations, so it calls for an effective independent control.

The key requirements of international institutions that finance reforms in Ukraine during last three years are also focused on extending the Accounting Chamber's authority. According to Ehlers (2014), IMF credit contract 'stand-by' (17.1 billion USD), EU budgetary aid (355 million EUR), EU loan (1 billion

**Figure 1**

**Violations uncovered by the Accounting Chamber of Ukraine in 2007–2016 (mln UAH)**



\* The analysis of violations in revenues management according to legislative requirements was conducted in 2008–2010 and 2014 onwards.

Source: Authors' own graph based on the ACU Database.

EUR), World Bank project (new projects with 1.5 billion USD), as well as EU and IMF prerequisites in the financial area aim at financial management enhancing, creating an efficient and clear financial responsibility system, securing transparency of the financial system.

Despite the very long legislative uncertainty as to authority completeness, the Accounting Chamber as a supreme control body continues to extend its supervisory measures; it chooses audit performance directions upon its own experience, considering current legislation alterations as well as socio-economic development priorities of state and society. The main audit directions are the following: financial and budgetary policy, legal coverage, social policy, science and human area, defense and law enforcement, industry, production infrastructure and public property, agrarian business, environmental activity and emergencies, national debt, international activity and financial institutions, and using public money in regions. The Accounting Chamber exerts control over state budgets during three years – at the draft budget forming stage and during current budget fulfillment. Such a control system, being integrated into budgetary process, allows for continuous three-year control over the budget formation and fulfillment that is realized in three consecutive steps: preliminary draft budget control, current year and next year budget fulfillment control.

Nowadays, international community recognizes the ACU's activities. As a member of INTOSAI and EUROSAI, ACU takes part in activities of INTOSAI

**Table 1**  
**Main pluses and minuses of the Law ‘On the Accounting Chamber’**

| Pluses   | Minuses  |
|--|--|
| 1. Strengthening of the organizational, functional and financial independence of the Accounting Chamber; banning the interference of governmental authorities, local government bodies, political parties and public associations, enterprises, institutions, and organizations in the Chamber’s activities. | 1. There is no clear definition of the Accounting Chamber’s status as a Supreme Audit Institution; the scope of its activity should be extended by incorporating local budgets, public finances and property as a whole, and other sovereign resources of social importance. |
| 2. Widening the scope of persons that can be attracted to secure the Accounting Chamber’s authority fulfillment.   | 2. Compliance audit is not included into control measures in the Chamber’s authorization list; this is not in line with ISSAI standards.   |
| 3. Initiating the Accounting Chamber’s member candidate competitive selection that will guarantee their appointment transparency.  | 3. Criteria for a competitive selection of the Accounting Chamber’s member candidates are not defined; clear selection criteria would increase transparency while selecting the candidates.  |
| 4. Well-defined responsiveness to the Chamber’s reports that will improve public audits and other control measures efficacy.   | 4. The audit matter is restricted to operations that have financial consequences for public budget; other operations of social importance are neglected.   |
| 5. External audit of the Accounting Chamber and external evaluating of its activity that will provide community confidence to its functioning.   | 5. External auditing of the Accounting Chamber can be done not more often than triennially; annual external audit would increase its functioning transparency and enhance community confidence to its operation.   |

Source: Authors’ own elaboration.

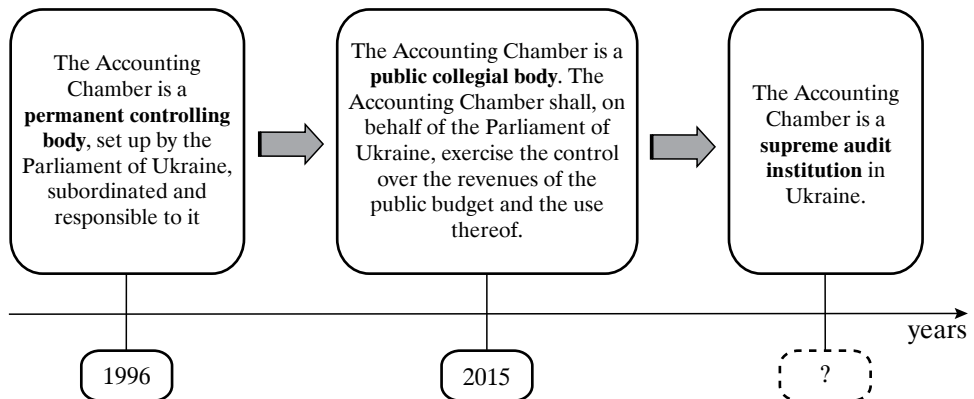
professional standards, capacity building and knowledge sharing committees, working groups on environmental auditing, public debt and key national indicators as well as in EUROSAI goal teams on professional standards, capacity building and knowledge sharing and working groups on environmental auditing and IT. In 2006, ACU initiated special subgroup on the audit of natural and man-caused disasters consequences and radioactive wastes elimination (WGEA) that was reorganized into a separate task force on the audit of funds allocated to disasters and catastrophes, headed by the ACU. ACU also cooperates with the World Bank on a regular basis.

Besides, the Accounting Chamber of Ukraine got an invaluable experience in financial audit acting as an external auditor of the Organization for Security and Cooperation in Europe (OSCE) in 2009–2013. According to Chief Controller of ACU Vasyl Nevidomyi (2015) who led an audit team during the whole working period in OSCE, all 57 member countries, Secretary-General and competent members of the OSCE Audit Committee highly appreciated the Ukrainian auditors' work.

In July 2015 the revised version of the Law ‘On the Accounting Chamber’ was adopted that aims to make the ACU a modern supreme control body. Along with the law reform the Chamber's functions, objects and its functioning were revised and brought more in line with modern requirements. For the first time ever, draft law was ventilated with the involvement of deputies, experts, international specialists and analysts, and community representatives. Table 1 presents the characteristics of main amendments to the law.

On the whole, the ACU's activity must become more transparent and open to the public and its control efficacy must be crucially improved. However, the transformation of the Accounting Chamber from a parliamentary control body to Supreme Audit Institution has not been accomplished (Figure 2).

**Figure 2**  
**Transformation of the Accounting Chamber of Ukraine**  
**as a supreme regulatory body**



Source: Authors' own elaboration.

### **1.3. Current issues of the Accounting Chamber's institutional capacity development**

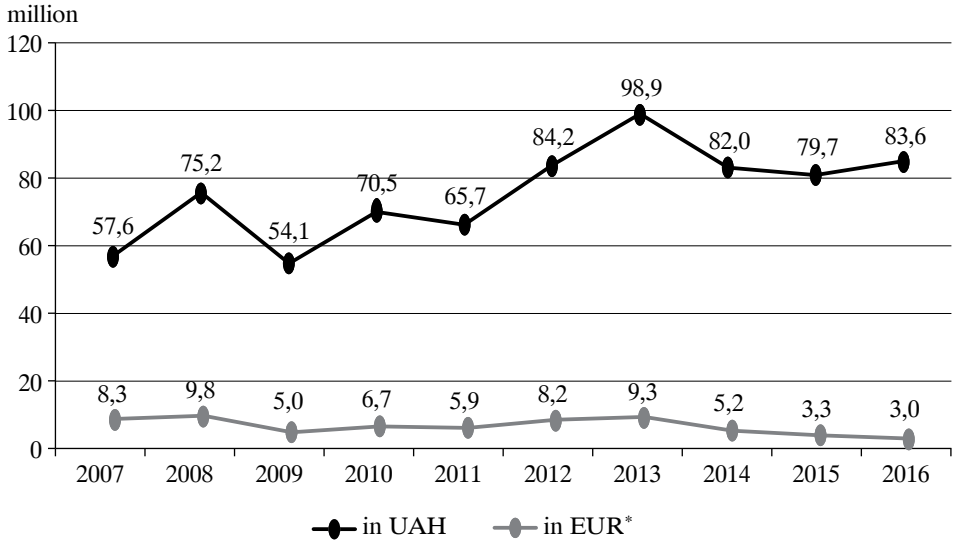
The INTOSAI Development Initiative (IDI) proposes to consider a supreme control body's potential in terms of its three main constituents – institutional, organizational and professional. Vasyl Nevidomyi (2016) makes a correct comment that any of these constituents' disadvantages will unavoidably undermine the overall institution effectiveness.

*Institutional potential* includes legal and regulatory framework, internal rules and policies, and standards of behavior that provide for the Accounting Chamber's operating activity. The ACU's fundamental law renewal, namely application of the standard by which the Chamber must use the main principles of INTOSAI, EUROSAI and International Standards of Supreme Audit Institutions (ISSAI), encourage the Chamber's institutional capability. Along with this, currently the ISSAI's standards implementation remains undetermined. The standards consider that ISSAI principles may be used as the basis for: (a) standards development, (b) taking over national standards, (c) taking over guiding principles on specific questions. Thus, the Accounting Chamber must determine the level of taking over ISSAI standards and develop regulatory and methodological support.

*Organizational capacity* of an institution refers to the internal structure and processes that have to provide end of purposes. The Accounting Chamber's activity must be directed at community confidence to public power, guaranteeing governmental accountability, transparency and regime legitimacy, prudent use of budget resources, encouraging economic development and reforms realization (Shpilhoff 2014; Goldsworthy et al. 2014; Nevidomyi 2016). Problems in this area are particularly related to lack of financial resources needed for unimpaired operation, which restricts the Accounting Chamber's independence. Over the past decade the Chamber's financing in national currency (hryvnia) increased by 1.7 times, but in terms of EUR value it decreased by 2.2 times took place (Figure 3). Taking into account the Accounting Chamber's extended powers, this amount of finance is insufficient. Financing scantiness influenced the fact that some of the Accounting Chamber's territorial administrations (Ivano-Frankivska oblast, Zakarpatska oblast, Chernivetska oblast) do not work up to now.

Besides, public audit quality rating mechanism needs to be polished that includes quality explanation, clear public demands (as public audit client) and quality control system. The constituents of public audit quality, namely system quality in general and every audit work quality will take an enormous importance. One of essential terms for the Accounting Chamber to achieve the defined goal is to create its positive image in society. In this regard maximum wall-to-wall coverage of its activity on the official site and in mass media must take place. Within this framework the disclosure of full report texts based on the control and expertise results on the Chamber's site is a positive trend. However, the number of official announcements amounts to no more than 8–10% of the total number of control and analytical measures (Figure 4). Not less important is a prompt

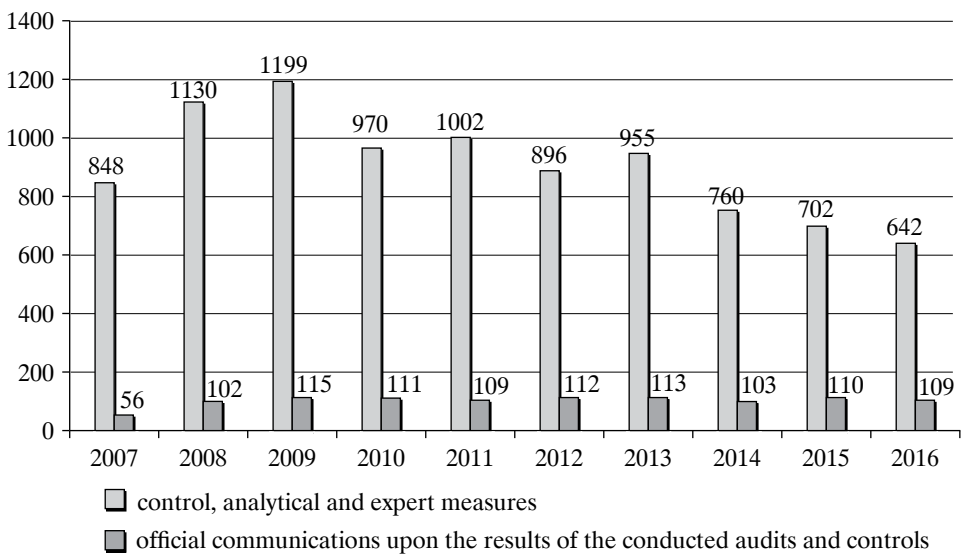
**Figure 3**  
**Funding of the Accounting Chamber of Ukraine**



\* Calculated by the authors on the official data of the National Bank of Ukraine, using the average exchange rate.

Source: Authors' own graph based on the Accounting Chamber of Ukraine Database.

**Figure 4**  
**Number of control and analytical measures of the Accounting Chamber of Ukraine and official communication based on their results**



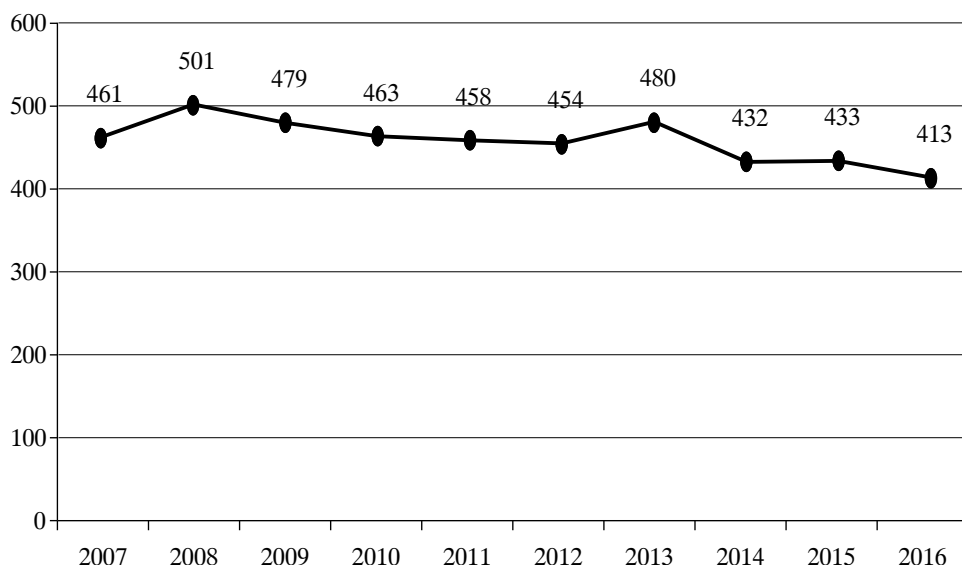
Source: Authors' own graph based on the Accounting Chamber of Ukraine Database.



response to violations found out by the Chamber as well as informing the general public about them.

The Accounting Chamber's *professional capacity* is related to its management and employees' ability to perform at their best, together with the experience and staff competence. In order to guarantee public audit quality, SAI must develop policies and procedures to provide a reasonable assurance that it has enough human resource (staff) to execute work of proper quality and ethical code. For example, a specialist group oriented to perform an audit must include members that have the needed specific knowledge and experience and are able to work efficiently. The SAI's personnel policy must take into account the need of competent staff recruitment, efficiency assessment, professional development, providing facilities (and time to perform an audit), competence (ethical and technical), career development, job promotion, etc. SAI must promote personnel development and training as well as professional skills actualization to realize special aspects of audited subject's activity. As Shpilhoff (2014) stresses, motivated and competent employees at all levels are the most valuable and important resource. From this perspective the Accounting Chamber's staff needs to be expanded (Figure 5).

**Figure 5**  
**Staff of the Accounting Chamber of Ukraine**



Source: Authors' own graph based on the Accounting Chamber of Ukraine Database.

Local and functional approach to control development which is evident as implementation of fragmentary improvements (control procedure, regulatory-instructive documents etc.) is out of line with control goals (Maksimova et al.

2013; Pikhotskiy 2016). Only using the systemic approach will make it possible to implement public audit according to world demands that will fulfill strategic goal – providing legal, effective, economical and transparent community resources management and giving the general public true and complete information about it.

## **2. Prospects of ACU’s contribution to good governance and sustainable development**

As stated before, at present SAIs have received public apprehension as institutions which are the source of unbiased information; it is the basis of government transparency, enhancing the efficiency, productivity, effectiveness and goodness of government institutions.

In 2011, the EUROSAI Governing Board established a special group for ethic problems, headed by SAI of Portugal. As a result of deep elaboration, the idea of good governance was formulated by means of the following equation set (García 2015):

$$\left\{ \begin{array}{l} \textit{Legal} = \textit{what is allowed or governed by law} \\ \textit{Ethical} = \textit{what should or should not be done even if permitted by law} \\ \textit{Good governance} = \textit{Legal} + \textit{Etical} \end{array} \right.$$

However, a dilemma arises when legal does not mean ethical. And vice versa, legal solution does not exist for all ethical issues. At the same time, good governance allows for decision making transparency and openness as well as their legitimacy. The decisions made must accord with real circumstances, be not of discriminatory character and take into account the interest of all the parties concerned. The decision implementing process is evaluated from the perspective of their legitimacy, performance, economic efficiency and effectiveness. Accountability and responsibility of individuals which make decisions are also of major importance. Only upon such conditions good governance is able to shorten corruption, fraud and tax evasion that significantly damage state treasuries of many countries.

A completely active SAI can become the key to public good governance oriented to ensure the achievement of Sustainable Development Goals. However, appropriate prerequisites must be set for SAI’s further development. Taking into account world trends in ensuring the Accounting Chamber’s good governance and institutional capacity, we formulate prerequisites of public audit institution development in Ukraine (Table 2). The fulfillment of the conditions specified here can lead to a harmonious development of public audit institutions according to up-to-date requirements and accelerate transformation of the Accounting Chamber into Supreme Audit Institution.

**Table 2**  
**Prerequisites of public audit institution development in Ukraine**

| Prerequisites         | Specification   |
|-----------------------|---|
| Socio-economic        | Move towards knowledge-based economy and sustainable development via relevant government control methods;<br>modernization of public finances management system;<br>publicity of government control in various spheres;<br>maturity of civil society institutions;<br>implementation of medium-term budget planning and forecasting mechanism, focused on strategic top-priority targets.                                       |
| Institutional         | Supporting independence of the institution of public audit and its indifference towards politics;<br>increasing the effectiveness of informal institutions (confidence, honesty, morality, traditions) with regard to transformation of government control and public finances control systems;<br>participation and competition of both formal and informal institutions in public audit;<br>ensuring institutional stability. |
| Organizational        | Developing a coordinated structure of both external and internal public audit bodies;<br>broadening of powers of Supreme Audit Institution;<br>developing strong interrelations between public audit institutions and other state control structures (National Bank of Ukraine, Antimonopoly Committee, State Fiscal Service of Ukraine, Security Service of Ukraine, etc.);<br>enhancing personnel training.                   |
| Information-technical | Introduction, according to the international standards (IPSAS), of national provisions (standards) of accounting and financial data reporting in public sector;<br>developing an unified register of budget owners and a unified integrated control measures database;<br>introducing an unified centralized database that will serve as the basis for public finance management.   |
| Scientific            | Stimulating research on public audit system and its development;<br>initiating methodological support of public audit in line with world standards;<br>ISSAI implementation, developing the code of ethics for public auditors;<br>applying scientific approaches to public audit;<br>development and implementation of public audit quality control system.  |

Source: Authors' own elaboration.

## Conclusions

In the early 20<sup>th</sup> century SAIs were recognized by the UN as institutions that are able to provide Sustainable Development Goals (SDG) achievement. The solution of most serious problems threatening the humankind survival and si-

multaneous securing of sustainable economic growth are inseparably associated with good governance. Confidence between state and society is the basis for good governance and success in SDG achievement. In order to maintain mutual confidence, an independent public audit institution must function that will allow for legal, effective, economical and transparent public resources management and provide true and complete information to the general public.

Thus, exchange of best practices promoted by the INTOSAI and its members, notably EUROSAI, is not only useful to SAIs institutional capacity enhancing, but it will also facilitate further promotion and acknowledgement of good governance principles.

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**THE CONTRIBUTION OF SUPREME AUDIT  
INSTITUTIONS TO GOOD GOVERNANCE  
AND SUSTAINABLE DEVELOPMENT:  
THE CASE OF UKRAINE**

**Abstract**

The effective, accountable, and transparent financial control of the government plays a crucial role in Sustainable Development Goals achievement. Supreme Audit Institutions (SAIs) are able to enhance the accountability of state administrative bodies towards society for utilized resources and the performance results. Building the capacity of the SAIs, sharing foreign experience and international cooperation in this field will favor good governance development and advancing its rules in different countries. The paper presents the institutional capacity of the Accounting Chamber of Ukraine and estimates its potential contribution to good governance and sustainable development.

**Keywords:** public audit, financial control, good governance, sustainable development, transparency

**JEL:** H83, M42

**WKŁAD NAJWYŻSZYCH ORGANÓW KONTROLI  
FINANSOWEJ W SKUTECZNE ZARZĄDZANIE  
I ZRÓWNOWAŻONY ROZWÓJ  
(NA PRZYKŁADZIE UKRAINY)**

**Streszczenie**

Skuteczna, odpowiedzialna i przejrzysta kontrola finansowa rządu odgrywa kluczową rolę w osiągnięciu celów zrównoważonego rozwoju. Najwyższe organy kontroli mogą zwiększyć odpowiedzialność administracji państwowej wobec społeczeństwa za wykorzystywane zasoby i wyniki działalności. Wzmocnienie zdolności najwyższych organów audytu, wymiana doświadczeń i współpraca międzynarodowa przyczynią się do rozwoju skutecznego zarządzania i promocji jego zasad w różnych krajach. W artykule rozpatrzono potencjał instytucjonalny Izby Obrachunkowej Ukrainy we współczesnych warunkach i przedstawiono ocenę jej potencjalnego udziału w efektywnym zarządzaniu i zrównoważonym rozwoju.

**Słowa kluczowe:** audyt publiczny, kontrola finansowa, skuteczne zarządzanie, zrównoważony rozwój, przejrzystość

**JEL:** H83, M42

## **ВКЛАД ВЫСШИХ ОРГАНОВ ФИНАНСОВОГО КОНТРОЛЯ В ЭФФЕКТИВНОЕ УПРАВЛЕНИЕ И СБАЛАНСИРОВАННОЕ РАЗВИТИЕ НА ПРИМЕРЕ УКРАИНЫ**

### **Резюме**

Эффективный, ответственный и прозрачный финансовый правительственный контроль играет ключевую роль в достижении целей сбалансированного развития. Высшие контрольные органы могут увеличить ответственность государственной администрации перед обществом за используемые ресурсы и результаты деятельности. Укрепление потенциала наивысших контрольных органов, обмен опытом и международное сотрудничество способствуют развитию эффективного управления и продвижению его правил в разных странах. В статье рассматривается институциональный потенциал Счетной Палаты Украины в современных условиях и дается оценка ее потенциальному участию в эффективном управлении и сбалансированном развитии.

**Ключевые слова:** публичный аудит, финансовый контроль, эффективное управление, сбалансированное развитие, прозрачность

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