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INDIVIDUAL ASPECTS OF INTERNAL AUDIT OF THE CHORNOMORSK TERRITORIAL COMMUNITY

ОКРЕМІ АСПЕКТИ ВНУТРІШНЬОГО АУДИТУ ЧОРНОМОРСЬКОЇ ТЕРИТОРІАЛЬНОЇ ГРОМАДИ

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Балан А.А., Григор'єва А.В., Сімова А.О. Окремі аспекти внутрішнього аудиту Чорноморської територіальної громади. Оглядова стаття.

Стаття присвячена внутрішньому аудиту територіальних громад. Розглянуто основні аспекти внутрішнього контролю на прикладі Чорноморської ТГ, що розташована на півдні України. Виявлено ряд недоліків системи внутрішнього контролю Чорноморської ТГ. Проаналізовані основні економічні показники Чорноморської ТГ. Розглянуто питання щодо основних досягнень Чорноморської ТГ. Було досліджено основні особливості змін щодо розвитку Чорноморської ТГ, з урахуванням воєнного стану, нововведень у законодавстві. Розроблено пропозиції щодо удосконалення системи внутрішнього контролю Чорноморської ТГ.

Ключові слова: аудит, внутрішній контроль, територіальна громада, моніторинг, аналіз, методики

Balan A.A., Hryhorieva A.V., Simova A.O. Individual Aspects of Internal Audit of the Chornomorsk Territorial Community. Review article.

The article examines the main aspects of internal control based on the example of the Chornomorsk territorial community (TG), located in the south of Ukraine. The authors identify a number of shortcomings in the internal control system of the Chornomorsk TG and analyze the main economic indicators of the Chornomorsk TG. The article also considers the main achievements of the Chornomorsk TG and explores the main features of changes in the development of the Chornomorsk TG, taking into account the martial law and innovations in the legislation. Finally, the authors develop proposals for improving the internal control system of the Chornomorsk TG.

Keywords: audit, internal control, territorial community, monitoring, analysis, methods

Internal Audit (IA) of the territorial community is a significant tool for improving the performance outcomes. Through the results of IA, the management system obtains relevant information about the state of affairs and expert opinions on necessary corrective and preventive measures. The Chornomorsk Territorial Community, located in the south of Ukraine, is one of the largest and most dynamic regions in the country. In recent years, it has actively developed in economic, social, and cultural terms. Consequently, there is a pressing need to explore directions for its prospective development in the conditions of a military state and stringent resource economy.

Analysis of recent research and publications

The features of organizing and conducting internal audits of public funds managers have been studied by many scholars, including Kukhta P.A., Shevchuk O.A., Melnyk N.O., and Klimov Ye.O [5, 6]. However, it is worth noting that the fundamental features of changes regarding the development of the Chornomorsk TC, taking into account the state of war and innovations in legislation, have not been sufficiently researched. This underscores the relevance of additional scientific research on this issue.

Unsolved aspects of the problem

The works of the mentioned scholars highlight relevant issues regarding the main achievements and development opportunities of the Chornomorsk TC. However, there has not been enough attention given to the analysis of prospects and development trends. Therefore, the chosen topic is relevant.

The aim of the article is relying on the analytical tools of internal audit, the goal is to identify and justify the directions for the development of the Chornomorsk TC.

The main part

One of the most important regions for Ukraine is the south. The south of Ukraine, particularly the Odessa region, holds extraordinary significance for the country. Located on the coast of the Black Sea, the region is a key center for maritime transportation, making it indispensable for the economy and trade. In the context of the development of the south of Ukraine, the Black Sea municipal territorial community plays a leading role. The community possesses significant economic potential and makes a substantial contribution to the prosperity of the region. The effective functioning of the Chornomorsk TC is impossible without a quality internal control system. It ensures transparency, accountability, and efficiency in the use of budget funds, as well as compliance with current legislation. It is important to note that the internal control system of the Chornomorsk TC must constantly improve and adapt to changing conditions. To achieve this, it is recommended to use modern control methods and techniques, such as data analysis and the use of information technologies, the implementation of a risk-oriented control system, and the involvement of external consultants. Equally important is the qualification improvement of internal

control service personnel. Enhancing the internal control system of the Chornomorsk TC is a guarantee of its effective operation and dynamic development. The implementation of the above measures will allow:

- increase transparency and accountability in the use of budget funds.
- ensure compliance with current legislation.
- effectively utilize community resources.
- increase trust in the authorities from the community residents.

This, in turn, will contribute to the economic growth of the Chornomorsk TC and the improvement of the well-being of its residents. Therefore, for a deeper understanding and analysis of the Chornomorsk TC, let's take a closer look at the internal control system. The internal control of the Chornomorsk TC is aimed at ensuring:

- legality, efficiency, and effectiveness of community activities.
- compliance with financial discipline and budget savings.
- reliability of financial and budget reporting.
- protection of the interests of the community and its citizens.

Internal control of the Chornomorsk TC is carried out by the structural unit of the executive committee – the internal audit department. Let's take a closer look at the main tasks of the internal audit department in Figure 1.

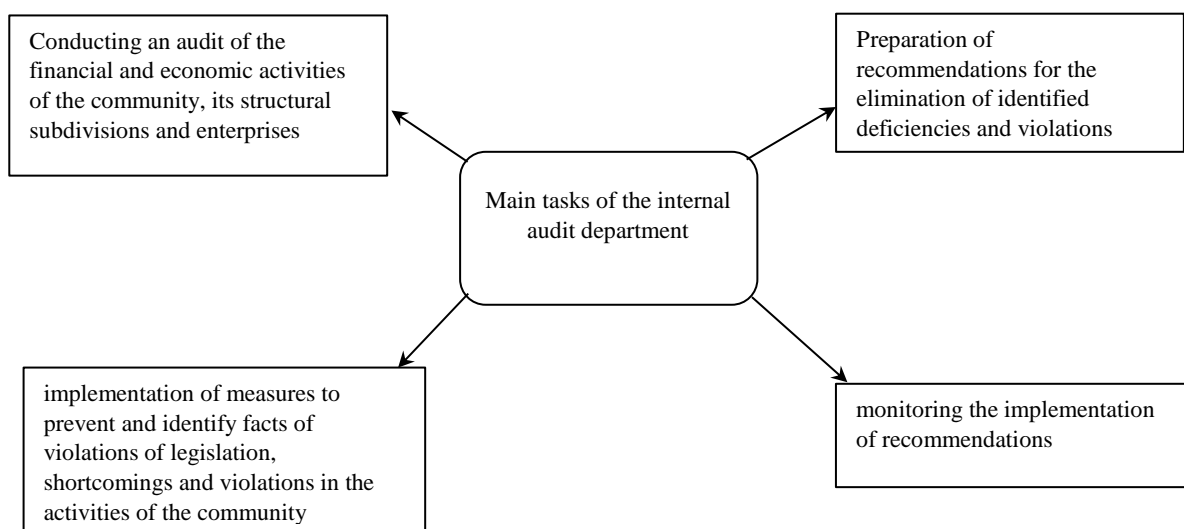


Figure 1. Main Tasks of the Internal Audit Department of the Chornomorsk TC

Source: compiled by authors on materials [1]

The internal audit department has the right to:

- unimpededly receive information, documents and other materials necessary for the audit from the heads of the structural subdivisions of the Chornomorsk TC, its enterprises and institutions;
- carry out on-site inspections;
- involve specialists from other state authorities, local self-government bodies, enterprises, institutions and organizations in the audit.

Audit results are drawn up in the form of audit reports. Audit reports are considered by the executive committee of the community and are the basis for making decisions regarding the elimination of identified deficiencies and violations.

There are some shortcomings in the internal control system of the Chornomorsk TC, among them are:

- insufficient independence of the internal control service, because – the internal control service must be independent from the executive body of the organization. This is necessary so that the internal

control service can unimpededly identify and assess shortcomings in the organization's activities. Dependence on the executive body can lead to its bias.

- insufficient funding of the internal control service. This service must be provided with the necessary resources for the effective performance of its functions. Insufficient funding can lead to ineffectiveness of the service.
- insufficient qualification of employees of the internal control service. The internal control service must consist of qualified employees who can ensure the effectiveness of control, thanks to the necessary knowledge and skills.

Due to these deficiencies in internal control, the Chornomorsk TC has a problem with non-fulfillment of the expenditure plan. The implementation of the budget according to income for the last three years is almost 100%. In 2021, the highest rate in 3 years was 105.6%. This may be due to the fact that the decentralization process took place in July 2020 and

the community began to manage its own funds. But, every year there is a budget shortfall in terms of expenses. In 2021, the default was 8.3%, and in 2022 – 26.1%. Perhaps this is due to the fact that during the reporting period the community did not have time to complete the work planned for this period. To solve this problem, it is necessary to develop measures to optimize budget expenditures:

- redistribution of funds between different programs and spending areas.
- implementation of budget saving measures.
- improving the efficiency of budget funds management.

Implementation of these measures will help the community to improve its financial situation and ensure the fulfillment of the expenditure budget in the future.

For a deeper understanding of the development trends and financial condition of the Black Sea TG, we will consider in more detail the main characteristics of the community in Table 1.

Table 1. General Characteristics of the Chornomorsk TC

Indicator	Characteristic
Area	26.5 km
People	71,3 thousand people, 68.3% (48.7 thousand people) of which are the population of working age
Composition of the community	Chornomorsk (administrative center), village Burlacha Balka, with. Malodolynske; the village of Oleksandrivka
Forming enterprises of the community	TOV "AQUAFROST". "Vodny Mir" trademark The Chornomorsk Seaport is an international sea and ferry port, passenger and cargo transportation Chornomorsk fishing port TOV "ISRZ". The largest ship repair enterprise in Ukraine PJSC "ADM ILLICHIVSK". Production of refined oil and fats, production of unrefined oil and fats. It is part of the "ADM" group of companies TOV "YUG-POLIGRAPH". Printing products

Source: compiled by authors on materials [1, 2]

Chornomorsk TC has an almost stable demographic situation. In 2016, the population of the community was 72.5 thousand people, and in 2023, it is 70.7 thousand people. The decrease is 2.5% [2]. Recently, there has been an increase in the number of employed individuals within the community, contributing to a significant rise in the population. Consequently, the share of the working-age population has increased. Many of them are not employed within the community, so the unemployment rate, taking this factor into account, may exceed the critical level of unemployment in Ukraine.

Expenditures on education for the last three years are the highest, constituting more than 40% of all community expenditures. Therefore, the community expects a gradual increase in the share of the working-age population. However, since the community lacks higher educational institutions, everyone studies outside the community, and many of them usually remain in other communities. This is due to the insufficient number of job opportunities for new specialists. Despite the presence of large and significant enterprises in the community, the proportion of the population engaged in them is almost 30%, which is only 20,000 people out of the available 48,000 working-age individuals [3, 4].

Overall, the economy of the Chornomorsk TC is diversified and has good potential for further development. From 2020 to 2023, there has been positive growth in all sectors and industries.

To assess the effectiveness of the community's activities, it is necessary to analyze the financial statements and identify key indicators for further analysis (Table 2) and calculate the main analysis indicators (Figure 2).

Population – the number of people permanently residing in the territory of the Chornomorsk TC. This indicator is used for evaluating the demographic situation, calculating budgetary indicators, and determining the needs for social and infrastructure facilities. It provides an overview of the community's size and the dynamics of its changes. Population growth may indicate the need for increased budgetary resources for education, healthcare, and other social services.

Revenues of the general fund without transfers reflect the aggregate funds entering the budget of the Chornomorsk TC from taxes, fees, other payments, and the community's own economic activities. This indicator allows the analysis of the community's own income not dependent on state subsidies. A high level of own revenues indicates the financial independence

of the community. This indicator can track the funding of current expenses of the TC, implementation of investment projects, and the creation of a reserve fund.

Expenditures of the general fund encompass the funds spent from the budget of the Chornomorsk TC on labor remuneration, acquisition of goods and services, provision of subsidies, and assistance. It is used for ensuring the livelihood of the TC, providing social services to the population, and infrastructure development.

Expenditures on the maintenance of the management apparatus include the funds spent from the budget of the Chornomorsk TC on labor remuneration, maintenance of premises, and other

needs of the management apparatus. It is used to assess the functioning of the TC's management bodies, budget control, and the provision of administrative services to the population.

Capital expenditures represent the funds spent from the budget of the Chornomorsk TC on the acquisition of fixed assets, capital repairs, and reconstruction of infrastructure objects. It is used for the development of the TC's infrastructure, updating fixed assets, and creating new job opportunities.

Basic subsidy – state aid for payment of utility services to low-income families. It is used to compensate for part of the expenses for payment of utility services and support low-income families.

Table 2. Key Economic Indicators

Analysis indicators	Analysis period, years		
	2021	2022	2023
1. Population, thousands of people	71,3	71,7	70,8
2. Revenues of the general fund (without transfers), thousand hryvnias	728535,7	713401,9	643779,4
3. Expenditures of the general fund, thousand hryvnias	744 145, 9	776 485, 4	557 186, 0
4. Expenses for maintenance of the management apparatus, general fund, thousand hryvnias	80844,3	85662,5	63719,0
5. Capital expenditures, thousand hryvnias	123 472,1	90808,5	77 644,8
6. Basic subsidy, thousand hryvnias	161 534,3	153 489,6	99 746,9

Source: compiled by authors on materials [1, 2]

Based on the data from Table 2, we can calculate the key analysis indicators for the Chornomorsk TC,

which are calculated and provided for each year below in Figure 2.

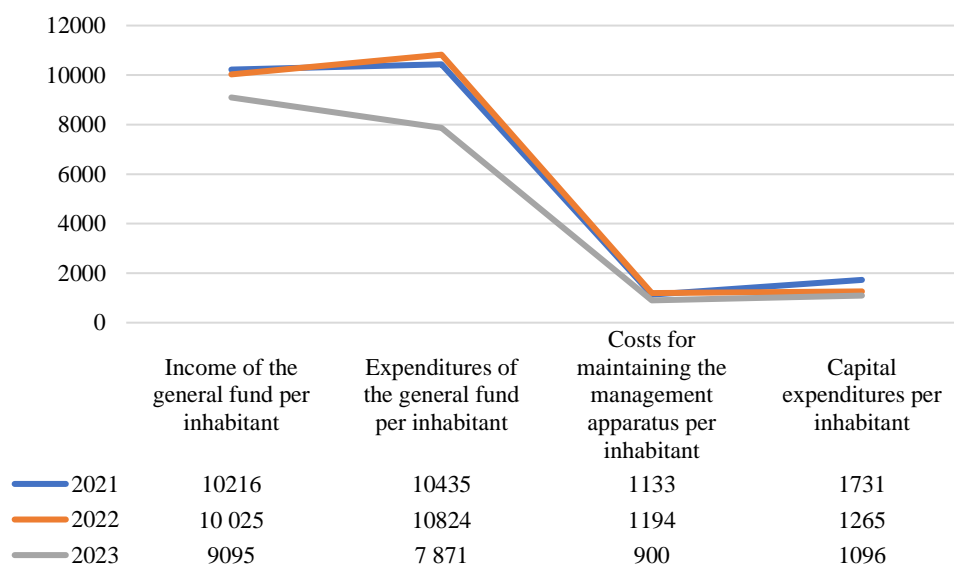


Figure 2. Comparison of Analysis Indicators Over the Years for the Chornomorsk TC

Source: the authors' own elaboration

Based on the data in the table, the following conclusions can be drawn regarding the financial condition of the Chornomorsk TC over three years:

1. Total revenues to the TC budget fund decreased from 10,216 hryvnias per resident in 2021 to 9,095 hryvnias in 2023. This is attributed to factors such as a reduction in local tax and fee revenues, including personal income tax, and an increase in expenditures for the maintenance of the TC management apparatus.

2. Expenditures from the general fund of the TC budget also decreased from 10,435 hryvnias per resident in 2021 to 7,871 hryvnias in 2023. This reduction is linked to factors such as decreased spending on the maintenance of the TC management apparatus and a decrease in capital expenditures.

3. The proportion of budget subsidies for the Chornomorsk TC decreased from 18.1% in 2021 to 13.42% in 2023, indicating increased self-sufficiency.

4. The ratio of expenditures on the maintenance of the management apparatus to the total fund revenues for the TC budget decreased from 11.09% in 2021 to 9.9% in 2023, signifying improved efficiency in fund utilization for maintaining the management apparatus.

5. The share of salaries in the total fund expenditures of the TC budget increased from 10.86% in 2021 to 11.43% in 2023, attributed to the rise in minimum wages and increased prices for goods and services.

6. The share of capital expenditures in the total expenditure amount increased from 13.47% in 2021 to 12.77% in 2023, indicating increased investment in the development of infrastructure.

Overall, the Chornomorsk TC achieved a reduction in budget deficit through the reduction of inefficient expenses, improved budget planning, and increased own revenues. The share of own revenues in the total income amount increased over three years, leading to greater self-sufficiency. Additionally, the share of capital expenditures in the total budget expenditures for the Chornomorsk TC increased over three years, indicating increased investment in infrastructure and the economy.

However, despite overall improvement, the territorial community faces certain problems, such as a decrease in fund revenues. To address these issues, it is recommended to:

- develop and implement a set of measures to increase fund revenues to the budget. these measures could include expanding the tax base, raising tax rates, actively addressing outstanding payments, and stimulating the development of small and medium-sized businesses.
- analyze the reasons for the increase in the share of salaries in the total fund expenditures of the TC budget. based on the analysis results, develop and implement a set of measures to optimize labor remuneration expenses, including potential measures like workforce optimization, revising the salary payment system, reducing expenses for business trips, and other non-productive costs.
- continue efforts to improve the overall financial condition of the Chornomorsk TC, including budgetary expenditure optimization, enhanced

budget planning, diversification of income sources, and identifying ways to save costs.

Conclusion

Chornomorsk TC is of great importance for Ukraine, as it is one of the most important international communication points. Also, the community, especially the administrative center of the city of Chornomorsk, is important from the point of view of tourism, because a good location near the sea makes it possible to create recreational areas, sanatoriums, places for rest and much more. Huge enterprises located on the territory of the community play an important role for the economy of Ukraine and inspire confidence among investors.

Thus, the system of internal control of the Chornomorsk TC was investigated. The main shortcomings that significantly affect her condition have been summarized. As a result of the analytical procedures of the internal audit, hypotheses of problems were formulated, which determine the direction of further improvement of the community's internal control. It is also important to ensure constant monitoring of the effectiveness of the internal control system and its compliance with current legislation. As a result of the analytical procedures of the internal audit, hypotheses of problems were formulated that determine the direction of further improvement of the internal control of the community: improvement of personnel qualifications: training and training for employees of the internal audit service, improvement of their qualifications and work experience. Improvement of the system of control over the execution of management decisions: development and implementation of the system of control over the execution of tasks, establishment of clear deadlines for their execution and responsibility for their non-compliance. Ensuring the independence and accountability of the internal audit service: creating an internal audit unit that will be accountable only to the head of the community, ensuring its independence and impartiality. Implementation of modern methods and techniques of internal control: use of information technologies, automation of internal control processes. The implementation of the mentioned measures will improve the system of internal control of the Chornomorsk TC and increase its effectiveness.

Abstract

The article is dedicated to the internal audit of territorial communities. The main aspects of internal control are considered on the example of the Chornomorsk Territorial Community (TMU), located in the south of Ukraine. The shortcomings of the internal control system of the Chornomorsk TMU were identified and proposals for its improvement were put forward. In recent years, it has actively developed in economic, social, and cultural terms. Consequently, there is a pressing need to explore directions for its prospective development in the conditions of a military state and stringent resource economy.

Overall, the financial condition of the Chornomorsk TC has improved over three years. The TC has become more self-sufficient, and the share of capital expenditures in the total expenditure volume has increased. However, there are certain issues that need to be addressed, including the decrease in general fund budget revenues and the increase in the share of wages in the general fund budget expenditures of the TC.

In this way, the internal control system of the Chornomorsk TC has been investigated. The main shortcomings that significantly affect its condition have been summarized. As a result of performing internal audit analytical

procedures, problem hypotheses have been formulated, shaping the direction for further improvement of the community's internal control.

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