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Governmental financial control and audit in ensuring the efficiency and effectiveness of public sector in Ukraine

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PREFACE

Despite the complexity of the subject and the difficulties in finding the suitable information for work on my thesis, I am very glad that I chose such an interesting and relevant topic. I would like to thank Taras Shevchenko National University of Kyiv and Nord University for such a great opportunity of joining this double-degree program and for all the knowledge that I received during this program.

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ABSTRACT

Performance auditing gained increasing prominence all around the world and led to the expansion of the auditors' role from "watchdog" to advisory. By accurate performance of their new roles, auditors can ensure the efficiency and effectiveness of public sector and, therefore, contribute to the fight against corruption. However, in contrast with developed countries, in Ukraine, the performance auditing and new roles of auditors are still far to be implemented in practice.

The purpose of this study is to contribute to the existing literature on public sector auditing with a thesis on the roles of public sector auditors in Ukraine. In particular, the thesis answers the question of what the role of public sector auditors is and how public sector auditors could prevent and reduce corruption. To explain empirical findings, the role theory proposed by Kahn et al. (1964) and Katz & Kahn (1978) is adopted. The role theory is used in order to understand the impact of the public sector auditing on corruption.

Results of this study are contrary to the expectations and assumptions of the public sector literature. An analysis of 15 in-depth semi-structured interviews conducted with experienced public sector auditors working in Ukrainian central government and related documents indicates that traditional role as a "watchdog" is still present in Ukraine, notwithstanding the number of reforms. Research also shows that public sector auditors in Ukraine are experiencing the role stress in the form of the role conflict. Different expectations are placed on the auditors due to the general lack of understanding of the role of the public sector auditors. Auditors are not able to enact the advisory role due to the number of factors, such as role stress, organisational environment, skills and competencies, number of staff and lack of independence.

Research identified that role behavior of public sector auditors affects how effectively institution can combat or reduce corruption. Auditors are able to prevent and reduce corruption not only by identifying the "red flags", but also by building integrity, spreading an anti-corruption culture and sustaining an environment without corruption. The case of Ukrainian central government shows that performance auditing tool is not yet used for the fight against corruption, as it should. Holding traditional role as "watchdogs", public sector auditors are not able to ensure the effective and efficient public sector.

With these findings, the thesis has a number of contributions. By showing the state of art of the role of public sector auditors in Ukraine, study complements the public sector auditing research with the unexplored case of a post-soviet country. This study also sheds lights on the

impact of the public sector auditing on corruption in general and performance auditing in particular. The analysis also contributes to the discussion on the role theory, by improving the understanding of the auditor's role set and the role stress which auditors may experience. Moreover, due to the absence of the real change in roles of the public sector auditors in Ukraine, this study may be useful for practitioners to change the perception about auditors in the public sector, change the performance auditing into the useful tool and ensure the good governance to prevent and reduce corruption.

Keywords: financial control, public sector auditing, performance auditing, role of auditors, role theory, role conflict, good governance, corruption, central government, Ukraine.

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LIST OF ACRONYMS

AChU - Audit Chamber of Ukraine

ACU - Accounting Chamber of Ukraine

ACU Strategy - Development Strategy of the Accounting Chamber for 2019–2024

CPI - Corruption Perceptions Index

EU – European Union

IA – Internal Auditors

IA Guidelines - Methodological guidelines for internal audit in the Ukrainian public sector

IAF - Internal audit function

IAF review – review of the internal audit in the Ukrainian central government, conducted by the Ministry of Finances in cooperation with the Ministry of Finance of the Netherlands

IIA - Institute of Internal Auditors

IPA Guidelines - Methodological Guidelines for Internal Performance Audit

ISSAI - International Standards of Supreme Audit Institutions

NPM - New Public Management

OFC – Office of the financial control

SAI - Supreme Audit Institution

SAS – State Audit Service of Ukraine

TI - Transparency International

I. INTRODUCTION

New Public Management (NPM) led to the number of changes in the public sector including public sector auditing. Dye & Stapenhurst (1998) are calling for the measurement of “achieved outcomes” of government programs as a part of performance audits (Barata and Cain, 2001). As a result, performance auditing gained an increasing prominence around the globe. Besides affecting and contributing to the effectiveness, efficiency and economy of the public sector, performance audit can also look beyond finances to assess the performance of government against its own objectives or in providing programs and services. The main aim of this type of auditing, as one of the mechanisms introduced by the NPM, is in the idea of possible improvement of the processes and institutions of public sector. Consequently, the change in auditing activities caused change of the auditors’ roles. Previously seen as inspectors or “watchdogs”, auditors now have a much wider and influential role. Previous studies show that auditors have knowledge and power to promote reforms and help other actors with improvements within the government bodies. With the ability of auditors to play a new role of helpers, assistants and advisors - they should no further be recognised and limited by the function of inspectors.

Since corruption results from a system’s failure, better institutions or institutional reforms are a strong counterstrategy for combating this phenomenon. Better institutions mean making systems and structures more effective and efficient, which may be achieved by the implementation of a performance audit, which creates a deterrent to corrupt acts (Khan, 2006; Otalor & Eiya, 2013). By the accurate performance of their new roles, auditors are able to provide good governance and, therefore, contribute to the fight against corruption.

Performance auditing was well studied in various contexts; however, the emerged roles of auditors are lacking research. Furthermore, there is no research on the impact that public sector auditors may have on preventing and reducing corruption. The study may be interesting both for the business and academic community. The role theory introduced by Kahn et al. (1964) and Katz & Kahn (1978) is used for the first time in order to understand the relationship between the public sector auditing and corruption. Therefore, the study contributes to the development of the role theory and complement the public sector auditing research with the unexplored case of a post-soviet country.

Prolonged negotiations on the potential cooperation between Ukraine and the EU stimulated the implementation of international standards, which caused the number of reforms in public

sector and in public sector auditing. The main aim of those reforms is seen in increasing the demand for performance information due to the possible improvement of organisations which it may bring (Tillema, Mimba, & van Helden, 2010). With the adoption of the best practices in the Ukrainian public sector, there is an expectation from the international actors that the role of auditors might change. However, as evidenced by Torres, Yetano, & Pina (2019), difficulties may occur with real implementation of performance audits, therefore, the change of auditors' role may also be questioned.

The aim of the study is to illustrate auditors' perceptions about their current roles in Ukrainian central government. Furthermore, this study focuses on the role of public sector auditors in preventing and reducing corruption in Ukraine. The results from the present case study is relevant, not only for Ukrainian public sector practitioners, but also for a wider audience.

Corruption is the most common occupational fraud schemes in Eastern Europe, moreover, transition economies are believed to be among the leaders in terms of corruption. According to Corruption Perceptions Index (CPI) released in 2019, Ukraine ranks 126th for the level of corruption perception in the public sector out of 180 countries. Anticorruption policies in Ukraine showed negative results in the previous year, with the loss of two points, scoring 30 out of 100 (The Corruption Perceptions Index, 2019; ACFE, 2018). As stated by Thomas de Waal (2016: p.1) *“the problem is not that a well-functioning state has been corrupted by certain illegal practices; rather, those corrupt practices have constituted the rules by which the state has been run”*.

Furthermore, corruption represents one of the most significant fraud risks for organisations in many industries and regions. Understanding the specific factors involved in corruption schemes can help organisations effectively prevent, detect and investigate them (ACFE, 2018: p. 13). Public sector audit, therefore, is perceived as one of the tools for effective corruption combating. According to IIA (2012), one of the main responsibilities of public sector auditors in the public sector organisations they work for is addressing allegations of corruption through detection and deterrence.

So far, it is unclear what effects the introduction of the performance auditing has had on political and democratic processes in Ukrainian public sector. This paper aims to improve our understanding of this area based on case research of Ukrainian central government. The research present current state of the art of the performance auditing in Ukraine and provide

discussion about the roles of auditors. Numerous role senders and expectations arose role conflicts and inappropriate role behavior in Ukrainian central government. Our results, thus, portray that specific factors such as organisational environment, skills and competencies, number of staff and independence are crucial for the performance by auditor of an appropriate role. Possible ways of prevention and reduction of corruption, as well as potential obstacles auditors can face in the given context are discussed.

In this regard, the research intends to understand the role of public sector auditors in Ukrainian central government and sheds lights on the impact of the public sector auditing on corruption. The specific research questions of this study are:

1. What is the role of public sector auditors in Ukrainian central government?
2. How public sector auditors could prevent and reduce corruption in Ukraine?

The empirical findings were collected with the use of documentary analysis and semi-structured interviews with public sector auditors in Ukraine. Further, they were analysed using the role theory. As an example of unexplored post-soviet country with low perception for corruption Ukrainian case was chosen (The Corruption Perceptions Index, 2019). Ukraine has unstable and developing institutional context, with number of reforms regarding the international standards implementation. Therefore, the study on the roles of public sector auditors and their possible impact on corruption contribute to the better understanding of the effect of reforms in Ukrainian central government and provide both academics and practitioners with the information about the systems failures and possible improvements in the public sector. In total, fifteen interviews with public sector auditors in Ukraine were undertaken.

Master thesis consists of 7 (seven) chapters. Introduction explains the research topic, the motivation of the study, the research method and sources, it also presents some preliminary results of the study. Theoretical chapter present studies on performance auditing as well as the evolution in roles of public sector auditors and corruption. The role theory proposed by Kahn et al. (1964) and Katz & Kahn (1978) is disclosed and described further. Methodological chapter provides methods and sources, used in the research process. To get a general understanding of the research context, a short overview of public sector auditing in Ukraine is made in the next chapter. Research findings are presented in empirical chapter and further discussed, with the use of the role theory. The last chapter of the master thesis provides conclusions, limitations and suggestions for further research.

II. THEORY

To become more conscious of the theoretical ambition, the literature review was conducted. The literature on performance auditing as well as the evolution in roles of public sector auditors are presented first, followed by the studies relating auditing to corruption. As a theoretical framework for this research project, the role theory proposed by Kahn et al. (1964) and Katz & Kahn (1978) was chosen. Chapter presents the nature of the role theory and its essential elements, moreover, its application in the context of public sector auditing is discussed. Furthermore, the analytical model of the research is constructed on the basis of the theory to provide reader with the understanding of how the chosen theory works in solving the research problem of the study.

2.1. Previous literature on the role of auditors: from financial and compliance auditing to performance auditing

Current International Standards of Supreme Audit Institutions (ISSAI) emphasize three main forms of public audit: financial, performance and compliance auditing (ISSAI 100). The expansion of performance audits gave performance auditing a more direct and active role in administrative reform (Pierre et al, 2018). As stated by Power (2005) the auditor of the 1960s and 1970s was largely unthinkable of as possible changing agents of public sector reform, this role became now more common. The scope of auditing also changed. While financial auditing remained important, performance auditing gained increasing prominence (Barzelay, 1997; Pollitt & Summa, 1996).

Due to the NPM reform, a greater attention was drawn to the accountability for results (Hood, 1995). Moreover, the increase in scope and cost of public services in the twentieth century, turned more attention of the public who demanded guarantees regarding waste, inefficiency and financial abuse in the public services. Consequently, public sector auditors started to conduct so called performance audits, which is also recognised as “comprehensive”, “effectiveness”, “performance”, “systems” and “value-for-money auditing”. The main purpose of such audit lies in finding out waste and extravagance and assessing the conduct of transactions according to the “vital if elusive” criteria of “efficiency” (Normanton, 1966; Gendron et al., 2001). Moreover, the research by Morin (2001) shows that performance audits result in long-term improvements for the auditee.

Performance auditing, as one of New Public Management (NPM) reforms' elements, (Guthrie & Parker, 1999) has recently received significant research attention. Literature includes many valuable studies of the performance auditing around the globe (Tillema & Bogt, 2010; Pollitt, 2003; Barzelay, 1997; Pollitt & Summa, 1996, etc.). Nevertheless, previously, researchers were not considered to be as a vital part of the developments in government accounting, therefore, the public sector auditing in general and performance auditing in particular are not explored as they should (Hay & Cordery, 2017; Banker, Cooper & Potter, 1992, p. 508).

Initially, the audit and interaction between auditor and auditee were not aimed in allowing auditors to promote reform, best practice or institutional learning. Performance auditing was focusing on the efficiency of individual entities within government. Therefore, it had a narrow scope, primary creating a linkage between auditor and auditee (Pierre et al, 2018). Currently, researchers claim that public sector auditors have much wider role and are able to make a significant contribution to a good governance development (Bunn et Al., 2018; Morin & Hazgui, 2016; Heald, 2018; Reichborn-Kjennerud & Johnsen, 2018). Consequently, auditors should not continue to be perceived as “watchdogs”, as stated by Gendron et al. (2001), “*the state auditor is inescapably an agent of change*” (Gendron et al., 2001, p.27).

A phenomenon of “audit explosion” presented by Power (1994) who evidenced that in period from 1980 till 1990, there was a surge in audits in all corners of the public sphere, challenging conventional mechanisms of administrative control and accountability. Auditing in this perspective was not to ensure prudent spending, but more to find new way of setting government's administrative priorities and strategies, and ultimately a new type of objectives of government. According to Power (1994), auditing “*must be understood as an idea [...] that is internal to the ways in which practitioners and policy-makers make sense of what they are doing*” (Power, 1994, pp. 4-5; italics in original).

There are a number of studies that represent a clear evidence of the mentioned shift in roles of the public sector auditors. For example, Gendron et al. (2001) comparing recommendations made by the Office of the Auditor General of Alberta's over time, found that the nature of recommendations has significantly changed towards the performance-accountability framework. Authors also underlined how complex the work of state auditors is, aiming to improve public management. Executive by receiving report as well as recommendations from public sector auditors is motivated to adopt changes, either directly or through legislative

pressure. The research with similar context, conducted in 6 years after the previous one, have provided more information about the role of the public sector auditors. Gendron et al. (2007) have showed that state auditors with their strong link to finance and corporate business, accountants and auditors are prime movers in the blurring of boundaries between public and private sector organisational practices. Therefore, they can also play a crucial role in the accomplishment of one of the most pervasive effects of NPM, namely, the alteration of public servants' ways of thinking, talking and acting (Gendron et al., 2007; Oakes et al., 1998; Kurunmäki, 1999). The role as auditors and as advisory were distinguished in the study. The first one provides credibility to performance information disclosed by government and departments. The second is used for the improvements in the public sector and the adoption of the NPM (Gendron et al., 2007).

The main purpose of the performance auditing is not just to audit but also to assist the audited entity to reform. Auditors now tend to use incentives and advice to shape the behavior of the audited entity as impact have become a more important objective. As stated by Pierre et al. (2018), *“it is a shift from emphasizing means to emphasizing ends”* (Pierre et al., 2018: p.4). As argued by Leeuw (2009), it is not a question of what programs work, but how management can make a program work better, therefore, reinforcing management decisions rather than an assessment of policy. As stated by Van Twist et al. (2013) auditors are being able to perform the role of “fact-checkers” or “guardians” of the norms in organisations. Therefore, auditors are in a sense a “tool of management” (Schillemans et al., 2018).

The research conducted by Morin & Hazgui (2016) shows that public sector auditors strongly believe in their role in improving organisational systems and programs. Therefore, auditors want to be perceived by auditees as competent and reliable partners, fully independent from political power, who have come to help them improve their operations. Professionalism and opportunities that raise due to performance auditing, make auditors consider the assistant role as more valuable than the role of guardian. However, simultaneously, the research by Morin & Hazgui (2016) raises one more issue to consider, presenting an “obstructive” aspect due to the dual identity within the auditee. Desiring to distance themselves from the role of “watchdog”, auditors still identify themselves as judges or policemen, both of which wield the power to punish. Therefore, authors conclude that *“auditors’ advocacy of the assistant role is the result of their own self-efficacy expectations”* (Morin & Hazgui, 2016: p.17).

As argued by Schillemans et al. (2018) audit profession should be transformed into the improvers of the government. Major financial crises, have shown that the bookkeeping is not enough, *“auditing should not only be about accuracy and legitimacy of financial data, but should also be about the effectiveness and efficiency of the “machinery of government” and its capability to deal with change and improvement”* (Schillemans et al., 2018: p. 531). According to a recent paper on the worldwide development of the internal audit profession (ACCA, 2014), significant changes in and around the public sector requires internal audit to move forward - just checking the books is no longer enough. Major financial crises have demonstrated that potential of auditing should not be limited only by estimating accuracy and legitimacy of financial data - the boundaries of public audit should be widen to the point, where audit would be able to proactively contribute to the improvement of government (Schillemans et al., 2018).

The usefulness of internal auditing has yet to be demonstrated (Archambeault et al., 2008). While analysing public sector organisations in Quebec, Roussy (2013) presented the new typology of the roles of internal auditors: a protector role and a helper role. Support of organisational performance was found to be the main role performed by internal auditors in promoting resource optimization on a regular basis. Internal auditors contribute to improving organisational performance by providing support to managers when they feel the need for support in coping with the processes for which they are responsible. Thus, internal auditors support organisational performance in three ways: by performing performance audits, strategic consulting and by taking part in organisational management committees. Therefore, Roussy (2013) argues that it is important not to view the internal audit function (IAF) as a governance “watchdog” since the roles performed by internal auditors within the IAF are not based on a commitment to this principle.

In this sub-section, presented the literature on performance auditing as well as the evolution in roles of public sector auditors, led by the growing interest in performance measurement and management as a part of the NPM reform drive (Romzek, 2000). It can be seen that “audit explosion” took place in order to strengthen accountability, increase control over public borrowing, and improve the quality of public services (Brusca et al., 2018). Performance auditing have transformed auditors from “watchdog” or “bookkeeping” into the assistants and consultants of the audited institution in reforms.

It is suggested that performance auditing and emerged roles of auditors require further investigation. Few papers in the existing literature focus on the analysis of the effectiveness of

performance audits in public entities, and the majority of them are carried out in European countries. Examining the reasons why this service might be in more demand in some settings than in others and applying the explanations for the performance auditing is considered being useful (Hay & Cordery, 2017). Many authors believe that performance auditing has the potential to contribute to the quality of political and democratic processes. However, further research is needed to find out how this can be achieved.

2.2. Better auditing and financial control as a tool to prevent and combat corruption

There is a common belief that auditors can play an effective role in preventing and combatting corruption (Khan, 2006; Otalor & Eiya, 2013). Although it must be stated that this expectation arises from the assumption that the information provided to auditors is reasonably accurate, complete and unbiased. Accounting and its actors are one of the main actors in fight against corruption, auditing, therefore, is one of the eight pillars of integrity to curb corruption (ICAEW, 2002; Dye & Stapenhurst, 1998).

A review of the literature by Assakaf et al. (2018) shows that there are various studies relating auditing to corruption. However, the performance auditing and new roles of auditors are rarely addressed in the studies aimed on corruption combatting. The main focus of public sector auditing literature are such factors as independence, standards, professionalism and auditing input of government auditing agencies, and the effect of these factors on reputations and efficiency of government departments.

Khan (2006) viewed auditing as a tool for reducing and preventing corruption and claimed that auditors and this profession in general may play a significant role in reducing corrupt frauds. Similarly, Otalor & Eiva (2013) suggested that public sector audit is one of the effective mechanisms for combatting corruption and can prevent, if not eliminate, corrupt acts.

Dipietro (2011) cross country regression analysis on a sample of one hundred thirty countries showed that there is a great impact of the higher quality auditing in the public sector on demotion of national corruption. Better education of auditors, greater transparency in records, the adoption of improved auditing rules by countries and the stigmatization and imposition of costs on firms and individuals for not living up to high ethical standards both for auditors and auditees – these are just a few of the possible methods that can be employed in the fight against corruption from the perspective of improvement of the quality of auditing.

Gustavson & Sundström (2016) proposed the concept of “good auditing” which argue that good auditing comprises 3 key elements: principle of independence, professionalism and recognising the people as the principal. As presented in their study, good public sector auditing has a significant impact on domestic levels of corruption, as it is a cornerstone and an essential element in fighting corruption in the public sector.

Some authors emphasize patterns between better (extended) work of the SAI and corruption, they concluded that SAIs ensure the decrease in level of corruption and increase in efficiency and effectiveness of government institutions (Gherai, Tara & Matica, 2016). As stated by Dye & Stapenhurst (1998), SAIs are now moving “from the role of the observer to the role of the improver”.

According to Liu & Lin (2012), audit in the public sector plays a vital role in detecting corruption activities. The study presented the number of abnormalities discovered in government records via auditing and suggested that there is a direct and positive correlation with the corruption level. Furthermore, it is proposed by Bringselius (2018) to expand the scope of public audit by adding to the classical three Es' (efficiency, economy and effectiveness) the fourth dimension – the ethical audit. Recent studies confirm the existing link between transparency, the quality of budgetary management and public audit systems that positively affect the perception of corruption (Brusca, Rossi & Aversano, 2017).

As corruption is normally conceal any trace in the official records, auditors not always have an opportunity to reveal it, however, they are able to point out where corruption is possible to appear (Khan, 2006). Auditors can help to identify so called “red flags” - indicators or symptoms of fraud and investigate them further. Albrecht et al. (2012) defines various forms of fraud indicators or “red flags”, among which are accounting anomalies, internal control weaknesses, analytical anomalies, extravagant lifestyle, unusual behavior, and tips and complaints.

However, numerous obstacles exist in prevention of corruption, among them are administrative chaos, lack of independence, transparency and competencies, weak sanctions against corruption and absence political will to listen to auditors' recommendations and reform the public sector (Klitgaard, 2006). IAF is now aimed in monitoring internal control systems, therefore, the existence of IAF is an important element in the prevention of corruption. The focus of internal auditing on corruption is also important because many of the corruption schemes may involve management (Reding et al., 2013; Spira & Page, 2003; Jeppesen, 2019).

As stated by Rothstein (2011) revolutionary change in institutions is needed to combat corruption. It is argued that if a project was planned in a professional way, it should achieve its results if no other factors emerge. Therefore, if resources are significantly exceeded with no results achieved, then there is a possibility that the people involved in its management may have indulged in corruption. Such indicators of diseconomy and inefficiency in institution operation, as well as failure to achieve results and impact can be revealed by a properly organised performance audit (Otalor & Eiya, 2013).

Agbo & Aruomoaghe (2014) argues that now it is time for proper decision making, proper utilization of resources, transparency and accountability of the taxpayers' money. Performance auditing closes gaps for corruption to appear and deprive its ability to rapidly occur. Therefore, public sector auditors may detect corruption using benchmarking techniques, inspection of assets, public service satisfaction surveys, as well as through establishing whistleblower lines (Jeppesen, 2019). Consequently, due to the environment that performance auditing creates, it is a useful remedy, however, it is only one of the numerous tools. As stated by della Porta & Vannucci (1999) people are following the role model of the majority in organisation, therefore, becoming a part of the "corrupt game". The change in agents' beliefs about what "all" the other agents are likely to do when it comes to corrupt practices is crucial to create an environment without corruption (Rothstein, 2011).

Yet research lack an overall theoretical understanding of how auditing should be organised in order to generate lower degrees of public sector corruption (Gustavson & Sundström, 2016). As concluded by Assakaf et al. (2018), there is a gap in the empirical studies on corruption in developing countries that must deal with real problems of corruption, moreover most of these studies have no empirical material.

Further investigation should be done in order to figure out the relationship between performance auditing and corruption; the research will also give an understanding of how public sector auditors, performing their new consultative roles brought by NPM, could prevent and reduce corruption in public sector.

Table 2.1. presents the summary of literature on the role of public sector auditors used in this thesis. Authors are gathered in 3 categories, those who studied the transition from financial/compliance auditing to performance auditing, those who studied the change of roles from "watchdog" to advisory and those who studied the role of auditors in detecting, reducing and preventing corruption.

Table 2.1. The summary of literature on the role of public sector auditors

Topic	Authors
Transition from financial/compliance auditing to performance auditing	Power, 1994; Hood, 1995; Normanton, 1966; Pollitt & Summa, 1996; Barzelay, 1997; Guthrie & Parker, 1999; Romzek, 2000; Gendron et al., 2001; Morin, 2001; Pollitt, 2003; Power, 2005; Gendron et al., 2007; Tillema & Bogt, 2010; Pierre et al, 2018
Change of roles under NPM reforms (from “watchdog” or “bookkeeping” to assistants and consultants)	Oakes et al., 1998; Kurunma`ki, 1999; Gendron et al., 2001; Power, 2005; Gendron et al., 2007; Leeuw, 2009; Roussy, 2013; Morin & Hazgui, 2016; Pierre et al., 2018; Bunn et Al., 2018; Heald, 2018; Reichborn-Kjennerud & Johnsen, 2018; Schillemans et al., 2018
Role in detecting, reducing and preventing corruption	Dye & Stapenhurst, 1998; ICAEW, 2002; Spira & Page, 2003; Khan, 2006; Dipietro, 2011; Rothstein, 2011; Liu & Lin, 2012; Otalor & Eiya, 2013; Reding et al., 2013; Agbo & Aruomoaghe, 2014; Gustavson & Sundström, 2016; Gherai, Tara & Matica, 2016; Brusca, Rossi & Aversano, 2017; Assakaf et al., 2018; Bringselius, 2018; Jeppesen, 2019

Source: constructed by the author.

2.3. Role theory

Role theory has an implication in a number of different social sciences. When discussing management accounting research, the theory is in a great importance, however, in contrast with other theories like institutional and actor-network theory (ANT), role theory has hardly been used in accounting studies for the past decades. The following streams of the theory can be distinguished: functional role theory, symbolic interactionist role theory, structural role theory, organisational role theory and cognitive role theory (Biddle, 1986).

For the purpose of this study, the theory which was introduced by Kahn et al. (1964) and Katz & Kahn (1978) is in focus to explain empirical findings (i.e. organisational role theory) (Figure 2.1). Organisational role theory is focused on social systems that are preplanned, task-oriented and hierarchical. In the previous accounting research, role theory was mainly focused on the changes in actors' position, therefore, presenting the generated problems and new expectations and pressures. Consequently, role theory was used to provide us with information about the choice of strategies to cope with the emerged situation in which actors may appear or already exist (Biddle, 1986).

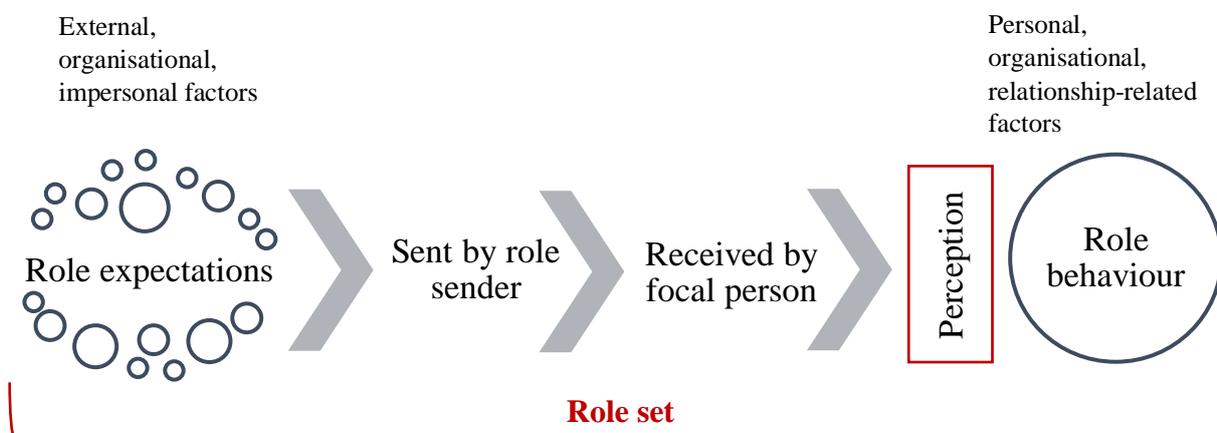


Figure 2.1. Role theory illustration

Source: constructed by the author (based on Kahn et al., 1964; Katz & Kahn, 1978).

Role theory is used in order to examine the way of how roles of the focal person are enacted in organisations. Forces and pressures affecting the role set are also in focus of the theory. As stated by Rodham (2010), it is necessary to look not only at “what they do”, but rather “why and how do they do what they do”. In other words, it is not enough to be aware of the role behavior only, but also about expectations and the way they were transferred to the focal person. The theory presents the interplay between the focal person (auditors in this study) and role

senders. Role theory says: the focal person behaves according to the role set received from the role sender. The focal persons behavior also depends on the perception (interpretation) of the role set and other factors which influence the way that the role is enacted.

Key starting point of the role set are expectations. Those are evaluative, they set limits and requirements for the focal person (Burkert et al., 2011). The study of occupational health professionals underwent by Rodham (2000) showed the sensitive position at which focal person can appear if expectations are not balanced in reality. This can be described as experience of the “Status Triangle Dilemma”, introduced by Gadd (1995). By applying it on study of public sector audit, it can be seen that auditors can be pushed in different directions (Figure 2.2).



Figure 2.2. Status triangle dilemma

Source: constructed by the author (based on Gadd, 1995).

Some external factors, such as organisational characteristics and surrounding conditions, have an influence on the role senders expectations. Impersonal factors should also be considered as relations between the role sender and focal person can change the role senders attitude dramatically (Lynch, 2007; Wickham & Parker, 2007). There are also some factors that affect the behavior of the focal role person, those are: personal, organisational and relationship-related.

The focal role person enacts some role with the aim of managing a specific situation, both the situation and the person’s behavior being governed by context-specific rules. The term “role” is a central concern of the role theory, it is defined as a group of tasks that the focal role

occupant accepts to carry out (Michael, 2001; Liu et al., 2014). Influenced by different factors (e.g. individual attitude, skills and competences and other interpersonal factors), enacting of the role may sometimes result in role incompatibility between the role sender and the focal role person (Ebimobowei & Kereotu, 2011). Such cause the focal person to experience the role stress, which can be in the form of role conflict or role ambiguity. Both conflict and ambiguity occur when role sender puts inadequate needs and abilities on the focal person (Fischer, 2010).

There are four different types of role conflict (Kahn et al., 1964): (1) intra-sender conflict (implies incompatible prescriptions and proscriptions from single role sender); (2) inter-sender conflict (implies pressures from different role senders); (3) inter-role conflict (appears when pressures from different groups of role senders are in conflict); (4) person-role conflict (occurs when pressures violate the moral values of the focal person).

Role ambiguity refers to the discrepancy between the amount of information a person has and the amount he or she requires to perform the role adequately, in other words, role ambiguity occurs when there is lack of information. It is also argued that even if focal person knows what to do, they do not always know how to do it (Kahn et al., 1964).

There are two responses to the role stress according to Kahn et al. (1964): behavioral coping efforts and effective symptom formation. The focal person can pick one response or use them in complex. Behavioral coping efforts include attempts of the focal person to correspond expectations or if it is not possible – to modify demands. Effective symptom formation leads to highly emotional response, which sometimes can be ended in complete individual's frustration and dysfunction of the focal person (Merton, 1949).

The development of the performance audit expanded the role of auditors. Historically limited to financial control, auditors were entitled to carry out the advisory, support, guidance roles, etc. Taking multiple roles, those may not be perfectly reconcilable with one another (Pollitt, 2003). It is argued by Cullinan & Sutton (2002) and Sikka (2009) that new advisory role of auditors may conflict with their role as reviewers of the organisation.

Internal auditors operate in a complex and ever-changing environment, therefore, the role theory developed by Katz & Kahn (1978) is relevant to analyse the roles performed by the internal auditors. Ahmad & Taylor (2009, p. 917) emphasized the need for a better understanding of the behavior of internal auditors in situations involving role conflict and the impact of these behaviors.

Roussy (2013) assumed that the legal and regulatory environment will also shape the roles of auditors. From a theoretical point of view, the legal and regulatory environment is assimilated with norms, which, as noted by Katz & Kahn (1978), reflect the general expectations of a role set in a given system.

2.4. Analytical model

Kaplan (1964) stated that theory is necessary to give sense of the unmeaning and inscrutable empirical findings. Hempel (1966) argues that if there were no theory, the analysis and classification would be “blind”. Spicer (1992) and Zimmerman (2001) view theory as a helpful tool to systematize the findings, as well as structure and discipline the research process (Fischer, 2010).

The use of role theory comes with two main advantages. First is that it is limited to the application of the performance auditing and auditors’ behavior responses; role theory has an explanatory power that will help to answer the second research question. Second advantage, as stated by Fischer (2010), is that role systems and accounting systems in organisations have striking similarities. Because of those similarities, role theory will help to understand the consequences of the performance auditing implication and its connection with corruption.

According to Fondas & Stewart (1994), theoretical framework provided by the role theory is a relevant basis for empirical studies on the work and behavior of individuals aimed at defining their roles in a specific context. Role theory examines the interrelations and interactions between individuals and a range of personal characteristics.

According to Denis et al. (2000), role theory can be used to draw a number of conclusions about the range of roles performed by several focal persons by helping to identify the personal and organisational factors shaping the model of organisational role-taking developed by Katz & Kahn (1978).

Role theory may be useful for highlighting potential conflicts and ambiguities between the various roles and for identifying potential areas of freedom created by the organisational context (Hales, 1986). These areas of freedom are deemed to facilitate the management of role conflict.

As a result, this study complements prior public sector accounting research with the discussion on the performance auditing. For the first time, role theory is adopted in investigation

of new roles of auditors as a result of the performance auditing application in order to understand how it could prevent and reduce corruption.

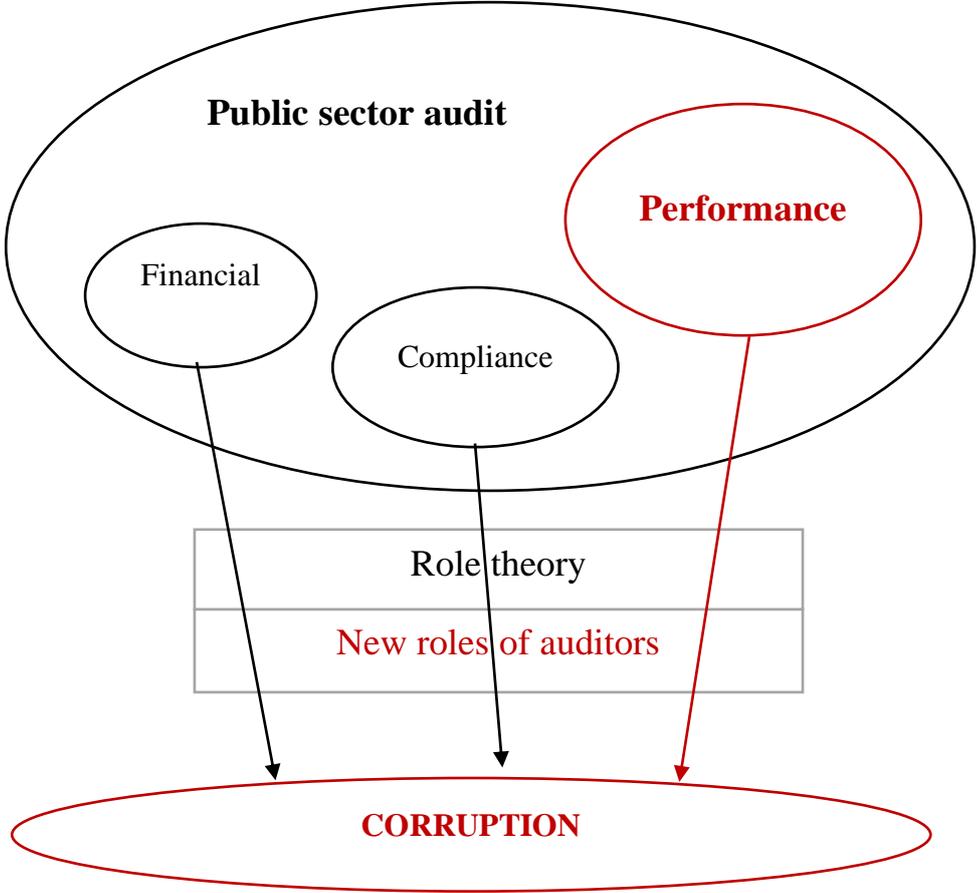


Figure 2.3. Illustration of how theoretical framework is working

Source: constructed by the author.

Figure 2.3 illustrates how role theory will help me to solve the research problem on the relationship between public sector auditing and corruption. Firstly, empirical findings will provide me with the information about the current state of the roles of public sector auditors. Secondly, I will study how new and emerging roles of auditors, brought with the performance auditing, could make better auditing in order to prevent and reduce corruption in public sector.

III. METHODOLOGY

In this chapter, philosophical assumptions, research design, data collection and analysis techniques, as well as ethics and quality of the research design are discussed. The research project methodology is presented below in form of the research onion (Figure 3.4).

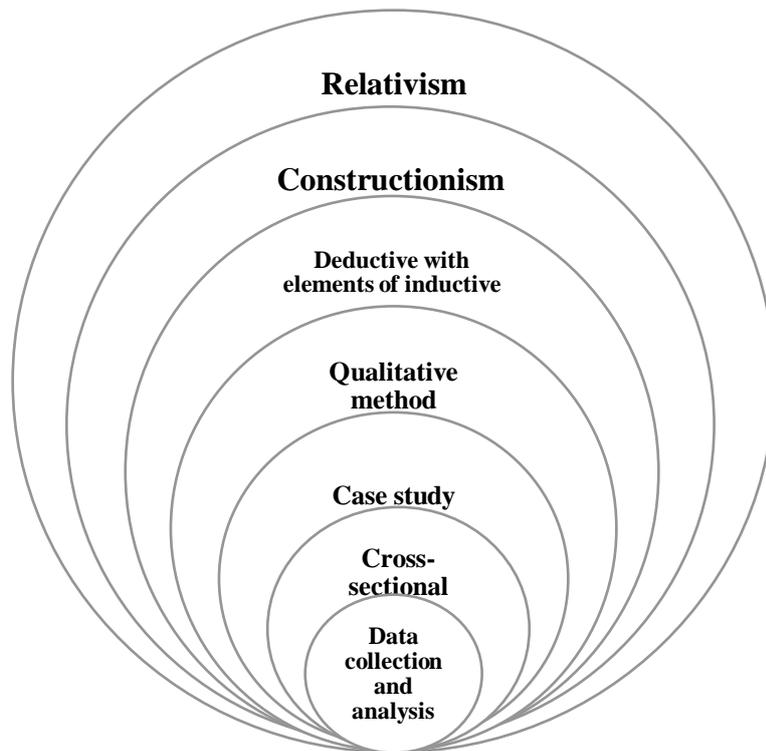


Figure 3.1. Illustration of the research project methodology

Source: constructed by author (based on Saunders et al., 2015).

3.1. Research philosophy

The term research philosophy refers to a system of beliefs and assumptions about the development of knowledge (Saunders et al., 2015). At every stage of the research project, researcher make several assumptions (Burrell & Morgan, 1979). These include assumptions about human knowledge (epistemological), about the realities encountered in the research (ontological) and the extent and ways researcher own values influence her or his research process (axiological). These assumptions inevitably shape how researcher understand her or his RQs (research questions), make a methodological choice and how the findings will be interpreted (Crotty, 1998).

As Alvesson & Sköldberg (2000) stated, researcher needs to develop the reflexivity, to become aware of and actively shape the relationship between philosophical position and how the research will be undertaken. In terms of developing my own philosophy, I should have created a perfect combination of research philosophies, research design and my own beliefs and assumptions (Saunders et al., 2015).

Natural and social scientists generally draw from different ontological and epistemological assumptions when developing their methodologies for conducting research. Within the social sciences, there have been similar debates, although primarily between the positions of internal realism, relativism and nominalism (Easterby-Smith et al., 2015). Roles of auditors in presenting and reducing corruption can be seen and experienced differently by different people, depending on several factors. Thus, by choosing relativist ontology, I am accepting different viewpoints and agree that there is no single reality that can somehow be discovered, but there are many perspectives on the issue.

As stated by Easterby-Smith et al. (2015), there is no single philosopher who subscribes to all aspects of one particular view. For finding deeper insights, a research mix of two different epistemologies is often used by social science studies: positivism and social constructionism (other definitions are “interpretivism”, “constructivism”).

Positivism is based on the idea of the objective measurement, rather than subjective. The world which exist externally and cannot be interfered through sensation, intuition and feelings is the main idea of this epistemology (Easterby-Smith et al., 2015).

The idea of social constructionism, as developed by Berger & Luckman (1966), Watzlawick (1984) and Shotter (1993), focuses on the ways that people make sense of the world – especially through sharing their experiences with others via the medium of language. In the social construction position researcher can reveal trends, now laws. The basic premise of interpretive paradigm is that social sciences deal with actions and behavior generated by human mind (Paterson et al., 2016). It allows the researcher to understand what is happening in a given context, rather than just measuring it (Patton, 1990; Klein & Myers, 1999).

I see my research by linking constructionism with relativist ontology. Thus, the main assumption is that there may be many different realities, and hence me as a researcher need to gather multiple perspectives and to collect the views and experiences of diverse individuals and observers.

3.2. Research design

For a decision on the research design for my research project, I was challenged to make a methodological choice, determine the research nature, use one or more research strategies and to select an appropriate time horizon. This gave me an opportunity to identify what exactly will be observed, and how.

Qualitative method was chosen to design this research. Qualitative data is gathered in a non-numeric form. The most common types of qualitative data are accounts of what research participants have said or done; for example, interview recordings and transcripts, written notes of observations, and images, videos and documents (Easterby-Smith et al., 2015).

Research can be designed to fulfil either an exploratory, descriptive, explanatory or evaluative purpose, or some combination of these. In order to choose one, I have questioned myself about my main research objectives and have decided to make a combination of two.

First question of this research aims in studying the role of public sector auditors in Ukrainian central government. The description applied here to gain an accurate profile of events, persons and situations. To avoid my first part of work from being “too descriptive”, I have also applied some elements of explanation. It is also considered as a forerunner to a piece of the further explanatory research.

To discover how public sector auditors could prevent and reduce corruption in Ukraine an explanatory study was undertaken. The emphasis in explanatory research is to study a situation or a problem in order to explain the relationships between variables. In this research, my ambition was to explain the relationship between public sector audit and corruption.

A research strategy may be defined as a plan of how a researcher will go about answering her or his research question. It is the methodological link between philosophy and subsequent choice of methods to collect and analyse data (Denzin & Lincoln, 2011). Saunders et al. (2015) discusses the following possible strategies: experiment, survey, archival and documentary research, case study, ethnography, action research, grounded theory and narrative inquiry.

A case study is an in-depth inquiry into a topic or phenomenon within its real-life setting (Yin, 2014). Robson (2002) defines case study as “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real-life context using multiple sources of evidence”. The “case” in my research refers to public sector auditing in Ukraine. Once defined, case study research sets out to understand the dynamics of the topic

being studied within its setting or context (Eisenhardt, 1989; Eisenhardt & Graebner 2007). A single case of Ukraine was selected purposively because it provides me with an opportunity to observe and analyse a phenomenon that few have considered before, it was also possible for me as a researcher to collect necessary data.

While choosing case study, it is fundamental to understand the research context and make a general overview of public sector audit in Ukraine. As presented in the following Chapter, Ukraine is a country where the possibility to conduct audit in the public sector has been considered only in recent years (Bardash, 2010). It has unstable and developing institutional context, a number of reforms were undertaken with respect to the international standards implementation. The need to transform the role of auditors have increased in relevant scientific developments (Nevidomyi, 2016; Pikhotskiy, 2016; Slobodianyuk et al., 2019). Having a very low level of corruption perception (Ukraine ranks 126th for the level of corruption perception in the public sector out of 180 countries), however, public sector audit was scantily discussed in terms of its possible impact on corruption prevention and decrease (The Corruption Perceptions Index, 2019).

Therefore, the study on the roles of public sector auditors and their possible impact on corruption contribute to the better understanding of the effect of reforms in Ukrainian central government and provide both academics and practitioners with the information about the systems failures and possible improvements in the public sector.

This research is cross-sectional, involving the study of a particular phenomenon at a particular time. Limits are placed on the time for the study, that is why the research project is based on interviews conducted over a short period of time (February-April, 2020).

As a full-time student I was only able to adopt the role of an external researcher. I was challenged to identify organisations within which to conduct my research and to negotiate access with those from whom I expected to collect data.

3.3. Data collection

Due to the method, chosen and presented above, the information was collected in non-numeric form (Easterby-Smith et al., 2015). The study is mainly based on documentary analysis and semi-structured interviews with public sector auditors in Ukraine.

In order to collect primary data for my research project, non-standardized semi-structured interviews with public sector auditors were held. These are often referred to as qualitative research interviews, where researcher has a list of themes and possibly some key questions to be covered, although their use may vary from interview to interview (Saunders et al., 2015).

When using semi-structured interviews, the ‘five Ps’ provided by Saunders et al. (2015) were useful to remember: prior planning prevents poor performance. Therefore, interview guide (Appendix 2) was prepared when literature review was made, and theoretical chapter drafted. This gave me an opportunity to gain knowledge about the topic and formulate accurate questions. Questions were slightly amended during the interviews to get more information from the respondent about the interesting topics that came out. To get a full picture about the public sector auditing in Ukraine, both auditors at the ACU and internal auditors at the Ukrainian central government were interviewed.

In total, 15 (fifteen) interviews were conducted (Appendix 3). 5 (five) out of 15 (fifteen) interviews were conducted during the physical meetings and recorded. However, due to the unstable situation in the world because of the Coronavirus disease (COVID-19), starting from March 2020, respondents started to cancel agreed meetings. Consequently, the number of planned interviews decreased. Nonetheless, it was still possible to collect data distantly as some of the respondents were open for a phone discussion or to fill the form with questions.

While conducting interviews, I have followed some rules for their successful completion. First of all, as appearance may affect the perception of the interviewee, I considered wearing a similar style of clothing to those to be interviewed. This is a formal style of clothing as most of interviewed are working at the governmental institutions with obligatory dress-code.

The interview began with the introduction of myself and brief explanation of the research project and my main objectives, further I gained a consent from each participant.

A participant information sheet with questions attached (see Appendix 1) was send prior to the interviews, so all respondents were aware about the information I intended to obtain. In few interviews’ respondents were curious about the nature of the research project, so I received clarifying questions at the very beginning. I have also assured respondents about the possible anonymity to increase the level of confidence in trustworthiness and reduce the possibility of interviewee or response bias. 60% of respondents have chosen to stay anonymous. During the interview I clarified the correct understanding of terminology and abbreviations, I have also tested my understanding by summarising responses provided by the interviewee.

For many research questions and objectives, the main advantage of using secondary data is the enormous saving in resources, in particular, time and money (Vartanian, 2011). It can also aid to understanding and explaining the research problem (Ghauri & Grønhaug, 2010). Documentary analysis gave me an opportunity to collect the data that is relevant to my research project. Secondary data was collected from the following sources: official government documents, laws, statistics, central government regulatory documents, etc. Selected Internet secondary data gateways and archives are presented in the Annex 5.

I have analysed secondary data before and after the interviews. This gave me an opportunity to be more prepared for the interviews and keep the conversation with respondents going. During interview I have received some references to the secondary data and have reinforced the empirical findings later. In addition, these secondary data were used to help triangulate findings based on other primary data, collected through interviews.

3.4 Data analysis

Data collection, data analysis and the development and verification of propositions are very much an interrelated and interactive set of processes in qualitative research. Analysis is undertaken during the collection of data as well as after it (Saunders et al., 2015). I have spent time between interviews to carry out a cursory level of analysis, as a part of this I have found it extremely helpful to listen to audio-recordings of interviews while returning to the place of study.

The nature of qualitative data is discussed in Section 4.2. Social constructionism indicates that partially shared meanings and realities are dependent on people's interpretation of the events that occur around them. Since meanings in qualitative research depend on social interaction, qualitative data are likely to be more varied, elastic and complex than quantitative data. Analysis and understanding of these data therefore need to be sensitive to these characteristics to be meaningful (Easterby-Smith et al., 2015).

The extent to which the researcher is clear about the theory is often portrayed as two contrasting approaches to the reasoning to adopt: deductive or inductive. Deductive reasoning occurs when the conclusion is derived logically from a set of premises, the conclusion being true when all the premises are true. In contrast, in inductive reasoning there is a gap in the logic argument between the conclusion and the premises observed, the conclusion being "judged" to

be supported by the observations made (Ketokivi & Mantere 2010). I have commenced a research project by adopting a deductive approach. It was used to develop the theory of this research from reading of the academic literature. Further theory was tested by chosen research strategy, which is discussed in Section 4.2. In order to be sure that research questions will be answered, and objectives achieved, the data was therefore reanalysed inductively. This revealed themes that had not figured prominently in the deductive analysis. A combination of the two approaches generated a more convincing answer to the research questions and objectives.

To prepare data to analysis, the interviews were audio-recorded and subsequently transcribed and translated. Already written email interviews also required some time spent on transcribing and cleaning. I can characterize this stage of the research project as extremely time-consuming.

Primary data received from interviews was analysed and compared on the cross-case basis to indicate similarities, differences and links in perceptions of public sector audit in Ukraine. To simplify the analysis process and make certain the fact that no important information was missed, I have decided to apply one of the analytical aids. Therefore, the interview matrix was created at the Excel file. Using this tool, I was able to view all the answers of the respondents displayed contemporaneously. As a result, the analytical process was much simplified and confidence in no information loss raised.

Several data sources were used (i.e. interview material and, where necessary, relevant documentation), which allowed for data triangulation since I was able to compare the data collected in the interviews with the data contained in the various documents used as additional data sources (Lincoln & Guba, 1985; Patton, 2002). According to Patton (2002), comparative analysis of interview transcripts and written or electronic documents is a form of triangulation based on multiple qualitative data sources.

3.5. Ethics and quality of the research design

Working with human participants in research project always raises ethical issues. The research process is done with respect to the Code of Conduct provisions, without violating any ethical standards. As can be seen from the message, sent to the respondents in the process of search (Appendix 1), it consists information about myself and my research project. At the next step I have gotten consent in the form of invitation for conducting the interview. The anonymity

option was raised twice with each interviewee, before and after the interview. To ensure anonymity, this research will not give a detailed presentation of every interviewee or organisation. However, the information required to understand the analysis will be disclosed. Before the interview, the consent for audio-recording was questioned. During the interview, every respondent was able to stop answering at any point in time he or she felt unconfident or inconvenient. Besides, the interviewees were able to comment on the transcribed interviews.

Reliability refers to the extent to which data collection techniques or analysis procedures will yield consistent findings. It can be assessed by posing the following three questions (Easterby-Smith et al., 2008): (1) Will the measures yield the same results on other occasions? (2) Will similar observations be reached by other observers? (3) Is there transparency in how sense was made from the raw data?

To ensure reliability, primary data was collected from respondents who are professionals in the area of the public sector audit in Ukraine, interviews were repeated with some of the respondents. Secondary data was viewed with the same caution as the collected primary one. During critical evaluation of the sources, I was choosing information which 1) would enable me to answer my RQs (research questions); 2) meets the objectives of the research; 3) benefits would be greater than the costs; 4) I have a full access to (Saunders et al., 2015).

Research validity can be divided into two groups: internal and external. It can be specified that “internal validity refers to how the research findings match reality, while external validity refers to the extent to which the research findings can be replicated to other environments” (Pelissier, 2008). Copies of internal documents were obtained after the interviews with auditees, these documents were primarily used to validate some of the answers given by the interviewees.

According to Patton (2002), the use of more than one data analysis method enables data triangulation, thus increasing the credibility of the results.

IV. RESEARCH CONTEXT

This chapter will provide a short overview of Ukrainian government structure, public sector auditing and corruption in order to get a clear picture of the research context. A review of the state power and of Ukrainian central government are presented first. Status of public sector auditing and its historical development are described further. This followed by the overview of corrupt practices, anti-corruption institutions and general condition of corruption present in Ukraine.

4.1.State power and Ukrainian central government

Ukraine has a premier-presidential form of government since 2014, under which a parliamentary coalition appoints and dismisses the head of the cabinet and its ministers. Figure 4.1 shows that state power in Ukraine is exercised in accordance with the principles of its division into legislative, executive and judicial branches (Article 6 of the Constitution of Ukraine). According to the Constitution of Ukraine, the President of Ukraine is the head of the state and acts on its behalf. The sole body of legislative power in Ukraine is the unicameral Parliament - the Verkhovna Rada. Judicial branch is represented by the Supreme Court and other courts, which carry out the justice processes in Ukraine.

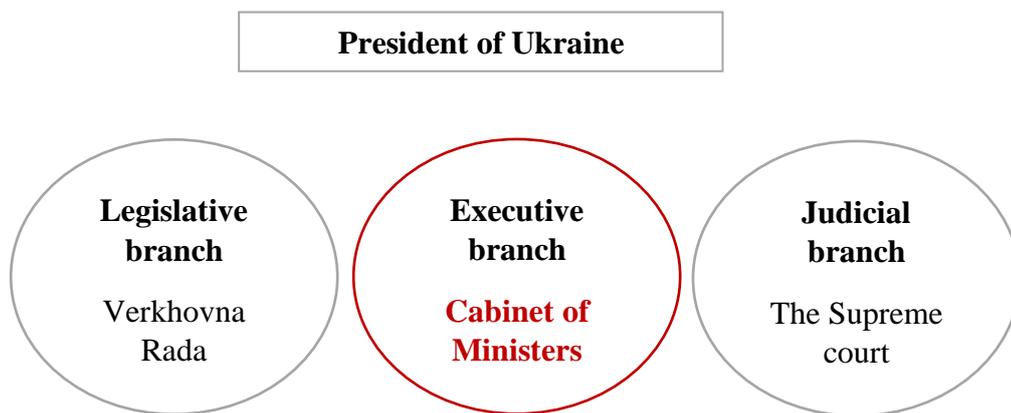


Figure 4.1. State power in Ukraine

Source: constructed by the author (based on the Constitution of Ukraine).

The Cabinet of Ministers of Ukraine is the highest body in the executive branch, and it includes the Prime Minister, the First Vice Prime Minister, Vice Prime Ministers, and Ministers.

The central level powers include ministries, state committees, central bodies of executive power (equivalent to state committees) and central bodies with special status. Due to the recent reforms in the executive branch, 17 ministries are now active in Ukraine.

State financial control in Ukraine is an instrument to implement financial policies and ensure the formation and effective use of financial resources. First of all, it aims on achieving its objectives in the field of finance and to identify deviations from the adopted laws, standards, effectiveness and resource management (Miedviedkova, 2016). Public institutions, entitled to carry out the state financial control, are also based on the independence principle and deviation of legislative and executive powers (parliamentary and governmental control).

4.2. Financial control and public sector auditing in Ukraine

The chronology of the public sector auditing development (Figure 4.2) represents its evolution in Ukraine, which began with the establishment of the Supreme Audit Institution in Ukraine (SAI) – the Accounting Chamber (ACU) that further became an active member on both the international and European levels (INTOSAI since 1998; EUROSAI since 1999). By joining these organisations, ACU became a part of the international exchange of experience between the auditors all around the world.

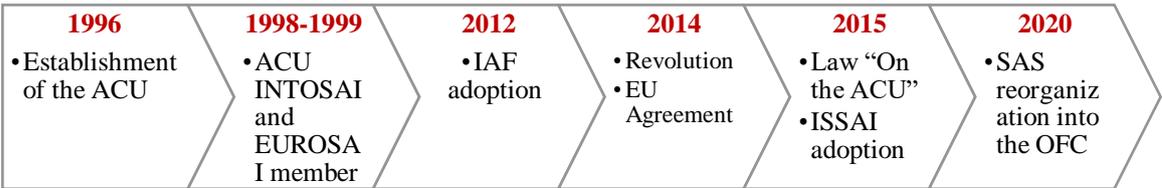


Figure 4.2. Chronology of the public sector auditing development in Ukraine

Source: constructed by the author.

Ukrainian public sector audit has been separated from global trends for a long time as the result of the prolonged Soviet governance system influence. Current system is a result of significant changes in public sector policies undergone in Ukraine due to the intention to become a part of the European Union (EU). Ukraine has adopted a number of key legal instruments: the Concept of Public Internal Financial Control until 2017 (2005), the Budget

Code (2010), the Law of Ukraine “On the Main Principles of Public Financial Control in Ukraine”, the Concept and the Strategy for Public Finance Management (2012 and 2013 respectively), the Law of Ukraine “On the Accounting Chamber of Ukraine” (2015) and a large number of legal documents concerning internal control and internal audit in the government.

One of the major steps towards European system of public financial control is the development and implementation of the new Budget Code of Ukraine and especially the new wording of Article 26, according to which - compulsory introduction should take place for the basic components of the European model of PIFC – internal control and internal audit. The basic principle of public internal financial control is the separation of internal control and audit (Miedviedkova, 2016).

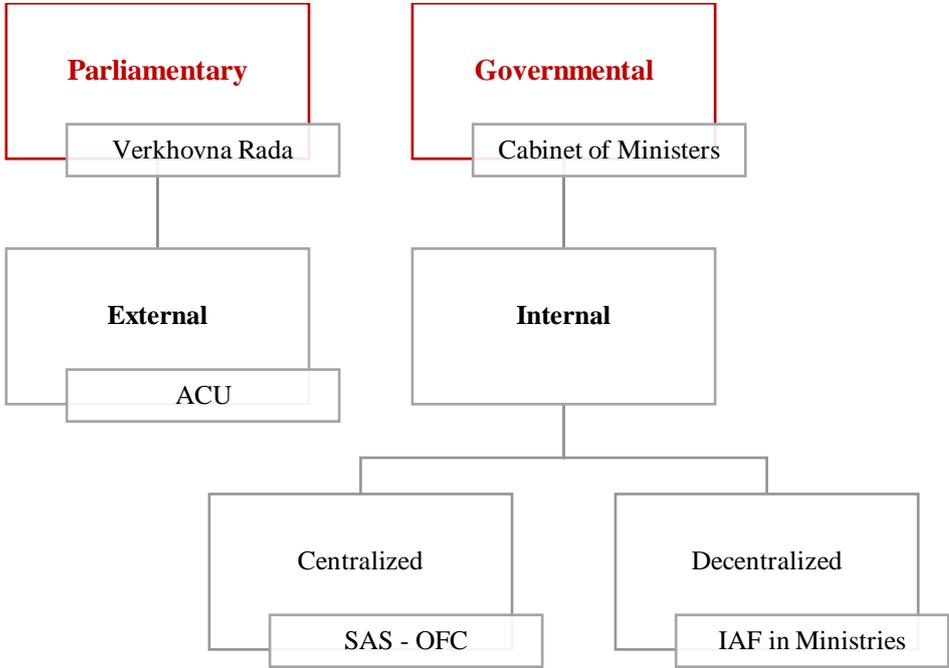


Figure 4.3. Public sector auditing in Ukraine

Source: constructed by the author.

According to the clause 1 of paragraph 47 of chapter 13 of the Plan of measures for the implementation of Section V (“Economic and industrial cooperation”) of the Association Agreement between Ukraine, on the one hand, and the European Union, the European Atomic Energy Community and their Member States on the other hand, for 2017-2019, approved by the Order of the Cabinet of Ministers of Ukraine dated September 17, 2014 No. 847, the Due to the Ministry of Finance of Ukraine was designated as the main executor responsible for implementation of the measure to fulfil the provisions of the Directive of the European

Parliament and the EU Council of May 17, 2006 No. 2006/43 / EC on the statutory audit of annual accounts and consolidated accounts. Therefore, the Ministry of Finance of Ukraine developed a model for reforming the system of regulation of audit activity in Ukraine in accordance with international standards and best international practices.

In 2015, the Law of Ukraine “On the Accounting Chamber” established the requirement of applying the International Standards of Supreme Audit Institutions (ISSAI). Those are professional standards and guidelines, essential for the credibility, quality and professionalism of public-sector auditing. The implementation of ISSAI in public sector auditing has been accomplished by the Ukrainian government through a number of important legal and organisational steps over the past years (Tabenska, 2018, p. 819). Ensuring the transparent and efficient public finance management, which in turn requires modern control mechanisms is one of the key requirements of European community. In particular, changes in the national legislation system have reflected a number of conceptual issues raised in ISSAI 1 (the Lima Declaration) and ISSAI 2 (the Mexican Declaration) regarding the organisation and implementation of external independent financial controls (ISSAI 1; ISSAI 2).

Consequently, public sector auditing in Ukraine has come a long way for the past 24 years. Current public sector auditing system in Ukraine after the number of institutional system and regulations changes is illustrated at the Figure 4.3. However, Ukraine is still in a process of implementation of reforms aimed on building a more “European-like” system. Therefore, the State Audit Service (SAS), which was always a very strong centralized authority, is now in a process of reorganisation into the Office of the Financial Control (OFC). OFC is the central executive body, whose activity is directed and coordinated by the Cabinet of Ministers of Ukraine through the Minister of Finance, that implements state policy in the sphere of state financial control. Priority in the work of the OFC will be given to preventive control, which will be ensured by analysing and processing data in various IT systems.

4.3. Corruption in Ukraine

According to numerous analytical reports and surveys, it is corruption that poses the biggest problem for both foreign and domestic businesses. Among the apparent problems triggered by high levels of bribery and abuse of office are the destruction of the system of social values and absolute distrust in public authorities, which ultimately result in negative economic consequences, increase inequality and slow down household income growth.

Among other reforms, the Revolution of Dignity in 2014 provoked a vast number of anti-corruption measures in Ukraine. With the help of civil society and international organisations (a number of different NGOs, the OECD), a package of laws was adopted. Ukrainian Parliament started to develop anti-corruption infrastructure (Figure 4.4). Special institutions were created, such as National Agency on Corruption Prevention (NACP), the National Anti-Corruption Bureau of Ukraine (NABU) for investigation of corruption, the Special Anti-Corruption Prosecutor’s Office (SAPO) and the National Agency for finding, tracing and management of assets derived from corruption and other crimes (ARMA). Recently, the High Anti-Corruption Court (HACC) was set up (for more information about anti-corruption bodies in Ukraine, please refer to the Appendix 4). New legislation also increased the penalties for corruption, which includes administrative or criminal liability for corruption related offences. Another aspect of Ukraine’s ongoing anti-corruption reform includes electronic asset disclosure, e-procurement and opening up the public registries which aim in increasing transparency in the country (Council of Europe, 2017).

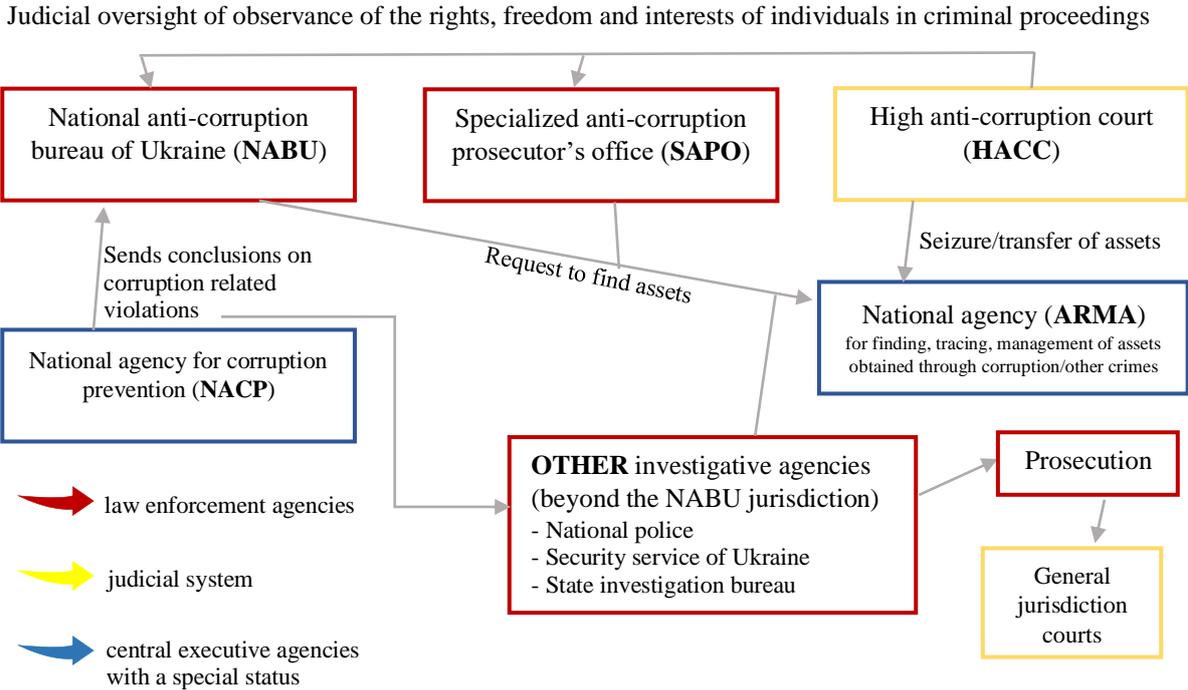


Figure 4.4. Anti-corruption infrastructure in Ukraine

Source: constructed by the author (based on Transparency International Ukraine, 2020).

According to the Model Regulation on the Authorized Unit (Person) for Prevention and Detection of Corruption, approved by the Cabinet of Ministers of Ukraine Decree No. 706 dated

September 4, 2013 “Issues on Prevention and Counteraction of Corruption” bodies, state-owned enterprises, which are within the sphere of management of a state body, are determined by an authorized person for the prevention and detection of corruption.

Different types of corruption are distinguished regarding areas of manifestation in the public sector. First is political, in particular, corruption in representative bodies of the state. Second is corruption in the public service, in particular in the activities of the executive bodies, primarily in their activities in providing public services. There is also corruption in the judicial system and law enforcement bodies and economy corruption (in public procurement, in the customs and tax spheres, etc.). Corruption can appear also in the social sphere (education, healthcare, social security, etc.), private sector and sports (CPLR, 2017).

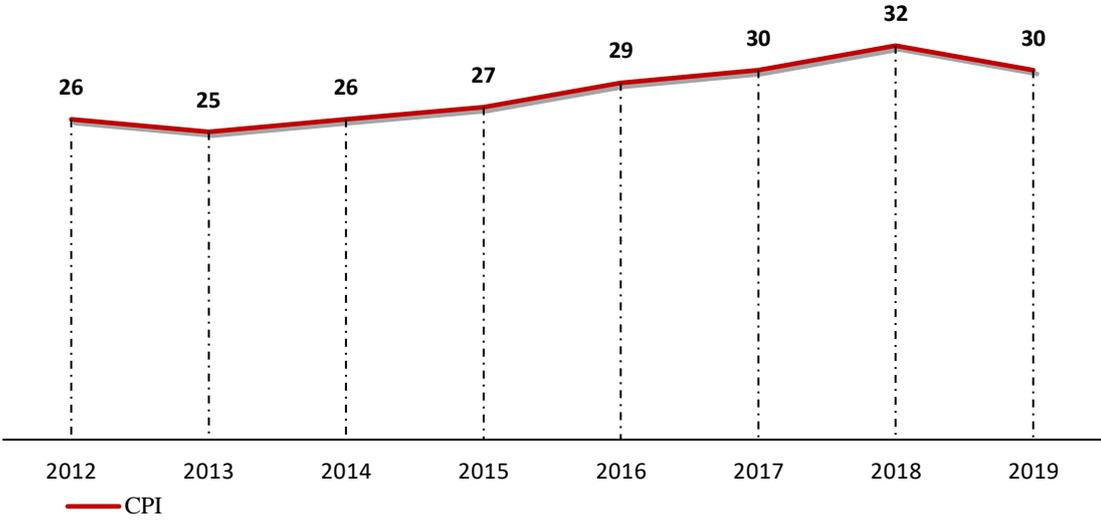


Figure 4.5. Changes in Ukrainian’s score in CPI 2012-2019

Source: constructed by the author (based on Transparency International Ukraine, 2020).

According to the Law of Ukraine “On prevention of corruption”, corruption is defined as the use by a specific person of his official powers or related opportunities for the purpose of obtaining the “undue advantage” which is defined as “money or other property, preferences, advantages, services, non-monetary assets and any other advantage that is being illicitly promised, offered, delivered, or received by the person who is authorised to perform public or local self-government functions.” Furthermore, it is also prohibited to offer, promise or give an undue advantage to a person who offers or promises (agrees) to influence the decision-making of a person authorised to perform functions of state, in exchange for such undue advantage (or for giving it to the third person) or in other words to “trade in advantage”. Inaccurate corporate

books and records and/or dissemination of false information are also criminalized in Ukraine, together with other financial record-keeping offences. Ukrainian law also prohibits “misappropriation, embezzlement or conversion of others’ property due to abuse of office or by a person to whom it was entrusted or in whose control it was” (Chambers, 2019).

And although Ukraine’s ranking in CPI keeps improving every year, current situation is still far from being acceptable. According to Corruption Perceptions Index (CPI) released in 2019, Ukraine ranks 126th for the level of corruption perception in the public sector out of 180 countries. Figure 4.5 illustrate that anticorruption policies in Ukraine showed negative results in the previous year, with the loss of two points, scoring 30 out of 100 (The Corruption Perceptions Index, 2019; ACFE, 2018).

Public trust in Ukrainian central government has decreased in recent years due to the slow and ineffective character of changes. Therefore, enabling an environment for the open and full participation of civil society in anti-corruption policy development and monitoring must become a priority (Chambers, 2019).

V. EMPIRICAL FINDINGS

In this chapter empirical findings are presented. Those are perceptions of auditors about the role of public sector auditors in Ukrainian central government and how public sector auditors could prevent and reduce corruption in Ukraine. To ensure the credibility of the research project, the documental analysis was carried out in order to support findings.

5.1. The state of financial control and public sector auditing in Ukraine

Most informants have claimed satisfactory state of the public sector auditing in Ukraine; however, some have an opposite opinion. *“The situation is not that we are not institutionally prepared, but that we do not know how to act. Institutionally we meet both world and European requirements”* (External auditor 1). The adoption of international standards promoted reforms and gave a second life to the public sector auditing in Ukraine, however, it is still in process of change. Over the last decade, Ukraine cooperates with international institutions that help to reform the government sector (e.g. Twinning, SIGMA, GIZ projects). Within those programs, comments and recommendations regarding public management, budget policy, financial management and control, internal and external audit, public procurement and administrative services were prepared. Currently, bilateral cooperation project between the Ministry of Finance of Ukraine and the Ministry of Finance of the Netherlands is underdone in order to draft the Public Sector Internal Auditors Development Program.

Attention should be drawn to the steps that are currently being implemented by the Ukrainian government and the Head of the ACU. In 2019, they announced the Development Strategy of the Accounting Chamber for 2019–2024 (ACU Strategy), based on the practical experience of the leading SAIs of the INTOSAI member states and in compliance with the requirements of national law.

With the implementation of the new Law of Ukraine “On the Accounting Chamber” in 2015, *“public sector auditing in Ukraine became less “one-sided”* (ACU auditor 1). The Law of Ukraine “On the Accounting Chamber” introduced procedures on the approval of the reports by the auditee and granted them power to provide their comments. Therefore, auditees are now also invited to the discussion and have more rights in public sector auditing. According to the ACU Strategy (2019: p.3), by 2024 ACU aims to become *“an independent, professional,*

objective and impartial, open to-a-dialogue auditor and advisor, a model of perfect management and an exemplary organisation to the auditee”.

With the development of that, IAF also became a subject to change for the past years. Pursuant to the changes made to the National Standards of the Internal audit in 2012 with the Resolution of the Ministry of Finances No. 1247, the concept of internal audit and internal control were separated. External auditor 1 said, *“manager develops system of internal control (based on the COSO framework), therefore, IA are entitled to give their recommendations about its effective operation”*. Internal auditor 1 said, *“IA are not allowed to engage in and formulate internal control policies; this function is directly assigned to the manager [...] they monitor the activities, which in turn prevents the use of certain illegal expenditures”*. However, as argued by External auditor 1, *“our internal audit departments do not perform the functions that they must perform”*. Moreover, various audits conducted by the ACU confirm unsatisfactory state of the IAF *“the results of our assessments show that IAF in Ukraine need significant improvements”* (ACU auditor 3).

Furthermore, certain issues were mentioned by informants with regard to the public sector auditing, the most striking among them are:

1. Implementation of basic ISSAI. *“As soon as you decide to implement international standards, you need to start from the first basic Roman level - publicity, transparency and independence”* (External auditor 1). For instance, there are no press conferences of the ACU at which citizens can ask questions and get clarifications. Reports are harder to reach than at the webpages of other European SAI's, furthermore, they are difficult to understand due to the highly complicated professional language. *“It is important to set the task of implementing ISSAI Level 2 and that their work is understandable for ordinary citizens to ensure the quality of life of citizens”* (External auditor 1).

2. Duplication of functions. It should be noted that two institutions (ACU and SAS) are copying the functions of each other. *“Our plan is agreed by the Cabinet of Ministers, how is it agreed with the ACU, we do not know [...] but they are overlapping, especially in central government”* (SAS auditor). *“We often come to the object after audit on similar matter was already performed by the SAS [...] this state of affairs should be regulated better [...] this is not normal when two different institutions are performing the same functions”* (ACU auditor 3).

3. The lack of legal framework. Legal framework should be constantly adjusted to the new requirements; therefore, the competencies of authorized persons to carry out audit need to be updated. It needs an effective legal framework to identify all elements of the system, coordinate activities, coordinate the internal work of the audit units and protect the interests of users of information. *“If we had a strong legal framework, it would eliminate all the issues in the area”* (ACU auditor 4). *“There is lack of the law on Internal Financial Control and the corresponding penalties of heads of bodies for inadequate internal control system”* (Internal auditor 3).

Moreover, functions of some audit institutions are overlapped, as stated by Internal auditor 5, *“It is necessary to analyse the current regulatory framework on these issues in order to eliminate contradictions and duplication of functions in the process of public sector auditing”*. Moreover, public sector auditing in Ukraine requires state financing and increasing of staffing to ensure an effective audit. Improved regulatory could contribute to those matters as well.

3. The lack of staff qualifications and methodological provision to effectively find weaknesses in the activity of the institution and provide quality recommendations to ensure the optimal operation of such an institution. *“ACU and SAS auditors have a very low motivation and there are not good workers anymore”* (Internal auditor 1). Methodology should be publicly available and simple, for all the actors, involved on the process of public sector auditing to know the rules of the game.

5.2. Main actors of financial control and public sector auditing in Ukraine

Main actors of public sector auditing are presented at the Figure 5.1 below. Actors with general competencies and power in Ukraine were mentioned within the Research Context chapter, the discussion also provide information about them further.

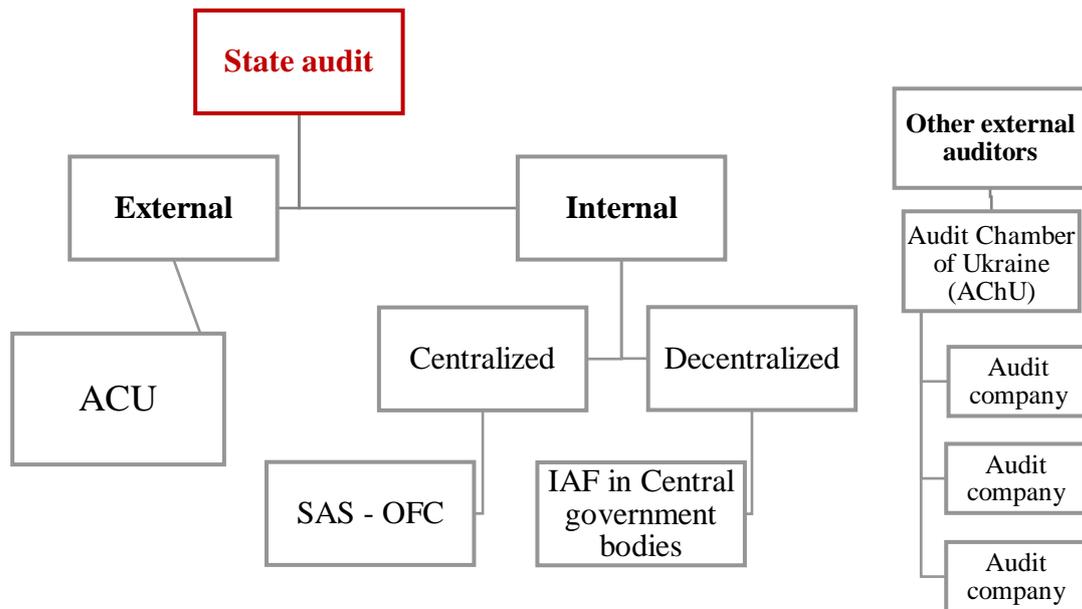


Figure 5.1. Main actors of public sector audit in Ukraine

Source: materials provided by External auditor 1.

State audit in Ukraine comprises from the external and internal, representing the parliamentary and governmental financial control. The external (parliamentary) audit is represented by the ACU – the SAI in Ukraine. Internal audit (governmental) consists of centralized and decentralized. Centralised are departments of the Ministry of Finance, which coordinate all internal services and carries out the main load of the current and preliminary control. Currently this body (SAS) is under the reorganisation process (into the OFC). Decentralized internal audit is presented by the IAF in central government bodies, organised in Ukraine following the separation of internal control and internal audit departments (De Koning, 1999).

Other external auditors, in contrast with foreign experience, exists in Ukraine separately from the state audit. There is a discussion on the theoretical level about the possible involvement of other external auditors in public sector audit (External auditor 1; External auditor 2).

Supreme Audit Institution in Ukraine

ACU is a constitutional body of the government's external financial control mechanism and an independent authority acting on behalf of Parliament of Ukraine. It acts in accordance with the Law "On the Accounting Chamber", the Budgetary Code of Ukraine and other by-laws. ACU executes control and supervision over revenues and expenditures of the state budget and is not entrusted with judicial powers. Activities of ACU are audits, provision of expert analyses, monitoring and evaluation. The ACU has been performing financial, performance and compliance audits of the entities, institutions, organisations and Ministries which utilize State Budget funds (Miedviedkova, 2016).

According to the Law of Ukraine "On the Accounting Chamber", the ACU conducts two main audits: performance and financial. *"Performance auditing - 80% of activities of all departments, financial – less as it is not so requested, because politician wants to hear so called 'fried facts' [...] we are ahead other countries in performance auditing, because we started from developing this one, when other were developing financial. Not all ACU departments make financial, but all are professional in performance"* (ACU auditor 1). Performance auditing in Ukraine appeared in 2001 with Swedish support and teaching. However, it was assigned to the ACU from the very beginning when it was created (in 1996), but it *"gathered momentum in time, became more visible and professional"* (ACU auditor 1). *"Main aim of the performance audit is to see the drawbacks in policies and propose empowered actors (parliament) to change it, only external audit can say those main actors which changes should be introduced"* (ACU auditor 1).

ACU annual report (2018) evidences that the main result of all the public sector audits undertaken in 2018 was the provision of clear, well-reasoned and well-considered recommendations. The main purpose of recommendations made by the ACU is to improve the efficiency, effectiveness and economy of the use of the state budget of Ukraine. Furthermore, public sector auditing aims in preventing all kinds of violations and drawbacks in the public financial management system. *"Public sector auditing aims not only to see the violation, but also to find out imperfections in the auditee management, organisation and to improve regulations. Therefore, audit does not cover operations of some budget program, its scope is wider. ACU auditors take few regions and make an analysis about their general functioning"* (ACU auditor 1).

Therefore, due to the years of practice of performance auditing by the ACU in Ukraine, the role of external auditors is expected to undergo major changes to not be further perceived as “watchdogs”. As stated by ACU auditor 1 *“Obligatory requirement for the ACU functioning is for auditors not to be just “watchdogs”, but rather to find weak places of the auditee and together to draw up the “road map”*. ACU auditor 1 also mentioned that if the auditee agrees, the ACU further start to promote changes by changing internal policies or drafting proposals to the Parliament.

However, some claim that auditors’ role remained traditional *“auditor still perform Soviet Union role which is based on the principle of finding violations and further punishment, consultation is very rare [...] in reports – only thousands of violations”* (External auditor 3).

The scope of performance auditing in Ukraine seems to be limited to the identification of the “efficiency” of budgetary institutions. According to the Law of Ukraine “On the Accounting Chamber”, performance audit provides assessment on: the timeliness and completeness of budget revenues; productivity, efficiency, and economic use of budget funds by their managers and recipients; legality, timeliness, and completeness of making management decisions by participants of the budget process; and the state of internal control on budget managers funds (Gurzhi et al. (2019). Thus, the quality of such audit can be also questioned, due to the limited nature, comparing with the performance auditing globally.

Furthermore, it can be argued that most auditors are not aware about their role in the process of the public audit *“roles should be formed on the top level and transferred to auditors better. Now auditors are doing all audits at ones, performance has elements of financial and compliance and vice versa, categories are used in a wrong way and very mixed”* (ACU auditor 2). Performance audit in fact has been performed for 20 years in Ukraine, but there is no special methodology or matrix. ACU is using internal recommendations how to make performance auditing, which raises two main issues. First is that auditees are unaware about the categories used by auditors to assess the effectiveness of the institutions, those internal documents do not have a free access and are operating with highly professional categories. Therefore, *“representatives of the public sector should know the rules of the game, but they do not know”* (External auditor 1).

Secondly, experienced auditors have their own methodology, however, others can miss some indicators. *“I am using 3E in performance audits, but not all auditors know about this”* (ACU auditor 2). *“I use more than 12 different comparisons, performance auditing is very wide,*

because it is more subjective than other forms of audit. I will tell my own methodology, it includes 3 main points: 1) action-inactivity (who, when, under which power made some negative activities or financial operations); 2) result (which exactly laws were violated). Many stop here, but it is very important to go further and also look at the 3) consequences (for example some resources were not used, or more, not effectively, not efficiently, not economy; we should show how those consequences influence the aim of the budget program” (ACU auditor 1). The work on new methodology started in 2015 when the new Law of Ukraine "On the Accounting Chamber" came into force, however, the document is still not published.

Internal audit actors

According to the Methodological guidelines for internal audit in the Ukrainian public sector (IA Guidelines), internal auditors interact with the head of the institution (manager), audit committee and the Ministry of Finance of Ukraine (Ministry of Finance of Ukraine, 2019).

According to the Order No. 1001 and the National Internal Audit Standards, managers are responsible for the approval of provisions on the internal audit unit, the amount of time required to conduct all internal audits, IA workload, strategic and operational plans for the IAF, internal audit programs, the regulatory document for conducting internal audits and internal audit assurance and quality improvement programs. Manager signs an internal audit declaration indicating the purpose (mission) and goals, principles of independence are the core powers and responsibilities of the internal audit. There is a general problem due to the manager’s reluctance towards the change in roles of the public sector auditors which is presented in the next subsection.

Audit committees are formed in government agencies as a platform for discussing management, control and audit issues (Ministry of Finances, 2019).

Ministry of Finances of Ukraine is the central executive body, the activities of which are directed and coordinated by the Cabinet of Ministers of Ukraine. The perception of auditors is that there are no control functions anymore as all the institutions are controlled by the Ministry of Finance of Ukraine *“how SAS manager can say anything about his own manager, there are no real independence anymore”* (Internal auditor 1).

Politicians

“Ukrainian parliament have the greatest influence on the public sector auditing, they form the politics and rules of the game” (ACU auditor 4).

Another perception is that main actors are public authorities and local governments (*“their role are to ensure the legality of financial discipline, the appropriateness and effectiveness of financial resource management and other ownership, and to provide guidance” (Internal auditor 4)*).

International organisations

Due to the Association Agreement between Ukraine, on the one hand, and the European Union, the European Atomic Energy Community and their Member States, Ukraine cooperates with the EU on the implementation of the international standards and improvement of the public sector. In 2006 an assessment of Ukrainian public administration as a part of the SIGMA project (Support for Improvement in Governance and Management) was conducted with the financial support of DFID (Ministry of International Development of the United Kingdom) and SIDA (Swedish International Development Agency) and with the consent of the European Commission. The recommendation on the internal and external audit improvement were included in the Strategy of Public Administration Reform for 2016-2020 (Centre for Adaptation of the Civil Service, 2019).

Starting from 2008, Ukraine cooperates with the Ministry of Finance of the Netherlands, which was prolonged in 2019 for the 3 years period. The Memorandum on cooperation signed in 2019 between the Ministry of Finance of the Netherlands and the Ministry of Finance of Ukraine opened an opportunity for the exchange of knowledge in the public sector audit (Ministry of Finance, 2019, October 18).

As a member of INTOSAI and EUROSAI, Ukraine gains positive experience in building an effective system of public sector auditing, although, must comply with international requirements (Slobodanyk, 2014).

5.3. Performance auditing and new roles of public sector auditors in Ukrainian central government

According to the Budget Code of Ukraine, the IAF aims in improvement of the governance and internal control, and therefore should result in the creation of the so-called “added value”. However, as of today, the nature of IAF is not yet systematic and diagnostic and does not focus on assessing the effectiveness of the management and internal control system. In particular, in 2018, the part of performance audits in IAF was approximately 12% (Ministry of Finance, 2019).

According to the new Methodological guidelines for internal audit in the Ukrainian public sector (IA Guidelines), the perception about the IAF should not be limited to the inspection activity aimed in identifying facts of violations and providing written requirements to eliminate such. IA are presented as “helpers” and “supporters” of managers and institution due to their independent and objective assessment (Ministry of Finance, 2019). IA Guidelines set expectations about the performance of recommendations by the IA in 3 main areas (Figure 5.2).

<p style="text-align: center;">I. Governance</p> <p>(Effective governance ensures the achievement of the institution's goals by establishing the right policies; procedures and processes, and provides risk management for the institution's strategies)</p> <p>IA role: Performance audit of governance, fulfilment and achievement of the defined goals, the quality of performance of tasks and functions, and the provision of appropriate recommendations to the head of the institution.</p>	<p style="text-align: center;">II. Internal control</p> <p>(Policies, rules and measures implemented by the head of the institution to ensure the functioning, interconnection and support of all elements of internal control)</p> <p>IA role: Performance audit of the internal control system, including assessment of the efficiency and effectiveness of the control measures available in the internal audit processes, and providing appropriate recommendations to the head of the institution.</p>	<p style="text-align: center;">III. Risk management</p> <p>(Identification and evaluation of risks, evaluation of the possible respond to such risks, review of the risks to identify new and changed ones)</p> <p>IA role: Performance audit of the risk management activities and providing appropriate recommendations to the head of the institution. IA should focus its resources on the most risky areas, through an effective system of risk-oriented internal audit planning,</p>
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Figure 5.2. Areas in focus and IA roles according to the IA Guidelines

Source: constructed by the author (based on Ministry of Finance (2019)).

Therefore, according to IA Guidelines, IA provide recommendations on: 1) Improvement of the governance system, internal control, including risk management processes; 2) Improvement of policies and procedures to prevent the facts of illegal, inefficient, and ineffective use of budget funds, the occurrence of errors or other shortcomings in the activities

of the institution; 3) Strengthening accountability and improving the effectiveness of the institution, etc. (Ministry of Finance, 2019).

However, the obtained information shows that new IA Guidelines are far from being implemented in the Ukrainian central government. The lack of experience, control power and managers support results in the slow change of the IA role behavior. Therefore, most of informants perceive their roles “de facto” as revisors or inspectors, who should search for violations and eliminate them. *“They were separated, but IAF is really the same as control”* (Internal auditor 2). *“The role is closer to control; advisory is very rare”* (Internal auditor 1). One informant stated that the role of public sector auditors is rather important, however, he connected it with the ability to ensure the financial discipline at the institution, which can be used to explain the “watchdog” role, not advisory. Those findings contribute to the IAF review, conducted by the Ministry of Finances in cooperation with the Ministry of Finance of the Netherlands (IAF review) which show that the IAF function didn’t get rid of inspection roots, both in its perception (in particular, by management) and in approaches to work. Therefore, IA work is more based on responding to incidents and search for violations (Ministry of Finances, 2018, June 26).

There is also documental support to the information provided by the respondents in Methodological Guidelines for Internal Performance Audit (IPA Guidelines) published by the Ministry of Finances of Ukraine in recent edition of 2019 year. *“Public sector IAF (introduced in 2012) is still often perceived by management as an inspection/control function aimed at detecting irregularities related to financial processes”* (Ministry of Finance, 2019: p. 3). Such role behavior results from pressures placed on the IA by their managers. IA are unable to fulfil their advisory function (although they want to), because management requires other actions, namely the identification of violations, and this should provide an internal control system. *“Even if auditors want to give recommendations, managers expect them to limit their functions to identification of errors and violations. [...] Our managers do not consider IA as consultants; they simply do not even understand how someone can give them advice and “manage” them. Therefore, they continue to consider and force to perform the role of “watchdogs”* (External auditor 1). Ministry of Finances (2018, June 26) identified that principles of organisational and functional independence of internal audit units, defined by national legislation, are not always present in practice. IAF review also addressed the problem in the proper positioning and performance of the role assigned to the IA, nonetheless, it presented some progress in the managers’ understanding the IAF role. The results showed that 8 out of 15 managers understand

the role of the IAF and only 24% of IA claimed about manager's unawareness (Ministry of Finances, 2018, June 26). However, interviews undertaken for this research presented that more than 60% of respondents perceive that their managers do not understand new roles of auditors.

Furthermore, it can be argued that such pressures are formed due to the organisational factors. Weak internal control mechanism or even its absence is the reason for managers to put the same expectations both on IA and internal control units. *"No one performs function of control [...] as result it is placed on us"* (Internal auditor 1). *"[...] the weak link is the internal control system"* (External auditor 1). Due to the results of the internal control assessment (review), conducted with the expert help from the Ministry of Finance of the Netherlands, central planning (which is predominant in government) impede the development of financial management and control into a more modern internal control environment. The assessment also presents the lack of managers' awareness of the internal control importance (Ministry of Finance, 2019, April 1). Therefore, Internal auditor 3 proposed the adoption of law on Internal Financial Control and the corresponding penalties of heads of bodies for inadequate internal control system.

Moreover, informants raised more issues regarding the IAF functioning. First relates to the implementation of their recommendations *"Our recommendations are often not implemented [...] in some cases, organisations benefit from being non-profit to get extra money from government"* (Internal auditor 7).

The next one is connected to number of employees and their personal qualifications *"There is a lack of qualified specialists who can effectively find weaknesses in the activity of the institution and provide high quality recommendations to ensure the optimal operation of such an institution"* (Internal auditor 6). *"The main problem is the large number of controlled objects in relation to the insufficient staffing of the auditors"* (Internal auditor 2). This affirms the results obtained by the Ministry of Finances in 2018. According to the IA review, IAF is not carried in fact due to complete understaffing (40% of IA units had 1-2 internal auditors). For example, one IA at the Ministry of Education and Science in Ukraine had 242 objects to audit in 2018. IA review also presents high staff turnover rate (up to 50% in small units), lack of the appropriate skills, competencies and knowledge, insufficient training market and resources for IA activities (including material, software, business travel, etc.) (less than a third of IA units are satisfied with the resources) (Ministry of Finances, 2018, June 26). *"Employers are raising*

the question of auditors professionalism [...] we change master programs to prepare future auditors better” (ACU auditor 4).

Nevertheless, IA are trying to cope with the discussed issues and follow the international standards and IA Guidelines in their work. As stated by Internal auditor 3 *“mandatory element of any audit, regardless of whether internal or external, is to give recommendations and communicate them to the higher level to the managers or politicians”*. Therefore, limited number of IA in Ukrainian central government succeeds in providing recommendations as assigned to them in the IA Guidelines. In contrast with majority of interviews, one respondent stated that auditors in their department are advisory and can perform such role. *“Our auditors are not “watchdogs”, we don’t punish, we advise about the institution systems effective functioning”* (Internal auditor 3). The reason for this is *“the ability of manager to communicate our new role to the head of the institution”* (Internal auditor 3). One more case is found from the publicly available interview, published at the website of the Ministry of Defence of Ukraine (Ministry of Defence of Ukraine, 2018). *“The priority of auditors is not punishment for deficiencies found, but the provision of recommendations that will help them work better and avoid mistakes”*, therefore, this interview shows helpers role of auditors and shift in roles within the Ministry of Defence of Ukraine. The success of reforms at the institution is explained with the Certified Internal Auditors training undergone by IA as well as thematic trainings on IT Audit, Risk Management Audit, Modern Audit Methodology, and Performance Audit. These activities were carried out under the auspices of the NATO-Ukraine Commission and in cooperation with the Ministry of Defence of the United Kingdom. IA at the Ministry of Defence of Ukraine perceive themselves as *“helpers of leaders in implementation of “good governance”, improvement of resource management and integrity development”* (Ministry of Defence of Ukraine, 2018). However, no IAF assessments and interviews were conducted in this institution (although interviews were requested by the author). Therefore, there are no evidences for the information, provided at the website and should not be perceived as one truth. However, as informants stated, advisory role of IA is enhanced year by year, since for the effective operation of the institution auditors should understand and systematically see the shortcomings. It can be also argued with the example of the Ministry of Defence of Ukraine that staff professional growth and international help possibly led to the real change in roles within the institution.

5.4. Public sector auditing in preventing and reducing corruption

All respondents agree that public sector audit is an effective tool in the fight against corruption in Ukraine. *“I would even say it is one of the key ones”* (ACU auditor 2). *“It is not the only one tool, but it performs its role well. It helps other actors to perform anti-corruption procedures further”* (ACU auditor 1). According to Association of Certified Fraud Examiners (ACFE) Report to the Nations, the research conducted since 2010 shows that 15% of corruption cases were detected by internal audit, and 4% by external (ACFE, 2018).

However, neither international nor national internal audit standards place full responsibility for exposing fraud to internal auditors. According to 1210.A2 IIA standard *“Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud”*.

According to the ACFE (2018), this knowledge is required for IA to identify "red flags" that may indicate fraud, understand the fraud characteristics and techniques used for the implementation of fraud, various fraudulent schemes and scenarios, evaluate the signs of fraud and decide whether further action is needed and whether an investigation is recommended and evaluate the effectiveness of controls to prevent or detect fraud. ACU auditor 1 said *“There are people “on the other side” who are working in the specific area for years (accountants, managers etc.). Auditors are not necessary accountants; good auditors are those who have different skills [...] to reveal corruption better”*.

Informants are not performing work specifically to detect corruption. When conducting audit activities, internal auditors should focus on evaluating the internal control system and on the management of such risks, but not directly on the fraud investigations. In order to prevent fraud, the management of the institution must eliminate the factors that encourage employees to commit illegal activities, with special attention to strengthening and improving the effectiveness of the internal control system, to curb the possibility of fraud (Ministry of Finance, 2019).

Decision of the National Agency for the Prevention of Corruption dated December 2, 2016 No. 126 approved the Methodology for assessing corruption risks in the activities of the authorities, which defines a set of rules and procedures for the evaluation of corruption risks in the activities of the authorities in which anti-corruption programs are adopted in accordance with part one of Article 19 of the Law of Ukraine “On Prevention of Corruption”. According

to this methodology, the risk assessment should be carried out by a working group set up by the authority and reflected in the Corruption Risk Assessment Report.

“Performance auditing is the most effective audit to identify corruption risks in an institution. Also, continuous monitoring of financial activities, targeted use of public funds and verification of the performance of functions provided by the relevant state body” (Internal auditor 2). However, auditors of budgetary institutions have been separated from the tasks of preventing corruption. As shown at the previous chapter, there are special authorised internal unit in each central government institution and a highly complicated system of anti-corruption bodies. While on the one hand those units were created to combat corruption, on the other, informants raised the issue about the effectiveness of their existence. *“A position to combat corruption was created. [...] The reason is that everyone wants to show the “fight” against corruption. How to show it? Such a special position as a fighter against corruption is a perfect option”* (External auditor 1).

Therefore, the effectiveness of their work is questioned, as well as the effectiveness of auditors work within the current scope. *“This special authorised corruption unit is not effective. But internal audit the way it is now is not an effective tool as well, they need to have more control power”* (Internal auditor 1). Therefore, I can conclude on the other issue raised by informants which is the lack of auditor’s power and independency *“If managers supported internal auditors, they would really prevent and reduce corruption. [...] no motivation to prevent corruption because this auditor can be fired”* (Internal auditor 1).

As reasonably stated by External auditor 1, *“At a budgetary institution, nothing happens without senior management approval, thus, all decisions can be seen in the documents”*. Therefore, auditors can see “indicators” of corruption in the official documents. According to the IA Guidelines, the most well-known indicators (“red flags”) of possible fraud are classified by types of fraud, for corruption they are presented in the Table 5.1.

It is obligatory for auditors to present in the audit report the information about possible fraud facts and notification to the head of the institution about such facts. Moreover, all respondents are acknowledging the existence within their entity of an “Anti-Corruption Policy” (i.e. a framework for prevention and sanction of Corruption). Such a framework could be used for compliance audit and may form the basis for IA assessment of the effectiveness of the policy.

Public sector auditors - whether appointed by the legislature or the executive or elected by

the voters - must be prepared to recognise and report corruption, abuse of authority, or failure to provide equity or due process in the exercise of a governmental police or regulatory activity. Because such reporting may challenge powerful or entrenched interests, auditors require some measure of job protection to be able to report independently (IIA, 2012).

Table 5.1. The most common “red flags” of corruption in the public sector

Identified by the Ministry of Finances	
1.	The standard of living of a worker exceeds significantly the level corresponding to the size of the legally received wage
2.	Full control of one person/closed small group
3.	Staff not informed/staff not valued
4.	Staff never go on vacation, often work overtime or take home work unnecessarily
5.	People who do not want to share a cabinet/use a private mailbox, instead of the office, very careful (always close the cabinet, cabinets)
6.	Visitors without obvious reasons, long phone conversations by private phone behind closed doors/outside
7.	Unreasonable, excessive concentration of influence on one person
8.	Numerous contracts below the limits that exceed the tender requirement
9.	Dissatisfied staff, very negative about the institution and the manager
10.	Staff complaints are not given serious consideration or are not allowed or punishable
Interviews	
11.	<i>“We see corruption when actions are made in someone’s interest, when we compare real state of affairs with what is presented in documents [...] when everything goes to one company, when tenders are won by one person”</i> (ACU auditor 1).
12.	<i>“When the decision is unreasonable, it is not accepted in favour of the minimum price, strange applications are confirmed without a qualitative criterion”</i> (External auditor 1).
13.	<i>“Conflict of interests, raising the amount of salary, bonuses without managers agreement”</i> (Internal auditor 1).

Source: constructed by the author (based on the information from interviews and the Ministry of Finances, 2019).

Informants also claimed about independence of the IAF within their organisations, as well as coordination of their activities with national external bodies. Both are believed to help auditors to prevent and reduce corruption better. As stated by External auditor 3 *“There are problems in work coordination with special anticorruption institutions”*.

VI. DISCUSSION

6.1. Role senders and expectations

The study identified five main role senders in Ukrainian central government, which are: international organisations, ACU, Ministry of Finance of Ukraine, politicians, and senior managers at institutions. The involvement of international organisations became more visible in 2014, when Ukraine signed the Association Agreement with the EU. Those organisations put pressure at the highest level, primarily influencing the development of the legal framework in Ukraine in accordance with the international standards. Furthermore, international organisations actively participate in the implementation of their expectations, by enacting factors, which have an impact on the role behavior.

Legal and regulatory environment reflects the general expectations of a role set in a given context, therefore, shaping the role behavior (Katz & Kahn, 1978; Roussy, 2013). Politicians in Ukraine (i.e. the legislative branch represented by the Verkhovna Rada) are entitled to pass their expectations in the form of laws. It can be stated that institutionally and regulatory, Ukraine meets international standards. Therefore, as research shows, the expectations of Ukrainian politicians reflect the expectations of international organisations.

With the influence of first two role senders, the Ministry of Finance of Ukraine has a more direct role in framing the role set. It is responsible for the development of a model for reforming the system of audit activity in Ukraine in accordance with international standards and best international practices.

Various incentives and organisational instruments, including auditing, are used in public sector to lead the actors in the desired direction (Strøm, 2000). By conducting performance audits, ACU expects IAF to further implement their recommendations on the improvement of the government institutions effectiveness.

Senior managers (i.e. head of institution) set expectations in internal documents of the organisation (e.g. IA provisions, programs, strategic and operational plans, etc.). Moreover, managers sign an internal audit declaration indicating the purpose (mission) and goals, as well as independence and responsibilities of the IA department.

The role of auditors in Ukrainian central government is drawn by Ukrainian politicians according to the international standards, further modelled and implemented by the Ministry of Finances. According to the Budget Code of Ukraine, the IAF aims in improvement of the

governance and internal control, and therefore should result in the creation of the so-called “added value”. General expectation on the role of auditors goes as follows: 1) Advisory role (to provide recommendations on the improvement of the governance system, internal control, including risk management processes; 2) Protection role (prevent the facts of illegal, inefficient and ineffective use of budget funds, the occurrence of errors or other shortcomings in the activities of the institution); 3) Guidance role (to provide recommendations on the improvement of policies and procedures at the institution) (Ministry of Finance, 2019).

However, the results show that there is a general problem with understanding the role of the IA and its identification with inspection activities. The expectations of senior management significantly influence the work of the IAF. While expectations formed by international organisations, ACU, politicians and Ministry of Finances converge, management expectations (and perceptions of the role of internal audit) differ significantly from institution to institution. In most cases, management accepts and uses the internal audit function as an internal control function.

Organisational characteristics (culture, size, structure, etc.) are believed to have a direct influence on the role senders’ expectations (Lynch, 2007; Wickham & Parker, 2007). This analysis reveals that managers place expectations on auditors to perform control role due to the weak internal control units at the Ukrainian central government. Therefore, auditors are unable to advice on the internal control effective operation as there is a general absence of such function within the institution. Managers put pressure on the IAF, which causes IA to experience the role stress in the form of the role conflict. In other words, from the Three Lines of Defence model perspective, the second line in governmental institutions is replaced by the third line.

Ministry of Finances is cooperating with various international organisations in eliminating the role ambiguity, which had previously existed among public sector auditors (Kahn et al., 1964). Documents issued in recent years (e.g. IA, IPA Guidelines) consist of well-defined and clarified expectations, as well as detailed guide for the correct role behavior. However, even though it was out of scope of the research, I identified that role ambiguity is still present in activities of the SAI in Ukraine. Paradoxically, for 20 years of performance auditing no guiding document was created. Therefore, it was found that most auditors of the ACU do not understand the scope and parameters of their job, the goals they should be pursuing and their priorities.

This creates uncertainty about the quality of the performance auditing carried out by the ACU, although, more research is required for the better understanding of those findings.

This research also identified that no expectations from role senders are placed on the public sector auditors to prevent and reduce corruption directly. It can be explained by the existence of the complex anti-corruption infrastructure, as well as a special position inside the governmental bodies. Auditors should not participate in corruption investigation but highlight the areas of diseconomy. However, it is obligatory for auditors to present in the audit report the information about possible facts of corruption and notification to the head of the institution about such facts. Moreover, as research shows, the “Anti-Corruption Policy” (i.e. a framework for prevention and sanction of Corruption) exists in each governmental institution, therefore, auditors are expected to assess the effectiveness of such policy and improve it further.

Special attention should be drawn to the creation of “zero-tolerance” environment for corruption. IAF should be focused on strengthening and improving the effectiveness of the internal control system, to curb the possibility of fraud. As stated by Katzenbach, Oelschlegel & Thomas (2016: p.1) “*Culture is the self-sustaining pattern of behavior that determines how things are done*”. It is expected that auditors have enough knowledge, skills and other competencies to effectively evaluate the risk of corruption emergence, and the way it is managed by the organisation. When conducting audit activities, internal auditors are expected to focus on evaluating the internal control system and on the management of such risks. By eliminating the possibility of corrupt activities within the organisation with the use of the performance auditing in the right way, it is expected that management will be able to combat corruption and prevent its future emergence.

6.2. Role stress

According to Dale & Fox (2008), role conflicts occur when there is incomparability or disagreement between an auditor’s and organisation’s tasks, resources, rules or policies. Role conflict also occurs when several role senders have different role expectations (Byrne & Pierce, 2007; Marginson & Bui, 2009). Two role conflicts were identified in the study: the inter-sender and intra-sender (Kahn et al., 1964).

The first one applies when pressure from different role senders are in conflict (Kahn et al., 1964). The division between the internal audit and internal control took place in 2012, with the

adoption of the new regulatory framework. However, it is found that managers are still mixing those concepts and placing “wrong” expectations on the IAF.

Under the pressure of the European community, Ukrainian politicians have issued new regulatory framework setting new roles for auditors. At the same time, managers perception is that auditors lack competence, therefore, auditors in general are not recognised as those who can give recommendations.

Consequently, internal auditors appear in “Dilemma” between the two role senders with contradicting expectations. Auditors are pushed in different ways as illustrated in the “Status Triangle Dilemma” in the first chapter (Figure 2.2). International actors expect auditors to perform the role of helpers and consultants of their institutions and to help with the development of the effective internal control. While managers are perceiving auditors more as “watchdogs”, therefore, having a pressure on auditors in the form of salary and promotion (Figure 6.1).



Figure 6.1. The illustration of the inter-sender role conflict in Ukrainian central government

Source: constructed by the author.

Intra-sender conflict appears when incompatible prescriptions and proscriptions are placed from the single role sender (Kahn et al., 1964). The research shows that international organisations, Ukrainian politicians, ACU and Ministry of Finances expect auditors to improve the governance and internal control. However, empirical findings also present that no environment was created for this specific role behavior. The lack of employees makes it impossible for auditors to perform their role properly. Moreover, the professionalism of those employed should be significantly improved.

Role senders also expect auditors to create a “zero-tolerance” environment for corruption

by strengthening and improving the effectiveness of the governance, risk management and internal control system. However, due to the existing organisational environment and absence of the internal control, auditors are unable to improve the system, being forced to perform control and inspection functions instead.

According to the study of Senatra (1980: p. 601): *“one of the ways to reduce role stress is to eliminate the stress-producing element”*. The degree of stress experienced by the auditor may be reduced if managers could be made more aware about which characteristics of the organisational climate are related to the conflict. Therefore, the creation of the strong internal control system would place the control role on the right actors at the institution, giving IA an ability to perform assistance and consultancy at the 3 areas: governance, internal control and risk management. Assuring auditors independence, attracting more qualified employees and developing the educational and training programs would assure the proper performance of the auditors’ roles. Consequently, auditors will be able to prevent and reduce corruption by improving systems at organisation.

According to Kahn et al. (1964), there are two responses to the role stress: behavioral coping efforts and effective symptom formation. There is an evidence that public sector auditors in Ukrainian central government try to correspond to expectations, although, they correspond to the expectations of the manager. With the pressure from higher level, the majority of auditors are performing roles, assigned to them by their managers. An attempt to modify demands was successfully underwent by one of the respondents, who claimed about the importance of the role communication by IA manager to the higher level. However, general perception of informants is that auditors are lacking power and independence, therefore, there are obstacles with modifying their role behavior from the bottom level.

6.3. Role behavior

Study shows that the role performed by public sector auditors in Ukrainian central government varies from institution to institution. This depends on the difference in expectations and various factors as presented at the Figure 6.2 below.

As a result of the role stress, organisational environment (structure), skills and competencies, number of staff and level of independence of auditors in Ukrainian central government - the “watchdog” (control, inspection) role is prevailing in IAF in Ukraine. The

control role is placed on the auditors in Ukrainian central government by managers of organisation and enacted under the impact of the factors presented at the Figure 6.2. The focus is mainly on the assessment of legality and reliability of reporting, accuracy of accounting and compliance with legislative acts, rather than on a systematic approach to improve the internal control system. According to the Ministry of Finance, performance auditing occupies 12% of the IA activities. This shows that public sector auditors do not perform the role, assigned to them by the legal framework.

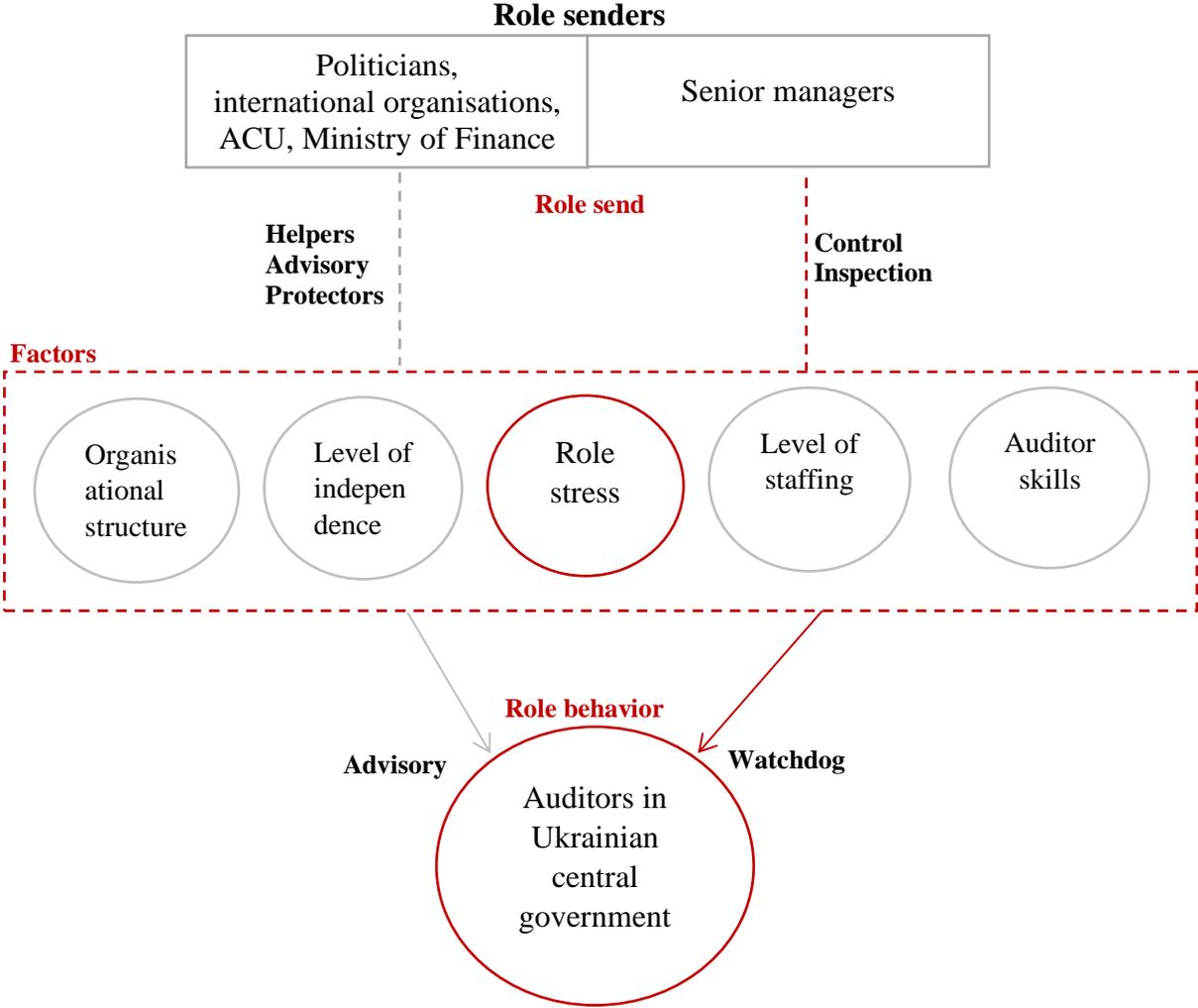


Figure 6.2. Process and factors of the public sector auditor’s role enactment

Source: constructed by the author.

Limited number of institutions are performing the role as helpers or advisors. All public sector auditors are aware about the new advisory-like role that they are expected to perform. However, the low percentage of performance audits in their activities indicate that auditors are facing numerous challenges to enact this role.

The study identified that weak internal control mechanism or even its absence is the reason for managers to put the same expectations both on IA and internal control units. Due to such factors as existing organisational environment, auditors are unable to improve the system, being forced to perform control and inspection functions instead.

The majority of informants stated about the lack of managers support, as they are still perceived and expected to perform the role of “watchdogs”. Moreover, the research showed that the lack of auditors independence is present: wishing to fulfil their advisory function they are unable to do so, because management requires other actions, namely the identification of violations. As argued by Ahmad and Taylor (2009), the more internal role conflicts auditors experience - the less importance they grant to independence. As evidenced by the Ministry of Finances (2019), independence of public sector in practice differs from its provision at the national legislation. Therefore, the independence of public sector auditors may be questioned, however, specific study is required on the issue within the same context in order to get a clear picture about the level of independence of public sector auditors in Ukrainian central government. Nonetheless, due to the important nature which the principle of independence poses in the public sector audit (Flint, 1988; Hollingsworth, White, & Harden, 1998; Mautz & Sharaf, 1961; Normanton, 1966; Power, 2005), this factor may have a significant impact on the role behavior.

There is also an enormous workload due to the critical understaffing, few auditors are unable to perform an in-depth assessment of the economy, efficiency and effectiveness of the huge governmental institution. Skills and professionalism are the next factors, which are missing for the enactment of the advisory role. According to findings, “obstructive” aspect, presented by Morin & Hazgui (2016), may be also present in Ukrainian central government. The changes in auditors’ roles, which few respondents claimed about, could probably be a result of their own self-efficacy expectations.

All activities at the Ukrainian central government are present in the official documents, approved by the senior management. By playing the role of “watchdogs”, auditors in Ukraine can identify "red flags" that may indicate corruption. Public sector auditors are able to understand the characteristics and techniques used for the implementation of corruption, various fraudulent schemes and scenarios, evaluate the signs of corruption and decide whether further action is needed and whether an investigation is recommended. Consequently, presenting those finding in the reports for the further actions of special anti-corruption units and managers. Various indicators can point out the corruption activities, some of them are presented

at the empirical chapter of the study, although, those indicators may significantly vary from institution to institution.

However, while there is a general expectation that auditors can create system and culture in which the appearance of corruption would become impossible, current situation with auditor's role behavior in Ukrainian central government makes those prescriptions impracticable. As was stated before, in practice, the majority of auditors in Ukrainian central government are performing control and inspection roles. Therefore, there is a role conflict as roles have an incompatible nature. It is impossible for auditors to improve system of internal control, while performing control themselves. Auditors do not evaluate the effectiveness of the anti-corruption policies at the institution and institutional functioning in general, focusing on the search of violations and their elimination.

The performance auditing occupies low percentage of audit activities held at the Ukrainian central government, therefore, it can be argued that the performance auditing, as a tool, is not used for its purposes and does not provide enough benefit in prevention and reduction of corruption. Moreover, there is a lack in staffing and auditor's competence to combat corruption, the recommendations of auditors are not expected by management and are not listened and further implemented.

The lack of independence is the next factor, which holds auditors from preventing and reducing corruption. As stated by Wildavsky (1979), the separation between the agent and the auditing agency is central for oversight mechanism not to work primarily as a self-evaluation function. Gustavson & Sundström (2016) have included it as one of the three main principles that can be regarded as essential elements in a definition of good auditing. As stated in Gustavson & Sundström (2016) research, there is a risk that self-estimations will overvalue performance and downplay underperformance and other problems in the organisation due to management's desire to present a picture of success (Meier et al., 2015). Additionally, as presented in the empirical findings of this thesis, some institutions can benefit from being unprofitable to receive the governmental support.

VII. CONCLUSIONS

The aim of this thesis was to understand the roles performed by public sector auditors and how those new roles can prevent and reduce corruption in Ukraine. To achieve the presented results, qualitative study based on role theory proposed by Kahn et al. (1964) and Katz & Kahn (1978) was conducted. Data collection is based on semi-structured interviews conducted among 15 experienced auditors in public sector in Ukraine, as well as on documental analysis.

The discrepancies between the legal framework and auditor's perceptions made the research process more complicated, but also fruitful. Legal framework assigns auditors with the role, which corresponds with international standards and reflect the performance auditing perspective. However, the perception of auditors and information obtained from the Ministry of Finances provided me with the real picture of the public sector auditing in Ukraine.

This thesis contributes to the public sector auditing research with the unexplored case of a post-soviet country and sheds lights on the impact of the public sector auditing on corruption. The thesis is coherent to the previous research related to the Ukrainian context by Slobodanyk (2008), Bardash (2010), Maksimova & Slobodanyk (2014), Skorba (2015), Konovalov (2015), Nevidomyi (2016), Pikhotskiy (2016), Maksymenko & Melikhova (2017), Makarenko (2017), Grytsyshen & Nazarenko (2018), Novikona et al. (2018), Gurzhii et al. (2019), Slobodanyk et al. (2019).

The research showed that there is a general lack in understanding of the public sector auditor's role. This leads to the role stress and inability of auditors to enact their new role. Therefore, the quality of the auditing does not prevent and reduce corruption, as it should. Practical contribution of the research is seen in the increased awareness of the public sector actors about the role of public sector auditors in order to promote the real shift in roles. As the result, it is expected that better auditing and improved systems functioning will combat corruption more effectively.

What is the role of public sector auditors in Ukrainian central government?

Previous public sector accounting research was useful to provide with innovative perception about auditors and their roles, enabled with the performance auditing introduction. It is argued that auditors are no longer deemed as "watchdogs" and have a much wider scope of duties and opportunities.

Ukraine goes hand in hand with world trends by reforming public sector in various areas. Therefore, the roles of auditors in Ukrainian central government were changed significantly with the development of the new regulatory framework. The new roles that auditors are expected to perform are advisory, protection and guidance. However, the research identified that there is not a real shift and auditors in Ukraine still perform traditional role as institutional inspectors. Therefore, there is no compliance between the current legal as well as regulatory framework governing public administration in Ukraine and real situation.

The research based on the role theory indicated the role stress that auditors are experiencing in the form of two different role conflicts: the inter-sender and intra-sender. Analysis reveals that managers place expectations on auditors to perform the inspection role, while the legal framework calls for the traditional role withdrawal. Such factors as role stress, organisational environment (structure), skills and competencies, number of staff and lack of independence – makes auditors unable to enact their new advisory-like role.

This study contributes to the previous research on public sector auditing, which argues about a need to establish the specific context in which internal auditors are required to operate (Ahmad and Taylor, 2009). Overall, the findings suggest that changes are needed in hanging the environment surrounding the IAF, since analysis shows that the above-mentioned factors have a greater impact on the role behaviors of public sector auditors than the legal environment.

There is also the lack of political will to listen to auditors' recommendations and reform the public sector to prevent corruption, supporting the study of Klitgaard (2006). Therefore, it is crucial to ensure the independence of auditors and change in management perception about the role of the public sector auditors.

How public sector auditors could prevent and reduce corruption in Ukraine?

There are two ways in which public sector auditors can prevent and reduce corruption. The first one is seen in recognising indicators or “red flags” of corruption in the official documents of public sector institutions and provide recommendations to combat those corrupt practices (Khan, 2006; Albrecht et al., 2012; Ministry of Finance, 2019). However, the corruption will still appear, forcing involved in the corrupt practices actors to hide it better. Therefore, it is more linked with the prevention and reduction of corruption for the limited period of time, with its further appearance and grows within institution.

The second way is based on the creation on the environment with “zero-tolerance” towards corruption. The contribution of public sector audit should be mainly seen in the context of building integrity, spreading an anti-corruption culture, and sustaining an environment without corruption. In accordance with applicable law and generally accepted international standards, audit activity should be mainly focused on the analysis and assessment of the effectiveness and efficiency of the internal control system (Ministry of Finance, 2019). Therefore, the effectiveness of this tool is seen primarily in its ability to combat corruption permanently by ensuring the effectiveness and efficiency of the public sector (Khan, 2006; Otalor & Eiya, 2013; Reding et al., 2013; Jeppesen, 2019).

Research identified that role behavior of public sector auditors affects how effectively institution can combat corruption. Performance audit contributes to compliance with the principles of effectiveness, efficiency and economy in the allocation of the institution’s resources. The ability of the public sector auditors to correctly identify and assess the risks and to formulate clear recommendations to reduce them is one of the most important factors in the success of the reforms in the public sector.

However, the case of Ukrainian central government shows that traditional “watchdog” role of auditors is not effective in achieving tangible result. Auditors with sufficient knowledge can identify corruption “red flags”, however, the system will continue to enable corruption appearance. The organisational environment should be adjusted for the performance by auditors of the roles, assigned to them at the legal framework. Those are advisory, protection and guidance, which together may result in “zero-tolerance” to corruption environment with effective governance, risk management and internal control.

Limitation

The research design of this project has some limitations. The scope of this study is limited to the case study of Ukrainian central government. The findings may therefore not necessarily be directly applicable to other contexts, therefore, comparative studies with other Eastern Europe countries are needed. The method and the questionnaire can be used in future research for empirically exploring the role of public sector auditors and corruption in other contexts.

Due to time limitations and pandemic of COVID-19, some informants have cancelled agreed interviews. In total, empirical findings are based on information from 15 (fifteen)

auditors. It would have been better to include perceptions of more public sector auditors, but I am convinced that for my topic, enough representation is retained.

Further research

Very little research has been conducted on the IAF, a wide range of questions still need to be explored. In order to improve our knowledge and understanding of internal auditing and governance, it is important to conduct further research on expectations and the relations between internal auditors and other governance mechanisms, particularly the audit committee, the board of directors, top management and external auditors (Roussy, 2013).

As the case study of Ukrainian central government showed, auditors are acting under the pressure of senior management, the question arises if auditors are independent as they should be and how to ensure their independence. Consequently, the issue of public sector auditors' independence requires further research.

The comparison analysis on the case of other post-soviet countries/developing/countries with transitional economies on the roles of public sector auditors will provide literature with interesting discussion about the performance auditing and its impact in the public sector, as well as widen the role theory with new evidences of role senders, expectations and role behavior of public sector auditors. This will also contribute to the understanding of the role of auditors in preventing and reducing corruption.

Moreover, as this research present data about the SAI in Ukraine and finds that performance audits are claimed to be highly developed during the last decades with the present role ambiguity. More research is needed to understand whether SAI's performance audits really lead to adoption of reforms, improvement in effectiveness and efficiency, development of the good governance and other vital changes in Ukrainian public sector.

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Respondents search process

The search of respondents was organised through email. Email addresses were found at the official websites of governmental institutions.

The following message was sent to the SAI auditors:

My name is Tamara Volodina, I am a 2nd year master's student of the double degree program of Taras Shevchenko National University of Kyiv in Ukraine and Nord University in Norway.

I am conducting a master's project on the topic: "Governmental financial control and audit in ensuring the efficiency and effectiveness of public sector in Ukraine". For a high-quality master's research, I need to conduct an interview with representatives of the (ACU, SAS). Respondents may be from different departments and positions.

Kindly asking you to help with search of the respondent who can answer my questions (please find attached). The interview will last approximately 30-40 minutes. If you wish, your contact details will not be listed in the study, and anonymity of your personal data is guaranteed.

I am also attaching official letter from university. Thank you in advance!

The following message was sent to the internal auditors:

My name is Tamara Volodina, I am a 2nd year master's student of the double degree program of Taras Shevchenko National University of Kyiv in Ukraine and Nord University in Norway.

I am conducting a master's project on the topic: "Governmental financial control and audit in ensuring the efficiency and effectiveness of public sector in Ukraine". For a high-quality master's research, I need to conduct an interview with an official of the Internal Audit Department at the (*governmental institution*).

Kindly asking you to help with search of the respondent who can answer my questions (please find attached). The interview will last approximately 30-40 minutes. If you wish, your contact details will not be listed in the study, and anonymity of your personal data is guaranteed. Thank you in advance!

Interview Guide for the external auditors

This interview is aimed at gathering information for my Master's thesis project research. The aim of the study is to get a general overview about the role of public sector auditors in Ukrainian central government and to identify how public sector audit could prevent and reduce corruption in Ukraine. Thank you for your time and help!

Performance auditing

1. Can you give your opinion about the state of the public sector auditing in Ukraine? Do you think that it is already framed? If no, what is missing?
2. Who are the main actors in PA in Ukraine? What are their roles? How do they interact with each other?
3. How the role of public sector auditors changed? When did it happen and why? Is there a shift from “watchdog” to the advisory role?
4. Who are conducting performance auditing in Ukraine? Are there any special department and courses for performance auditors? Based on your experience, which skills are necessary for performance auditors?
5. What other challenges connected with public sector auditing in Ukraine have you faced? What would you like to add regarding performance auditing in Ukraine?

Corruption

6. In which way public sector audit can prevent and reduce corruption in Ukraine? How auditors can fight with corruption, if it normally conceals any trace in the official records?
7. Do you think that public sector auditing is an effective tool to prevent and combat corruption more effectively?
8. Can auditors see the “red flags” (indicators or symptoms of fraud)? Which red flags can you highlight? How should those be treated and presented in reports?
9. Could you please add other information on how public sector audit could prevent and reduce corruption in Ukraine?

Interview Guide for the internal auditors

This interview is aimed at gathering information for my Master's thesis project research. The aim of the study is to get a general overview about the role of public sector auditors in Ukrainian central government and to identify how public sector audit could prevent and reduce corruption in Ukraine. Thank you for your time and help!

Performance auditing

1. Can you give your opinion about the state of the public sector auditing in Ukraine? Do you think that it is already framed? If no, what is missing?
2. Who are the main actors in PA in Ukraine? What are their roles? How do they interact with each other?
3. How the role of public sector auditors changed? When did it happen and why? Is there a shift from “watchdog” to the advisory role?
4. Which role public sector auditors should perform? Is it the same in practice?
5. How results of the performance audits are implemented at (institution)? Are you following the recommendations of auditors? How this process is organised and controlled? Are those recommendations professional and effective?
6. Do you think that performance auditing can improve the performance of (institution)? Please explain your answer.
7. What other challenges connected with public sector auditing in Ukraine have you faced? What would you like to add regarding performance auditing in Ukraine?

Corruption

8. Do you know which anti-corruption measures are being carried out at (the institution), by whom they were initiated? If yes, please describe them.
9. In your opinion, how public sector audit can prevent and reduce corruption in Ukraine?
10. Do you think that public sector auditing is an effective tool to prevent and combat corruption more effectively?
11. Have you received indicators or symptoms of fraud from auditors? Which actions were undertaken? Was is useful in detecting corruption particularly for your institution?
12. Could you please add other information on how public sector audit could prevent and reduce corruption in Ukraine?

Appendix 3.

Respondents

	Institution	Position	Form	Code
1.	The Accounting Chamber	Deputy Director of the Department for the Use of the State Budget in the Regions	Meeting	ACU auditor 1
2.		Head of the Department for Adaptation and Implementation of International Standards for International Cooperation	Meeting	ACU auditor 2
3.		Anonymous	Phone call	ACU auditor 3
4.		Anonymous	Phone call	ACU auditor 4
5.	The State Audit Service of Ukraine	North Office, Head of the Department	Meeting	SAS auditor
6.	External auditor	Director of the Center for Advanced Studies of National university of Kuiv	Meeting	External auditor 1
7.	External auditor	Board member of the Audit Chamber of Ukraine	Phone call	External auditor 2
8.	Federation of Auditors, Accountants and Financiers of AIC of Ukraine	Chairman of the Federation Council	Phone call	External auditor 3

9.	Ministry of Culture, Youth and Sports of Ukraine	Head of department Internal Auditor	Meeting	Internal auditor 1
10.	State Service of Ukraine on Drugs Control	Internal Auditor	Phone call	Internal auditor 2
11.	State Service of Ukraine on food safety and consumer's protection (SSFSCP)	Head of Internal Audit Department	Phone call	Internal auditor 3
12.	Anonymous	Internal auditor	Phone call	Internal auditor 4
13.	Ministry of Development of Communities and Territories of Ukraine	Chief specialist of the internal audit sector	Phone call	Internal auditor 5
14.	Kyiv City Council	Chief Specialist of the Audit Department of the Budgeting Institutions of the Internal Control and Audit Department	Phone call	Internal auditor 6
15.	Kyiv City Council	Chief Specialist of the Audit Department of the Budgeting Institutions of the Internal Control and Audit Department	Phone call	Internal auditor 7

Source: constructed by the author.

Anti-corruption bodies in Ukraine

	Institution	Status	Normative	Scope
1.	NABU	State law enforcement agency entrusted with preventing, detecting, stopping, investigating, and exposing corruption offenses within its jurisdiction as well as with avoiding the commission of new ones.	Law of Ukraine “On the National Anti-Corruption Bureau of Ukraine” dated October 14, 2014	<ul style="list-style-type: none"> - investigation of corruption in the highest bodies of authority and systemic corruption threatening national security; - investigation of instances of fraudulent misrepresentation of information in the declaration; - investigation of crimes in which the amount of damage caused to the state, the community, or an enterprise exceeds 500 minimum wages; - investigation of bribing of foreign officials.
2.	SAPO	Independent structural unit of the Prosecutor General’s Office of Ukraine, which is subordinate exclusively to the Deputy Prosecutor General – Head of the Specialized Anti-Corruption Prosecutor’s Office.	Law of Ukraine “On the Public Prosecutor’s Office” (with regard to the Specialized Anti-Corruption Prosecutor’s Office) dated 14.10.2014	<ul style="list-style-type: none"> - procedural guidance of investigations conducted by the National Anti-Corruption Bureau of Ukraine; - supervision of the observance of laws during investigative operations and pretrial investigations conducted by the NABU; - bringing public charges in criminal proceedings investigated by the NABU; - representation of the interests of a citizen or of the State in court in cases involving corruption or corruption-related offenses, as specified by the Law “On the Public Prosecutor’s Office.”
3.	NACP	Special-status central executive agency which ensures the formation and implementation of the state anti-corruption policy	Law of Ukraine “On Prevention of Corruption” dated October 14, 2014	<ul style="list-style-type: none"> - formation of the state anti-corruption policy and its implementation; - verification of declarations; - monitoring of public servants’ lifestyle; - control over observation of anti-corruption restrictions and requirements imposed by the legislation (plurality of offices, conflict of interests, gifts, etc.); - control over political parties’ financing;

				<ul style="list-style-type: none"> - anti-corruption examination; - cooperation with and protection of informers; - drawing up administrative reports on corruption offenses.
4.	HACC	High Anti-Corruption Court of Ukraine	Law of Ukraine “On the High Anti-Corruption Court”, dated June 7, 2018	- Jurisdiction of the NABU
5.	ARMA	Special-status central executive agency ensuring the formation and implementation of state policy on the detection and search of assets which may be arrested or confiscated under a criminal case and/or on the management of assets arrested or confiscated under a criminal case.	Law of Ukraine “On the National Agency of Ukraine for Detection, Search and Management of Assets Obtained through Corruption and Other Crimes” dated November 10, 2016	<ul style="list-style-type: none"> - implementing measures to detect, trace, and evaluate assets upon request of an investigator, detective, prosecutor, or court (investigating judge); - organisation of implementation of measures relating to evaluation, accounting and management of assets; - maintenance of the Unified State Register of Assets Arrested under a Criminal Case.
6.	State investigation bureau	Central executive agency conducting law enforcement activities for the purpose of preventing, detecting, stopping, exposing and investigating crimes within its jurisdiction.	Law of Ukraine “On the State Bureau of Investigation” dated November 12, 2015	<ul style="list-style-type: none"> - investigation of a wide range of crimes, including corruption offenses other than those under NABU jurisdiction; - investigation of crimes committed by high-level officials and law enforcement officers, except for crimes under NABU jurisdiction; - investigation of crimes committed by officers of the NABU and of the SAPO, except or crimes under NABU jurisdiction; - investigation of military crimes.
7.	The National Police	Central executive agency that serves society by ensuring protection of human rights and freedoms,	Law of Ukraine “On the National Police” dated July 2, 2015	<ul style="list-style-type: none"> - investigation of corruption crimes other than those under NABU or SBI jurisdiction; - corruption offences of an administrative nature.

		combating crime, and maintaining public security and order		
8.	Security service of Ukraine	Special purpose state law enforcement agency in charge of Ukraine's state security	Law of Ukraine "On the Security Service of Ukraine" dated March 25, 1992	

Source: constructed by the author (based on Guide on Anti-corruption in Ukraine, 2016).

Selected Internet secondary data gateways and archives

Name	Internet address	Comment
<i>General focus</i>		
Google Scholar	https://scholar.google.com/	A free web search for links to articles and textbooks
Ukrainian legislation	https://www.rada.gov.ua/	Official portal of the Ukrainian Parliament – Verkhovna Rada of Ukraine
ACU	https://rp.gov.ua/home/	Official website of the Ukrainian SAI
Statistics	http://www.ukrstat.gov.ua/	Official website of the State statistics service of Ukraine
Central government	https://www.kmu.gov.ua/catalog	Official website of Ukrainian Government, catalogue to all the bodies
Cabinet of Ministers	https://www.kmu.gov.ua/en	Government portal
Ministry of Finance of Ukraine	https://mof.gov.ua/en/news	Official website of the Ministry of Finance of Ukraine

Source: constructed by the author.