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MEASURES AND SIGNIFICANCE OF AUDIT IN THE REGULATORY ASSESSMENT OF LAND RESOURCES OF UKRAINE

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Abstract. *The article substantiates that the introduction of a new normative monetary valuation of agricultural land will lead to losses of the revenue base of budgets for individual territorial communities, as well as a decrease in tax revenues to the budgets of local governments. It was proposed to provide the status of public information of technical documentation on the normative monetary valuation of land parcels, as well as reports of expert monetary valuation of land parcels of state and communal property of Ukraine for tax purposes, the calculation and payment of other mandatory payments, which will allow transparently assess the state of resources for their further effective use.*

Keywords: *information, taxes, budget, audit.*

Аннотация. *В статье обосновано, что введение новой нормативной денежной оценки земель сельскохозяйственного назначения приведет к потерям доходной базы бюджетов для отдельных территориальных общин, а также уменьшению налоговых поступлений в бюджеты органов местного самоуправления. Предложено предоставить статус публичной информации технической документации по нормативной денежной оценке земельных участков, а также отчетам экспертной денежной оценке земельных участков государственной и коммунальной собственности Украины для целей налогообложения, начисления и уплаты других обязательных платежей, что позволит прозрачно оценить состояние ресурсов для дальнейшего эффективного их использования.*

Ключевые слова: *информация, налоги, бюджет, аудит.*

Formulation of the problem. The production of material goods is a process of interaction between people and nature at all stages of society. The further development of productive forces is inevitably linked to the inclusion of more and more natural resources in the economic circulation and the increase of environmental stress in the context of scientific and technological progress. The development of society has always been closely linked to land remaining the main humanity resource today since land is not only a spatial basis but also a key means of production in agriculture. Land is not a product of the labor process and therefore has no value. That's why the land valuation involves: assessment of the land consumer properties, benefit assessment of its properties. The land differs from other means in that it is not worn out. On the contrary if it used properly it can constantly improve through acquiring new qualities and increasing its fertility. However land is only a potential means of production without human labor. Agriculture is one of the most important branches in the production sphere engaged in the cultivation of crops and animal breeding to ensure the country food security as well as industry by raw materials.

The analysis of researches and publications. The auditing issues as a form of financial control are sufficiently actualized in scientific publications. In particular K. Asbahr, K. Ruhnke [1], J. Guszczka, I. Rahwan, W. Bible, M. Cebrian, V. Katyal [2], I. Dmytrenko [3], O. Petryk [4], O. Redko O. [5], V. Riadska [6], O. Sherstiuk [7] and others examine the problems of performing audit tasks as a form of control the results of which are applied by economic decision-makers received a sufficient degree

of confidence in the characteristics of the information used.

The purpose of the article is a study of the role and importance of audit in the regulatory assessment of land resources of Ukraine and the development of measures to strengthen its impact on the formation of the revenue side of local community budgets through taxation and land rent.

Presentation of the main research material. According to the Strategy of Sustainable Development "Ukraine – 2020" it was planned to carry out a national normative monetary valuation of agricultural land in 2015 followed by its reassessment at least once every 10 years; elaboration of the Decree of Ukraine Cabinet of Ministers on approving the Methodology of agricultural lands normative monetary valuation; approval of the Procedure of the agricultural lands normative monetary valuation [8]. Therefore its renewal was on time. On February 7, 2018 the Cabinet of Ministers adopted Resolution No. 105 "On Conducting a National (All-Ukrainian) Normative and Monetary Valuation of Agricultural Lands and Amending Some Resolutions of the Cabinet of Ministers of Ukraine". The requirements for carrying out the Agricultural Land Valuation were determined by the task and the plan of measures for the implementation of works.

The new method of conducting normative monetary valuation of agricultural land parcels will result in lower revenues of budgets of territorial communities located in rural areas and village councils. Only arable land normative monetary valuation will reduce the cost by UAH 117.4 billion and will result in local budgets decrease this year. According to the calculations the highest normative

monetary valuation has decreased by 30.1% in Rivne compared to 2018, in Kherson by 29.5%, in Volyn by 27.2%, in Zaporizhzhia by 26.2%, in Lviv by 19.9%, in Kyiv by 17%, Cherkasy by 15.5%. A slight reduction (1-5%) of the normative monetary valuation against the previous level has occurred in Kirovograd, Ternopil, Kharkiv, Chernivtsi and Chernihiv regions. Within the limits (1-5%) of the normative monetary valuation, there was an increase in indicators in Zhytomyr by 4.0%, Zakarpattia by 3.4%, Lugansk by 2.3% and Mykolaiv by 1.5%. In the Odessa region the maximum indicator was 10.3%.

Thus the introduction of a new normative monetary valuation of agricultural land will result in the loss of revenue base of budgets for individual territorial communities. Tax revenues to the budgets of local governments will decrease on the percentage reduction of the normative monetary valuation. The local self-government bodies make decisions about changing the amount of local tax rates according to the provisions of the Tax Code of Ukraine particularly as regards the land tax before the beginning of the next budget period. In this way it is no longer possible for local communities to influence the equalization situation in 2019 of the respective budgets revenue capacity within the existing legal framework. The calculations show that the owners of land (shares) will suffer the most due to the introduction of a new normative monetary valuation of agricultural land. First of all a decrease in the arable land valuation will result in a reduction in the corresponding share of the rent level which is usually recorded in leases mainly as a percentage of the normative monetary valuation. A comparative normative monetary valuation of ar-

able land and the difference in the payment of rent per hectare by administrative units is shown in Table 1.

Regarding the calculations rents to land owners for 1 ha of arable land will decrease in Rivne region by 414 UAH, Kiev by 364 UAH, Cherkasy by 333 UAH, Sumy by 338 UAH, Volyn by 268 UAH, Poltava by 253 UAH, Kherson by 225 UAH. According to the calculations the rent for one hectare of arable land in the Odessa region will increase by 91 UAH, Zhytomyr by 33 UAH, Zakarpattia by 20 UAH, and Luhansk by 16 UAH and Mykolaiv by 13 UAH. It is established on the basis of statistic data that the average normative monetary valuation of arable land in Ukraine amounts to 30937,85 UAH as on 01.01.2018 and according to the calculations the average weighted normative monetary valuation of arable land is 27969,7 UAH. The rent for 1 ha of arable land will be automatically reduced by 105 UAH.

It should be noted at the same time that Art. 1 of the Decree of the President of Ukraine "On Additional Measures for Social Protection of Peasants – Owners of Land Parcels and Land Shares" of 02.02.2002 No. 92/2002 [10] determines that one of the priority tasks of the agricultural sector reformed development in the economy is to ensure raising the level of rural population social protection in particular by introducing a lease payment for agricultural land, land (shares) of not less than 3 percent of the land value determined in accordance with the legislation, land share and the gradual increase of the fee depending on the results of business activity as well as financial and economic condition of the lessee.

Table 1

Information on normative monetary valuation of arable land and
the difference in rent per 1 ha

Administrative and territorial entity	NMV UAH as on 01.01.2018	NMV UAH as on 01.01.2019	NMV Variation 1ha/UAH as on 2019 till 2018 UAH	From 2019 till 2018%	Rent rate, % 2017	Payment difference for rent ant 1 ha
APC	36946,33	26005	-10941	70,3	-	-
Vinnitsa	33073,42	27184	-5889	82,2	3,30	-195
Volyn	29940,42	21806	-8134	72,8	3,30	-268
Dnipropetrovsk	32525,99	30251	-2275	93,0	2,92	-66
Donetsk	34854,68	31111	-3744	89,3	2,27	-85
Zhytomur	20580,98	21411	831	104,0	5,12	43
Zakarpattia	26377,87	27268	890	103,4	2,26	20
Zaporizhia	33838,40	24984	-8854	73,8	2,13	-203
Ivano-Frankivsk	28567,62	26087	-2481	91,3	3,22	-80
Kyiv	31970,15	26531	-5439	83,0	1,67	-364
Kirovograd	32096,51	31888	-209	99,3	3,64	-8
Lygansk	26519,14	27125	503	102,3	3,15	16
Lviv	26622,12	21492	-5130	80,1	4,25	-218
Mykolaiv	26360,16	27038	408	101,5	3,11	13
Odessa	28114,23	31017	2903	110,3	3,12	91
Poltava	34252,51	30390	-3863	88,7	6,55	253
Rivne	31406,00	21938	-9468	69,9	4,37	414
Sumy	29426,66	26793	-7489	91,1	4,44	332
Ternopil	30039,38	29035	-1004	96,6	2,24	22
Kharkiv	32505,53	32237	-269	99,2	4,93	13
Kherson	34698,86	24450	-10249	70,5	2,20	225
Khmelnyskyi	34495,59	30477	-4019	88,4	4,05	163
Cherkasy	39810,79	33646	-6165	84,5	5,57	343
Chernivtsi	33999,84	33264	-736	97,8	3,27	24
Chernihiv	24423,15	24065	-368	98,5	4,42	16
Ukraine	30937,85	27520,4	-2968,15	88,9	3,53	105

Source: analytical data of the StateGeoCadastre and author's calculations [9].

Comparative normative monetary valuation of the total arable land and the difference in the calculation of rent in terms

of administrative territorial entities are shown in table 2.

Table 2

Information on normative monetary valuation of arable land total area and difference in the rent rate

Administrative and territorial entity	Arable land, thou. ha	Leased out under agreement, thou. ha	%	Rent rate, % 2017	Difference in rent rate for 1 ha	Difference in rent rate, thou.UAH
APC	1283,3	-				
Vinnitsa	1725,5	1051,5	61	3,30	-195	-205042,5
Volyn	672,6	205,2	30	3,30	-268	-54993,6
Dnipropetrovsk	2127,4	1276,8	60	2,92	-66	-84268,8
Donetsk	1652,7	727,8	44	2,27	-85	-61863,0
Zhytomur	1112,7	588,4	53	5,12	43	25301,2
Zakarpattia	200,2	16,7	8	2,26	20	334,0
Zaporizhia	1903,6	1144,6	60	2,13	-203	-232353,8
Ivano-Frankivsk	397,2	110,3	28	3,22	-80	-8824,0
Kyiv	1356,1	797,8	59	1,67	-364	-290399,2
Kirovograd	1764,6	1010,6	57	3,64	-8	-8084,8
Lygansk	1276,6	637,3	50	3,15	16	10196,8
Lviv	794,1	297,7	37	4,25	-218	-64898,6
Mykolaiv	1699,2	883,4	52	3,11	13	11484,2
Odessa	2075,5	1085,3	67	3,12	91	98762,3
Poltava	1774,7	1147,4	65	6,55	-253	-290292,2
Rivne	656,8	256,2	39	4,37	-414	-106066,8
Sumy	1226,3	712,6	58	4,44	-332	-236583,2
Ternopil	856,4	502,0	59	2,24	-22	-11044,0
Kharkiv	1933,2	1074,9	56	4,93	-13	-13973,7
Kherson	1777,9	831,1	47	2,20	-225	-186997,5
Khmelnitskyi	1252,7	780,1	62	4,05	-163	-127156,3
Cherkasy	1272,0	784,3	62	5,57	-343	-269014,9
Chernivtsi	330,8	111,3	34	3,27	-24	-2671,2
Chernihiv	1419,2	825,3	58	4,42	-16	-4951,8
Ukraine	32541,3	16858,5	52	3,53	-105	-1770142,5

Source: analytical data of the StateGeoCadastre and author's calculations [9].

The rent is set in the lease agreement between the lesser (owner) and the lessee and cannot be less than the amount of land tax established by Art. 274.1 of the Ukraine Tax Code and exceed 12% of the normative monetary valuation. For Olympic, Paralympic and Deflympic training bases the list of which is approved by the Ukraine Cabinet of Ministers may not exceed 0.1% of the normative monetary valuation. The sublease fee may not be higher than the rent. Local self-government bodies set land payment

rates and land tax privilege in accordance with PP. 284.1 Art. 284 of the Ukraine Tax Code paid on the relative territories. The terms of the land lease agreement are changed by mutual agreement of the parties.

Having analyzed the above data we see that the rent in the Kiev region is 1.67%, Zaporizhzhya – 2.13%, Kherson – 2.2%, Ternopil – 2.24%, Zakarpattia – 2.26%, Donetsk – 2.27%, Dnipropetrovsk – 2.92%. A slight increase in the amount of rent was observed in Zhyto-

myr, Zakarpattia, Luhansk, Mykolaiv and Odessa regions. In general a new normative monetary valuation will reduce the rent to owners of land shares (parcels) by 1, 77 billion USD. Reducing local budget revenues will not allow them to implement their land use programs. The society must be aware that land proclaimed as a national property under special protection in accordance with the Constitution of Ukraine must be used not only as a spatial basis and means of production but also as a legacy for future generations. Therefore land use must be environmentally sound and economically viable not only for the present but also for the future.

The feasibility, validity and effectiveness of the state regulators decisions to implement and update normative valuation of land resources can be evaluated on the basis of the audit measures implementation. The relevant powers are vested in the entities of the state audit (Accounting Chamber of Ukraine, State Audit Service of Ukraine, State Tax Service of Ukraine), independent auditors and audit firms as well as internal audit services of economic entities. With this in mind the audit subject area for the mentioned entities can be identified in the context of our study (Fig. 1).

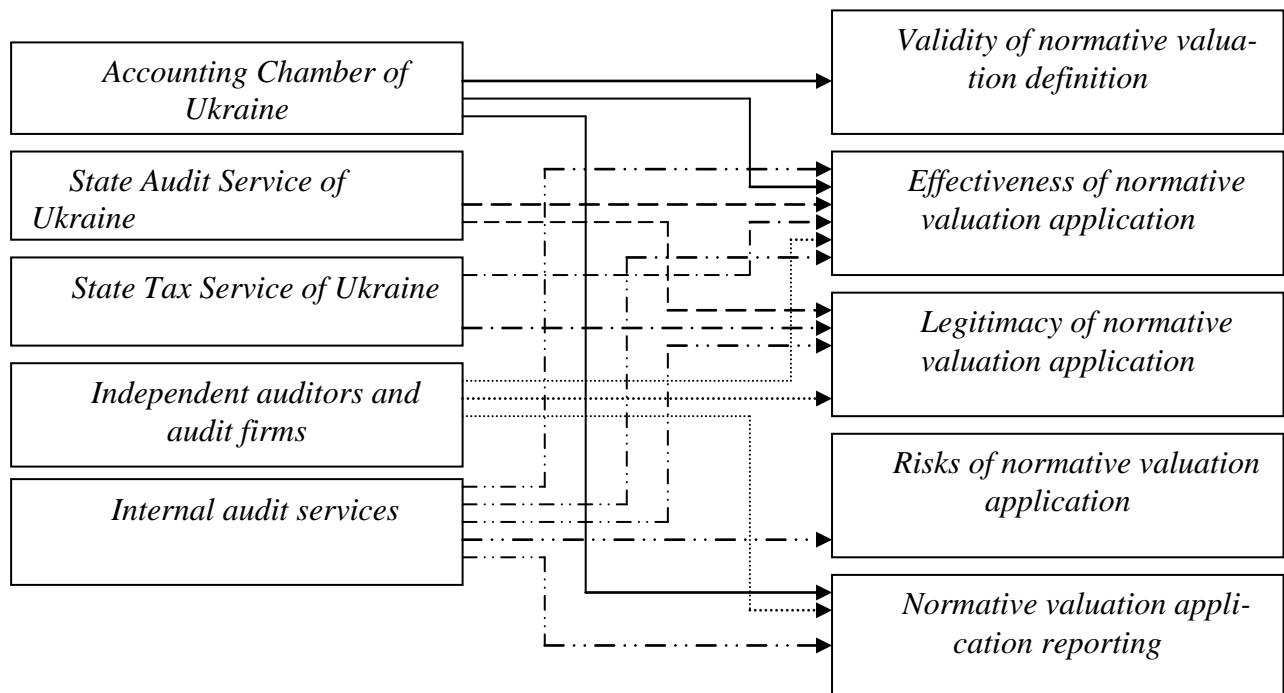


Fig. 1 Audit subject area of application of normative valuation of land resources in Ukraine [author's development]

As can be seen from Fig. 1 the role of audit in the application of the land resources normative valuation is of complex nature in the context of its impact on budgetary calculations. In particular it pertains the subject area that depends mainly on the powers of the entities concerned.

The data of the study allowed the author to conclude that “approaches to identifying consumer behavior of users of financial information make it possible to assess the culture of consumption of financial information, which will determine the assessment of users' expectations from the information and the results of its audit. tasks that can be determined

at the stage of the auditor's decisions on cooperation with the audit client, and the degree of confidence that can be expressed by the auditor" [7, p. 44].

The application findings of normative land valuation based on statistics have show that in most cases audit opportunities in the context of evaluating the use of normative valuation are currently ignored. First of all we have to state that the most significant are the problems in the application of audit measures to determine the economic feasibility and expediency of accounting for the purpose of forming public financial resources (at the stage of determining the need, calculating rates and forming the application algorithm), administration (at the stage of distribution and redistribution of national and local budget revenues from taxpayers and statutory payments) as well as the proper funds application (in designing and implementation of state budget programs).

We consider it appropriate to state the underutilization of audit capabilities in determining the effectiveness of normative valuation. The limited results are regarded to be the consequence of this problem evaluated by the state, independent and internal audit entities solely in the context of determining the tax liabilities of economic entities determined on the basis of the normative valuation. Correctness of determining the tax amount and completeness and timely repayment of the tax liability are taken into account in regarding this. The same problems are of key importance in determining the legitimacy of the normative valuation use and its reporting.

Another nature of the audit capabilities underutilization problem is to make and justify adequate decisions in the application of the normative valuation of land

resources can be characterized by the example of normative valuation in a case of risk. This refers to the actual implementation of the relevant measures solely by the internal audit systems of the entities. Without neglecting the importance of such measures directly at the specified level we propose to apply a risk-oriented audit approach at the stage of determining the feasibility of applying normative valuation. We believe that the current neglect of the risk problem has led to the unpredictable consequences of the application of the land resources normative valuation. These and other issues can be resolved by performing audit activities by authorized entities. Such measures should be aimed not only at fulfilling the tasks of making users aware of historical data but also at being able to obtain objective characteristics of future events related to the use of normative assessments and expected results.

Summary. Monetary land valuation is needed as a mechanism to protect against the irrational use of land by agricultural enterprises as well as in order to economically encourage land users and landowners to treat the land with care without reducing its quality and profitability. Providing the status of public information to the technical documentation on the normative monetary valuation of land as well as reports on the expert monetary valuation of land parcels of state and communal property in Ukraine in the case of valuation of land parcels for tax purposes, accrual and payment of other obligatory payments will make it possible to evaluate resources state transparently with the aim of further effective use. Among the other options for resolving issues connected with the land normative valuation is the use of audit measures. Such measures should be

aimed not only at determining the consequences of the formation and application of the normative valuation of land resources in the practical activity but also will help to increase the level of decisions validity made by economic entities in terms of the possibility in achieving the expected results.

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