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## FINANCIAL CONTROL IN THE SECURITY AND DEFENSE SECTOR: FOREIGN EXPERIENCE AND DEVELOPMENT PROSPECTS

**Introduction.** Given the exceptional role of the security and defense sector, the current dynamic trends of its financial side, it is highly likely that control now plays a rather peculiar and specific role in the functioning of its institutions.

**The purpose of the paper** is a critical analysis of the features of the functioning of the financial control system in the security and defense sector to identify problematic aspects and identify possible ways to overcome shortcomings and improve current control practices in this area.

**Results.** As a result of the study, the need to strengthen the control system in the security and defense sector was substantiated and the main important industry features and specific features that affect it were identified. Among them: increased secrecy; the use of modernized procurement procedures and relevant platforms, not all procurements are open; European integration processes and the development of international cooperation and assistance, etc. Based on a critical analysis of existing foreign experience, proposals for improving control in the security and defense sector were summarized. In particular, the feasibility of using alternative types of control, including internal audit, is substantiated. The advantages of using analytical methods in control in the security and protection sector are proven and their list is identified, the feasibility of using benchmarking and using life cycle analysis of weapons and equipment is substantiated.

**Conclusions.** To implement such innovations, the Ukrainian financial control system should implement various areas of its own development. In particular, it should be aimed at developing control institutions and analytical infrastructure (creating independent bodies, involving the public, introducing analytical centers, etc.). In addition, it is necessary to actively develop the digitalization of control, work towards strengthening its orientation towards ensuring the efficiency of resource use.

**Keywords:** financial control, control institutions, security and defense sector, features, efficiency, budget funds, foreign experience, analytical methods, improvement

### INTRODUCTION

The modern development of financial control in the security and defense sector is characterized by a number of specific features and peculiarities, which are mainly related to the current situation, in particular the Russian military aggression against Ukraine. In addition to transformational changes in approaches to control, e.g., such as the use of electronic documents, such control has its own attributes and properties when it comes to the security and defense sector of the country. The study of such issues has a double meaning. On the one hand, it makes it possible to develop more advanced, effective and efficient control methods and tools. On the other hand, it contributes to the rationalization and optimization of the use of budget funds for defense purposes.

The difficulties in the issues of financial control in the above-mentioned sector, which are associated not only with war, but also with the need to comply with a number of important principles of its functioning, activate and actualize research searches for opportunities to improve the performance of control functions by the relevant institutions.

Given the exceptional role of the security and defense sector, modern dynamic trends in its financial side, it is likely that control now plays a rather peculiar and specific role in the functioning of its institutions.

The **PURPOSE** of the paper is a critical analysis of the features of the functioning of the financial control system in the security and defense sector to identify problematic aspects and identify possible ways to overcome shortco-

mings and improve current control practice in this area.

### RESEARCH METHODS

General scientific and special research methods were used in the research process. In particular, critical analysis is used in the literature review to identify problematic aspects of financial control in the security and defense sector, as well as to study foreign experience in its implementation. Statistical and graphical methods were used in the process of substantiating the need to strengthen and improve the control system. Based on the analysis and generalization, the main important industry features and specific features that affect the control system were identified: increased secrecy; the use of modernized procurement procedures and relevant platforms, not all procurements are open; European integration processes and the development of international cooperation, and assistance, etc. Based on the critical analysis of existing foreign experience, proposals for improving control in the security and defense sector were summarized. In particular, the feasibility of using alternative types of control, including internal audit, was substantiated; the advantages of using analytical methods in control in the security and defense sector were proven and their list was identified, the feasibility of using benchmarking and the use of life cycle analysis of weapons and equipment was substantiated.

### RESULTS

The issues related to the implementation of financial control in this area in recent years, and the conduct of

scientific research in this area are represented in many publications. Among the scientists and practitioners who actively research the problems of financial control in the security and defense sector, the following should be mentioned: I.V. Vovkochin [1], L.M. Kasianenko [1], M.V. Kovaliv [2], R.I. Samsin [3], E.Yu. Sobol [4], N.P. Khrystynchenko [2], O.I. Tseluiko [5], et al.

N.P. Khrystynchenko, M.V. Kovaliv rightly state that: “control here acts as a means that contributes to the establishment of proper discipline and legality, transparency and openness of the defense industry, and is also a guarantee of the introduction of the best European and world standards into the defense sector” [2, p. 2].

Focusing on the importance of the security and defense sector, L.M. Kasianenko, I.V. Vovkochin draw attention to the fact that “control over the use of funds allocated to this area is not carried out in full and with concealment of real data” [1, p. 93].

It follows from this that there is an objective need to develop and improve both the control system itself in the organizational and institutional context, and the tools and methods for implementing control actions, as well as documenting their results. Since control in this sector is mainly associated with the use of budget funds, it is identified as financial in the vast majority of publications.

N. Masson, L. Andersson, M. Salah Aldin believe that “financial control in the security sector is a tool for ensuring control over the fact that state funds allocated to ensure people’s security are spent in conditions of transparency and accountability” [8, p. 12].

Without going into the development of the polemic on issues of categorical definition, we note that the current Ukrainian legislation does not provide a direct definition of financial control. Its identification is possible due to the signs, subjects, objects and other characteristics that are given in legal acts of a higher instance (Laws, Codes). In the practical plane, the implementation of the current principles of the functioning of the financial control system, its tasks, directions, as well as recommendations for conducting control actions, together with objects and subjects, allows us to assert that the definition of this concept can be quite multifaceted (which is observed in modern professional literature and scientific research). However, the main features of such control are the use of all available, including innovative, tools and methods to identify shortcomings or abuses in the use of budget funds to ensure their targeted, rational and effective spending. It is the focus on ensuring rational, effective, and most importantly targeted use of budget funds that is a priority task of financial control, as an important management function.

And instead, taking into account the existing gaps in the implementation and implementation of the results of financial control, an urgent modern research task is to develop recommendations aimed at strengthening the existing financial control system in all possible ways, in particular through the development of its modern tools and the study of positive foreign experience. In addition, both the status of the industry and the attention to its financial support, which is implemented in conditions of martial law, significantly actualize the need to ensure the formation of a high-quality and effective control system. In particular, the draft budget of Ukraine for 2025 provides for expenditures on institutions in the security and defense sector in the total amount of UAH 2,073.01 billion (Fig. 1).

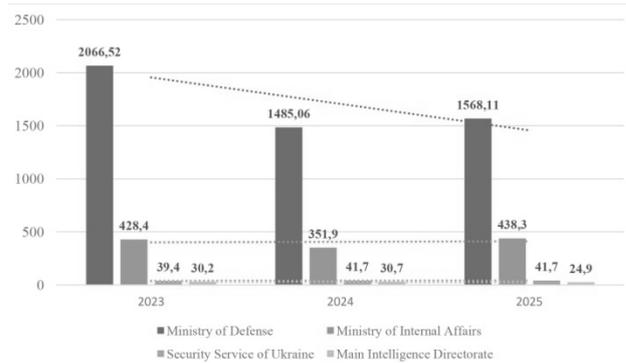


Fig. 1. Expenditures on the security and defense sector in the budget of Ukraine, billion UAH [6]

According to the Budget Declaration for 2026-2028, “in the coming years, financing the defense sector will remain the main item of the state budget... In the event of the occurrence of the baseline scenario with a ceasefire in 2026, the government will be faced with the task of preserving the state’s defense capability. The projected state budget expenditures on security and defense will amount to: UAH 1.817 trillion in 2026, UAH 1.439 trillion in 2027, and UAH 1.384 trillion in 2028” [7].

Given the exceptional nature of the situation, the financial control system, like no other, can play a key role in rationalizing the spending of budget funds. However, it should be taken into account that it has a number of modern specific features caused by martial law.

The first such feature is the increased secrecy and limited access to financial information due to its belonging to the state secret. This, of course, affects the availability of audit, public control or journalistic investigations, etc. However, in terms of state financial control, such issues are clearly regulated. At the same time, a balance is ensured between transparency and security, the result of which is the achievement of targeted use of budget funds.

The second feature is the objective value of the funding volumes, which, due to high spending on the security and defense sector, actualizes the task of ensuring efficiency, targeted use of budget funds, as well as preventing corruption.

An equally notable feature that affects control in the security and defense sector is the fact of using modernized procurement procedures and relevant platforms, in particular Prozorro. Given the secrecy of the industry, not all procurements are open, which creates an increased risk of abuse. The control system must have appropriate levers and tools to minimize such risks. In addition, the relevant institutions (such as the National Anti-Corruption Commission, the National Anti-Corruption Bureau, etc.), whose activities are focused on exposing schemes of abuse and embezzlement of budget funds, must have not only the appropriate powers, but also have high-quality human resources capable of detecting such threats. That is, in modern conditions, the importance of anti-corruption control is particularly increasing.

Another feature is the European integration processes and the development of international cooperation and assistance in the security and defense sector. The former initiated the introduction of internal audit, which is based on risk assessment and ensuring efficiency, and the use of the EU standard and the PIFC (Public Internal Financial Control) model in control. The latter contributed to the expansion of the audit of international institutions (including the World

Bank, etc.) to financial transactions in foreign currency and its receipts. In both cases, changes and development of control tools and institutional capacity of its subjects (both internal and external, in particular the State Audit Service, the Accounting Chamber, etc.) took place. In addition, mandatory accountability for grants or technical programs received was introduced for the controlled entities themselves. This, of course, affects the transparency of spending, and also affects the efficiency of using funds received from foreign partners.

Given the growth of instability and increasing its impact on the security and defense sector, the control system has undergone certain transformational changes in its historical development. In particular, the emphasis has changed and the transition from formal control to the active use of analytical methods in its implementation, including a risk-based approach.

State financial control, thus, in modern conditions has new tasks, specifics and components. O.I. Tseluiko notes that to increase efficiency it is necessary to organize these components into a certain, clearly verified system, to consolidate this system in legislative and other regulatory and legal acts [5, p.5].

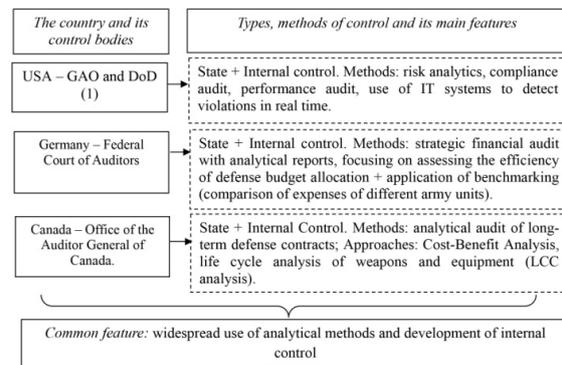
To improve and develop the financial control system, it is reasonable to generalize and critically analyze the existing foreign experience of its organization and implementation. From the available regulatory and literary sources, it is possible to single out the most significant characteristic features inherent in control systems in the studied area of developed countries. The most common experience is the presence of alternative types of control and the active use of internal audit (Fig. 2).

As for the possibilities of using foreign experience in Ukraine, it can be stated with great confidence that a positive result of control in the security and defense sector will be a more active use of analytical methods when conducting control measures and actions (which should be studied in more detail in the future). Also for the considered developed countries, in addition to the existence of state control, the use of such a type as audit (both external and internal) is characteristic.

In addition, it is necessary to positively assess, in particular, the advantages of the audit of the financial statements of the US Department of Defense, which in official documents are divided into financial and operational.

The former are manifested in at least two results: saving money and avoiding unproductive losses (1); improving the ability to use funds (2). As examples, the following information can be cited (data taken from an official report). In the first case (1), the following is confirmed, in particular:

– as of 2024, the Navy has identified 4 systems that are planned to be decommissioned, which, according to preliminary estimates, will allow avoiding costs of almost \$ 103 million;



(1) – Government Accountability Office and the US Department of Defense; author's generalization based on critical analysis [9-13]

Fig. 2. Main features of control systems in the security and defense sector of the USA, Germany and Canada

– in fiscal year 2023, the US Air Force reported the use of such an analytical method as machine learning, which made it possible to identify liabilities in the amount of \$ 653 million, which can be applied in such a way as to preserve future purchasing power [12].

The second (2) highlights: improving financial systems and data; increasing the informativeness of data on assets and inventories; reducing cybersecurity risks; increasing the efficiency of processes (Table 1).

Such experience is also desirable and appropriate for Ukrainian practice of control in the security and defense sector. It is especially relevant in today's unstable conditions.

As for the German and Canadian experience, the most appropriate in it is the use of benchmarking (Germany) and the use of life cycle analysis of weapons and equipment (Canada). The introduction of such approaches into control practice in Ukraine will contribute to increasing the informativeness of control results in the context of optimizing resource use.

In general, to improve and strengthen control in the security and defense sector in Ukraine, it is advisable to use such analytical methods as: risk analysis (Risk-Based Auditing); Data mining and Big Data analytics; cohort analysis of costs (comparison of costs of different brigades and units); Cost-Effectiveness Analysis (CEA) – analysis and comparison of the effectiveness of various programs and projects; use of BI systems (visualization, dashboards, cost monitoring).

To implement such innovations, the Ukrainian financial control system should initiate various directions of its own development. In particular, it is necessary to develop control institutions and analytical infrastructure (create independent bodies, involve the public, form analytical centers, etc.).

In addition, it is necessary to actively develop the digitalization of control, work towards strengthening its orientation towards ensuring the efficiency of resource use.

This requires appropriate training of the control system's personnel. In the context of the latter, in the most concise

Table 1 – Operational benefits of auditing the financial statements of the US Department of Defense [12]

Advantages	Implementation example
Improving financial systems and data	To standardize data, the Ministry of Defense developed an advanced analytics platform that helped reconcile balances with the Ministry of Finance and avoid potential improper payments worth about \$ 5.5 billion.
Reducing cybersecurity risks	In 2023, the Air Force partially implemented an identity, credential, and access management tool, which reduced cybersecurity risks, e.g., by improving user access control.
Improving process efficiency	In fiscal year 2023, according to an official report from the Ministry of Defense, 79 applications were implemented to automate processes, including 14 for financial systems, which resulted in savings of 5,600 work hours.

formulation, the main requirements for a specialist should be knowledge of IT, analytics, and control methods.

### CONCLUSIONS

Thus, financial control in the security and defense sector in modern conditions is characterized by high requirements in terms of ensuring the efficiency of the use of budget funds and their targeted use. To this end, it should operate with methods and tools that are justified in complex and unstable conditions and provide proper transparency, balanced with national security. In addition, all components and elements of this system must be flexible enough to properly fulfill their role in the control process and overcome high loads and difficulties associated with the modern control environment, including the influence of martial law.

Ensuring synergy in the implementation of control functions in the security and defense sector requires the coordi-

nation of the actions of the institutional structure, the availability of modern technical equipment and software products with high analytical capabilities. Together with the use of positive foreign experience, it is possible to significantly improve the organizational, methodological and instrumental components of the current Ukrainian control system. Innovation in issues of further improvement and development of financial control in the future requires reviewing the requirements for personnel and exploring ways to increase the level of its training, including by higher education institutions. No less relevant is the study and critical assessment of analytical methods in the context of their use for control purposes. An active search for ways to improve will contribute to increasing the efficiency and quality of financial control in the security and defense sector, and will also contribute to the rational spending of budget funds.

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## ФІНАНСОВИЙ КОНТРОЛЬ В СЕКТОРІ БЕЗПЕКИ ТА ОБОРОНИ: ЗАРУБІЖНИЙ ДОСВІД І ПЕРСПЕКТИВИ РОЗВИТКУ

**Вступ.** Зважаючи на виняткову роль сектору безпеки та оборони, сучасні динамічні тенденції його фінансової сторони, можна з великою ймовірністю вважати, що контроль зараз відіграє досить своєрідну й специфічну роль в функціонуванні його інституції.

**Мета статті** – критичний аналіз особливостей функціонування системи фінансового контролю в секторі безпеки та оборони для виявлення проблемних аспектів та ідентифікація можливих шляхів подолання недоліків й удосконалення чинної контрольної практики у цій галузі.

**Результати.** В результаті обґрунтовано потребу в посиленні системи контролю в секторі безпеки та оборони й ідентифіковано основні важливі галузеві особливості і специфічні риси, які на неї впливають. Серед них: підвищена секретність; застосування модернізованих процедур закупівель і відповідних платформ, не всі закупівлі є відкритими; євроінтеграційні процеси та розвиток міжнародної співпраці й допомоги тощо. На основі критичного аналізу наявного зарубіжного досвіду узагальнено пропозиції з удосконалення контролю в секторі безпеки та оборони. Зокрема, обґрунтовано доцільність застосування альтернативних видів контролю, зокрема внутрішнього аудиту. Доведено переваги застосування під час контролю в секторі безпеки та охорони аналітичних методів й ідентифіковано їх перелік, обґрунтовано доцільність застосування бенчмаркінгу та аналізу життєвого циклу озброєнь й техніки.

**Висновки.** Для реалізації таких інновацій українська система фінансового контролю має реалізувати різні напрями власного розвитку. Зокрема, його має бути спрямовано на розвиток інституцій контролю та аналітичної інфраструктури (створення незалежних органів, залучення громадськості, запровадження аналітичних центрів тощо). Крім цього, активно слід розвивати цифровізацію контролю, працювати в напрямі посилення його орієнтації на забезпечення ефективності ресурсовикористання.

**Ключові слова:** фінансовий контроль, інституції контролю, сектор безпеки та охорони, особливості, ефективність, бюджетні кошти, зарубіжний досвід, аналітичні методи, удосконалення