

Postulates and Principles of State Financial Control and Their Application in the Russian Federation

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Abstract: In the article, the analysis of the state policy of the Russian Federation in the sphere of state financial control over expenditure of public funds in the Russian Federation is provided by comparing it with the international experience that is expressed in postulates stated by Lima Declaration of the guiding principles of control and with the experience of some selected foreign countries. The efficiency assessment of the current system of financial control in the Russian Federation is considered through the assessment of its performance. The ways to improve the contemporary system of state financial budgetary control in the Russian Federation are suggested.

Key words: Finance • Financial control • State financial control • Budgetary control • Interested user

INTRODUCTION

Currently, the society and the science have quite clearly defined main functions that a state must perform. They are the distributive, redistributive and stabilizing functions [1, pp.20, 21]. These functions are mainly carried out through the implementation of the government financial policy. At that, an important place in the financial policy of any state is occupied by the strategy of state financial control (hereinafter referred to as SFC).

The SFC system, along with budgeting and other mechanisms of financial management, is meant for prevention of utilization of centralized finance with purposes not related to performance of public functions.

Financial control is being developed as a response of the owner to the inevitable behavior of managerial employees who do not often treat the owner's goals as their own ones. Therefore, for example, from the point of view of the institutional theory, any institution appears as a reaction to the existence of transactional expenditures and its probable purpose is the minimization of their affect, which increases the exchange benefits [2, p. 166].

The government, as the largest owner in the country, is not allowed to stay unaware of how the managerial employees (being or not employees of state) use the public finance. Moreover, public finance requires control

that is more careful. Firstly, because of the responsibility before the society. Secondly, because of the vast scope of its application. Thirdly, within the scopes of public management, a large number of various state programs are applied and, for the Russian Federation, a state of permanent reforms is typical almost in any sphere of governmental financial activity (probably, excluding the banking sphere only). And, as evidenced by international and national experience, despite the obviousness of the issue of expenditures, it is not even raised at many discussions of reforms [3].

Another fact to be noted is that many scientists associate the SFC system establishment in their countries with further strengthening and improvement of public management. James Sundquist wrote that the current presidency, as assessed from the point of view of the assigned responsibilities, started on June 10, 1921, on the day when President Harding signed the Budget and Accounting Act [4].

In other countries, the development of the SFC practice theory is defined by two factors: the experience of national public and legal development and the principles of the Lima Declaration of Guidelines on Auditing Precepts adopted within the framework of INTOSAI in 1977 (hereinafter referred to as the Lima Declaration) [5].

A state, having taken principles of the Lima Declaration as the basis [6], agrees with the postulates, adopted by the world community at summarizing the historical experience of the SFC organization and implementation, of which the principles are the result. There is no direct indication of the postulates formulation in the declaration, but they flow out of the context of the declaration. Let us formulate the main ones:

- A state, having assumed the obligation to manage public centralized finance, is liable to the society for the correctness and efficiency of their utilization.
- A state is to independently determine the model of organization and the rules of implementation of the state financial control (both external and internal) and fix them in its Constitution and other legal acts.
- There must be no directions excluded from the control system in the financial activity of the state and its structures.
- Control bodies (both external and internal) are to be as independent from the public bodies they control as possible.
- Control bodies are not liable for mistakes made by the inspected bodies.
- Measures upon the results of control must be taken by executives of inspected organizations; control bodies are only entitled to provide recommendations on elimination of revealed breaches and deficiencies or to apply to relevant authorities demanding to take such measures.

In foreign countries, the organization and authorization system of supreme control bodies is determined by the specificity of the form of government. In parliamentary republics, parliament control plays the main role and auditing chambers established by the parliament provide it.

For example, in Great Britain, there are no unambiguous and formally stated criteria for assigning the constitutional status to certain written statutes. The specificity of the English system of law allows treating any Parliament's act that regulates issues of financial control as a constitutional one [7].

According to the National Audit Act adopted in 1983, the supreme supervisory body is the Lower House of Parliament, which conducts its activity through the Audit Commission (Article 2) and the National Audit Office (Article 3), which is headed by the Comptroller and Auditor General (Article 1) [8].

The legislation of Germany does not contain any provisions that would regulate the functions of the Federal Audit Office. This issues is stipulated by the Constitution of Germany [9, Article 114] and many instructions are provided in the budgetary legislation – the Federal Budget Code of Germany and the Budgetary Principles Act.

According to the German Constitution, the supreme supervisory body is Bundestag as well as the Federal Audit Office, the status of which is equaled to the status of a ministry and the members of which are granted the judge's independence [9, part 2 of Article 114].

In presidential republics, along with the parliamentary control, usually there are supervisory structures of executive power that are granted significant authority. For example, in the USA, according to the 1921 Budget and Accounting Act, which is believed to be the ancestor of the contemporary system of governmental financial control, along with the supreme supervisory body - the United States Congress and the Office of the Comptroller General subordinate to the Congress, there are the President's Office of Management and Budget, the system of inspector services at federal authorities, President's Council for Financial Misconduct at Governmental Bodies [10, Article 25].

Thus, in the mentioned countries, one of the legislative body's houses acts as the supreme supervisory body and provides SFC, including its accomplishment through a specially established financial control body, independence of which is reached through assigning supreme status and wide authority to them through constitutional acts.

According to the recommendations of the Lima Declaration, states also regulate internal and in-house control. For example, the USA adapted the requirements of the Sarbanes-Oxley Act [11] for governmental organizations in order to implement risk management, mandatory record of supervisory actions, etc. at governmental institutions [12]. Similar requirements are specified in the European Union through implementation of the PiFC methodology [13].

Now, how is it going with approaches to SFC organization in the Russian Federation?

Firstly, statement in the Constitution of the Russian Federation of main principles applicable to the whole activity of the state, namely: lawfulness, federalism, unity of financial policy, free speech, participation of citizen in the financial activity of the state and the local

self-government authorities as well as planned nature [14, Articles 8, 15, 32, 71], is believed to allow organizing efficient SFC.

The Constitution of the Russian Federation does not say anything about the supreme supervisory body of the state and, accordingly, of its status and the extent of its independence, as required by the Lima Declaration [6, Article 5]. Consequently, at the level of federal power in the Russian Federation, a package of supervisory bodies relating to different branches of government has been established, which do not interact with each other and, at that, they carry out the same functions [15, pp: 9-15].

Secondly, the main document that regulates the budgetary process in the Russian Federation is the Budget Code of the Russian Federation, in which there is a separate section dedicated to the governmental and municipal control. However, there are no unified principles of SFC organization in the Budget Code; they are stated by various documents and for various bodies. For example, for the Auditing Chamber of the Russian Federation, *the principles of control* include lawfulness, neutrality, independence and openness [16, Article 3].

For the SFC bodies of the executive branch of government, which is represented by the Federal Service of Financial and Budgetary Supervision of the Russian Federation (Rosfinnadzor), as an external control and bodies of departmental (internal) financial control over main manager (or manager) of public funds, the principles of *accomplishment of supervisory activity* are approved only for the bodies of departmental (internal) financial control and include independence, professional competence and due care [17, Clauses 8-11].

At that, all of them are the ethical principles, which concern more the behavior of an employee who is to carry out a particular audit at a particular object, rather than the organization of operation of the respective supervisory body. At that, for example, the independence of its executive from the audited ones is not regulated at all.

Thirdly, according to the Budget Code of the Russian Federation, not all issues related to utilization of public centralized finance interest the government, but only those related to abidance by the process of formation and utilization of public money. Analysis of liability, provisioned for violation of the budgetary legislation, indicates that 27 of 29 breaches (93%), for which the Budget Code stipulates certain penal sanctions, are the breaches of the procedures of planning, allocation and

bringing of public money to the recipients of public funds and only two of them are the breaches of the procedure of utilization and application of public money. One of them is inappropriate use of public money and the other one is the breach of the prescribed procedure of governmental and municipal procurements [18, Articles 289-301].

The issues of safekeeping and usage of public property, achievement of planned results, abidance by the legislation requirements beyond the framework of budgetary process (e.g., budgetary (bookkeeping) accountancy legislation), etc. do not concern the government within the requirements of the Budget Code, or it is sure that everything is okay in these spheres. It is a wrong position due to the causes we will explain further.

Fourthly, according to the Budget Code of the Russian Federation, in case of revealing financial violations, the SFC bodies, which have revealed it, are to take relevant measures [18, Articles 284, 284.1]. The budgetary legislation does not stipulate the obligation of executives of public bodies of power and heads of public institutions to react to information received in the result of external and internal SFC. Actually, the SFC information remains uncalled for and it turns out so that the SFC bodies are left to their own devices and the control is done for the sake of the control itself.

This as well as many other facts brings us to a conclusion that the Russian Federation has not perceived the postulates of the Lima Declaration, though it joined it in 1995. By now, during over twenty years, the authors of the budgetary reform have been trying to create something different by trials and errors. Now, what are the results of this search?

It is a paradox, but the SFC bodies – the Auditing Chamber and Rosfinnadzor – have not perceived the limited nature of the targets assigned by the authors of the Budget Code of the Russian Federation, which assumes only control of the process. This is evidenced by the structure of violations revealed by these bodies (refer to the Table 1).

Obviously, the only “interesting” for the government violation is inappropriate use of public money and it equals to only a half percent of the total amount of revealed violations [19, section IV, 21].

This difference in approaches to the implementation of SFC between the government’s interest and the practice of public bodies, which are the supervisors, shows the efficiency of the model the government has selected.

Table 1: Structure of financial violations revealed by Rosfinnadzor in 2010 in the public sector

<i>Types of misconduct</i>	Inappropriate use of public funds	Inefficient use of public funds	Violation of the rules of public property accounting and usage	Violation of the rules of (budgetary) accounting	Other
<i>Share of the breaches in the total number (%)</i>	0.5	3	10	50	36.5

In 2010, the Auditing Chamber of the Russian Federation [20, p. 33] and Rosfinnadzor [19, Section IV] revealed violations in the budgetary sphere to the total amount of 1,258 billion rubles. To compare, in 2010, the income of Moscow, which is the richest region of the Russian Federation, equaled to 1,127 billion rubles, according to the Ministry of Finance of Russia. [21]. In 2012, this figure reached 1,531 billion rubles [22, 23], which is just 10 billion less than the sum of incomes of the Privolzhsky and the North Caucasian Federal Districts in the same 2012 (Privolzhsky – 1,209.6 billion rubles, North Caucasian – 331,8 billion rubles.) [24]. It is worth noting that only a third part of the recipients of public funds is supervised every year. And, for example, the damage caused by financial crimes in the Ministry of Defense of the Russian Federation that have been revealed by the Auditing Chamber of the Russian Federation in 2012 is yet to be calculated.

According to Rosfinnadzor, in 2010, they revealed violations to the total amount of over 745 billion rubles [19, Section IV]. At that, in 2005, this figure was only about 150 billion [25]. That is, the number of financial violations with respect to the public funds increased almost five times during five years. Only 50% of the public funds, which were utilized wrongfully, were reimbursed to the budgets of the budgetary system of the Russian Federation and as for the funds of the federal budget – the figure is just 39% [19, Section V]. Any private owner would have collapse and go bankrupt due to such attitude to the information of financial control.

However, this refers only to the external and extradepartmental control. According to the Auditing Chamber of the Russian Federation, in 2010, only 26 of 112 audited main manager of federal budget funds (the total number of such controllers is about 200 according to the departmental classification of expenses) established their own divisions for internal financial control, which is equal to just 23.2%. 55 of the main manager of federal budget funds did not have any approved departmental standards and methodology of conducting financial control [20, p. 33]. At that, according to the Auditing Chamber of the Russian Federation, bodies of internal control of the main manager of budget funds revealed financial violations to the total amount of 58.2 billion rubles, which is equal to 4.6% of the scope of violations revealed by the external supervisors.

As evidenced by the Russian SFC' materials, there are other, more dangerous threats to the public finance in the budgetary sphere. They include currently the so-called "cuts", encashment of payrolls, purchases of luxurious items using the public funds and many other things. And all this is carried out in strict accordance with the procedures stipulated by the budget process. Moreover, abidance by the procedures is currently a sort of guarantee that they will not be held liable.

If no urgent measures are taken now, the state of Russia will soon fail to carry out the functions described in the beginning of this article. The Russian Federation, at least at the current stage, needs to stop experimenting in the sphere of budget funds expenditure control. And this does not require any expensive reforms or rearrangements. The postulates and principles of SFC, provided by the Lima Declaration, are just to be perceived and appropriate status and authority are to be assigned to the SFC bodies.

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