

Improving State Financial Control over Organizations (Interregional Aspect)

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Abstract. The article describes ways to improve modern Russian state financial control over organizations; individual implementation problems, the specific role of state financial control in the fight against corruption in contract system; it has also been established that today audit must be seen as one of the main institutions under the financial and legal policy of the Russian Federation.

1. Introduction

Today in the current economic situation in Russia, it is essential to focus on developing a working mechanism of state financial control over organization to solve the existing problems. For example, value added tax was raised from 18% to 20% in 2019 and that would only make individuals and businessmen want to evade it. The goal of these changes introduced by the Government of the Russian Federation is to improve tax collection, but the effect can be just the opposite.

Active development of financial relations associated with the contract system that manages public, municipal and private procurement is one of the key areas for improving national state financial control. Despite the fact that the fight against corruption in the public sector was one of the goals of the contract system, this area is exposed to the criminalization risks, as public procurement is associated to public budget spending, which is a target for corrupt persons.

The current state of affairs in public and municipal procurement shows that legal regulation of the contract system dominates economic feasibility. At the same time, lack of procurement regulation practice is one of the important factors that reduces the efficiency of the contract system, including identification and activation of corruption prevention mechanisms by audit institutions, limited access to information, etc, and as a result, corruption is present both in pre-contract and post-contract periods. Thus, financial and legal mechanisms are most relevant for exposing corruption in public (municipal) procurement at the stage of procurement procedure cost development. It is at the stage when the initial maximum price is set, when dishonest customers intentionally raise prices to receive maximum profit from the supplier.

However, "the existing financial and legal mechanisms have exposed certain defects in the implementation of public (municipal) procurement, for example: lack of necessary definitions or excessively complex statutory notions; unclear legal regulation and lack of standard implementation procedure for procurement planning; poor compliance audit system for the contract system and financial control over the budget spending efficiency within the system, etc." [11, 456]. In order to solve these

problems further development of financial and legal regulation in public (municipal) procurement is needed, in particular in terms of improving the state financial control mechanism.

In this regard, the lessons learnt by countries with dynamically developing economies is relevant and shows the special role of state financial control in this process, which is an intrinsic part of an efficient economy as a whole.

2. Interregional analysis

Today efficiency audit is one of the main methods of state financial control in developed countries.

Nowadays in Russia efficiency audit becomes a new type of financial control with well-developed implementation frameworks abroad. We agree with Z. Chernyadev that "considering foreign case studies is very useful in terms of possible introduction of some elements of the existing efficiency audit frameworks that correspond to Russian realities into the everyday work of Russian public administration bodies and the step-by-step development of a "Russian model"" [15, 21].

Special bodies with financial control functions have been established in the majority of countries with one official in charge; most of them are independent bodies. We must say that the adaptation of positive foreign experience related to state financial control system will give us a chance to considerably improve and raise the effectiveness and efficiency of audits, create a better toolkit for providing the state and the public with high-quality, reliable, timely, independent information that is so important for ensuring better efficiency of state management and decision-making at all the state levels [16, 208].

In the US, financial control functions are carried out by the State Department that publishes annual financial reports with the review of financial and other data in the Department, so that the Congress, the President and the public could control budget spending. The audit is conducted by the Office of Inspector General (OIG) and an Independent Auditor, Kearney & Company. The results of the conducted audit are included into the Annual Financial report [2].

As a whole, the financial system programme in the US includes the following: a global financial management system (GFMS), regional financial management system (RFMS), and Consolidated Overseas Accountability Support Toolbox (COAST) [2].

GFMS programme provides for centralized control of billions dollars that are registered in more than 5 million annual transactions conducted by more than 1000 external and internal system users. GFMS plays the central role in everyday transactions of the U.S. State Department. It supports its mission through efficient business accounting and relevant financial information, including obligations, costs, indicators, financial assets and other data. It supports internal offices of the U.S. State Department and is used as an agent storage facility for corporate data [2].

RFMS is a global payment accounting system that have been introduced for divisions worldwide and includes a conjoint accounting system for fund management and processing bonds and vouchers. This year Bureau of the Comptroller and Global Financial Services has finished the FMS modernisation project before the latest presentation of COTS basic product [2].

For better control and accuracy of financial transactions that refer to funding in regional and internal systems, the Department continued the on-line merging multiple stage project to ensure the integration of GFMS and RFMS in real time. This integration will ensure the timely accounting of fiscal data and fund availability checks, increase operational efficiency, prevent expensive reviews resulting from denied transactions and boost the accuracy of financial accounting [2].

Since 2015 software for boosting financial control efficiency has been used more widely. For example, an Americal paysheet was the last pillar implemented under GFACS. This product has an electronic routing, electronic signature and self-service options. As a result, the work of the US Department will become more efficient and state-of-the-art [2].

Thus, in the US there are many automated information systems and software aimed at streamlining financial control.

Today there is a trend for decentralization and segregation of audit as an independent area of audit. In other words, there are activities that evaluate proper budget planning and spending on different levels, legal compliance of public administration activities, and budget spending efficiency.

As for the practices in the Russian Federation associated with tax shift that we have mentioned above, we can assume that the introduction of VAT electronic control system has been a prerequisite for shifting the tax burden to indirect taxes. As is known, today the Risk Management System "Automated VAT control system" (RMS ACS VAT) is being implemented as an automated tool of in-house audit. Thanks to RMS ACS VAT, tax officers collect the data sets of invoices across Russia and compare purchases and sales of various tax payers. If a purchase invoice does not have a corresponding sale invoice, the tax office requests the taxpayer to explain the situation. So, the risk-oriented approach is implemented in the VAT management that allows to easily identify dishonest taxpayers that evade paying VAT for the relevant transactions [7, 66]. However, according to Legal statistics portal of the Prosecutor General Office in 2017, 105087 cases of economic violations were investigated with 24% remaining unsolved. These violations include non-payment of VAT, this is why it is clear that the existing Russian software is not 100% efficient.

In 2016 the Russian system of state financial control was significantly changed due to the elimination of the Federal Service of financial and budgetary oversight. According to Federal Law of 30 December 2008 No.307-Ф3 "On audit activities" the functions of the Federal Service regarding financial and budgetary control and oversight, external control of audit organization work quality are assigned to the Federal Treasury, and the functions of currency control are given to the Federal Customs Service and the Federal Tax Service. As a result, the mandate of the Russian Treasury in terms of state financial control has been strengthened, however, the documents that should regulate these new functions have not been prepared yet. After the Federal Service of financial and budgetary oversight, the personnel has been changed, and therefore the quality of the work has significantly deteriorated.

It is necessary to explore in detail the contract system international experience. The UNCITRAL Model Law on Procurement of Goods, Construction and Services (adopted by UNCITRAL on 15 June 1994) is the essential international legislation that regulates the important sphere of trade and economic relations, namely public and municipal procurement. Though this international act has not been officially ratified by Russia, today we can say with some certainty that it has fulfilled its mission of model law. The second most important law in the international practice after UNCITRAL is Agreement on Government Procurement/GPA [4], which is part of WTO law and regulates on a multilateral basis the procurement of goods, construction and services to meet the needs of the state. This is why it is the second most influential relevant international agreement after the UNCITRAL Model Law on Procurement of Goods, Construction and Services of 1994. However, we must say that the UNCITRAL Model Law is a model law and does not result in international legal obligations, though it contains international standards on public procurement. This is why the value of GPA is associated with the fact that it establishes the international legal regime for public procurement and sets a relevant framework: increased procurement process quality and more efficient satisfaction of public needs. This agreement contains international legal standards for rules and procedures associated with tenders and public procurement and forms the foundation for institutional reforms on the national and international levels [4]. We should also add that the Russian Federation as a WTO member is also a party to this Agreement.

The WTO Public Procurement Committee administrates this Agreement. What is more, there is a WTO Working Group on public procurement and anti-monopoly policy.

This agreement provides for three procurement procedures: "open tendering procedures are those procedures under which all interested suppliers may submit a tender; selective tendering procedures are those procedures under which those suppliers invited to do so by the entity may submit a tender; limited tendering procedures are those procedures where the entity contacts suppliers individually, only under the conditions specified in the agreement [4]. The agreement is not compulsory for gaining a WTO membership, however, in practice many countries require the adoption of this agreement when signing a deal".

After analysing international best practices, we should say that in the European Union (hereinafter referred to as the EU) public procurement is regulated by two basic directives: Directive 2004/18/EC of the EU on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts and Directive 2004/17/EC of the EU coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors.

The European community views public procurement as a tool for implementing social policy. For example, the communique on the European Community legislation on public procurement and public procurement for social policy states that public procurement in the EU should take into account social goals, when contracts on procurements of products that meet state and public needs are signed". The analysis of these documents and contract system practices abroad shows that "procurement procedures are mainly aimed at fighting corruption and thus improve the social life of the citizens" [13, 15].

Today public procurement in Russia are "a number of actions carried out by the customer under the Federal Law and aimed at meeting public and municipal needs. Procurement starts with the identification of the supplier (contractor, provider) and ends with meeting obligations by the contract parties", and "the state customer is a public body (including a public administration body), the Rosatom State Nuclear Energy Corporation, The Roscosmos State Corporation for Space Activities, a state extra-budgetary fund management body or a state public institution acting on behalf of the Russian Federation or a subject of the Russian Federation that have a mandate to assume budgetary obligations under the budget legislation of the Russian Federation on behalf of the Russian Federation or a subject of the Russian Federation and carrying out procurement" (item 3, Article 3, Law No.44-ФЗ) [11, 489].

However, despite strict public procurement norms and regulations and the constant fight against corruption, according to the Account Chamber of the Russian Federation, the public procurement in 2016 amounted to 30 billion rubles, and in 2017 contracts were signed to the amount of 32 008.1 billion rubles (see Table 1).

The number of contracts signed for meeting public and municipal needs is constantly growing, and the system is regulated by various norms, both federal and regional ones, and by many bylaws and rules, including norms aimed at investigation and fight against corruption in the relevant area. However, in 2016 violations were exposed in the amount of 41 billion rubles in comparison to 34 billion in 2015. At the same time, another negative aspect is associated with procurement from a single supplier with its share having grown by 69% since 2015 (up to 816 thousand). So, procurement from a single supplier in 2016 accounted for more than one fourth of all the procurement procedures [12]. Construction has become the principal source of contracts.

Experts identify the following causes of corruption-related crimes in public procurement: imperfect existing public procurement legislation; incomplete and irregular procurement funding; lack of knowledge and understanding of their rights and responsibilities by public procurement experts; order placement bidders' lack of trust in tender procurement, fair competition, unbiased customers; insufficient measures adopted by public administration control bodies to ensure the control over public procurement; dishonest actions of individual officials that make decisions on procurement implementation and procedures [9, 85].

Table 1. Main indicators for the public contract system development in 2016-2017 [17].

Indicators	Units, million	Total, billion rubles	Total, billion dollars
Number of signed contracts, including 2017 (accumulated)	14.5	32008.10	524.72
Number of signed contracts, including 2017 (accumulated)	15.6	86 672,60	1 420,86
Contracts signed in 2017 (without classified contracts)	3.22	5 268,00	86.36
For reference:		Source: Federal State Statistic Service	
Russia, GDP		80 804,31	1 324,73
Consolidated budget of the Russian Federation		29 741,50	487.57
Deficit of the consolidated budget of the Russian Federation		2 819,50	46.22
2016, for reference:		Source: IMF	
Taiwan, GDP (a province of China)			523.58
Sweden, GDP			492.62
Ukraine, GDP			90.52
Slovakia, GDP			86.63
Belarus, GDP			54.61

Public procurement regulates relations aimed at meeting public and municipal needs to increase efficiency, effectiveness of procurement of goods, construction, services, to ensure transparency and

prevent corruption and other relevant violations. In the opinion of some authors, it is only possible to reach the goals of public procurement "if public funds of the corresponding budgets are spent legally and efficiently, this is why in order to enhance the effectiveness of legal norms that regulate the control over public and municipal procurement, the legislator established the institute of financial control over budget spending" [10, 26].

State financial control is a key link in the public finances management system and "ensures efficient public management of creation, distribution and use mechanisms of state and municipal funds" [10, 26]. Today the role and significance of financial control in the financial system only grows.

State and municipal control in public and municipal procurement is one of the elements of the state financial control system.

"Public needs funding control must ensure efficient budget spending, create conditions for enhancing the effectiveness of financial management in government bodies to perform state (municipal) functions, meet the needs of the citizens and the public in state (municipal) services, improve their quality and availability" [11, 488].

The final result of financial support of state and municipal procurement system can be achieved, only if public funds of the corresponding budgets are spent legally and efficiently.

Experts propose to do the following in order to improve public procurement in Russia and fight corruption: "develop more objective evaluation and comparison criteria for tenders and include them into the legislation, find new opportunities for the customer to set new requirements for bidders in terms of their mandate and for the suppliers so that they could appeal against the actions of the customer in the course of public procurement and after the contract is signed" [1; 3; 5; 6; 8; 9; 13; 14; 15; 16].

In today's economic reality the contract audit system should be studied as a combination of interconnected elements: identification (development) of public (municipal) needs depending on goals, objectives and functions of the state (municipalities) using the procurement planning method; budget and extra-budget funding of public (municipal) needs; meeting the identified needs by procuring goods, construction and services; procurement monitoring and audit; control (including financial control) over compliance to norms regulating the procurement contract system, efficiency and quality of meeting public and municipal needs, cost-effectiveness and purpose use of public funds [6].

3. Conclusions

The international good practices demonstrate that finance management focuses on specialized financial control bodies that are independent of the government and accountable to the Parliament. Audits should be conducted by unified control bodies, unlike Russia, where there are several executive bodies (The Treasury of Russia, the Ministry of Finances, etc.) with overlapping mandates regulated by a wide array of norms and regulation.

Today it is in particular relevant to introduce new audit methods, use cutting-edge innovations in information technologies to increase the effectiveness of compliance and efficiency audits of financial transactions.

One of the promising areas in procurements concerns audit that includes analysis and evaluation of procurement results and the achievement of procurement goals. The research of audit of procurement of goods, construction and services for public and municipal needs is especially essential now, as before January, 1 2014 this audit had hardly been conducted.

Today the responsibility of suppliers to justify every procurement units in the procurement plan and schedule has been legislated. Unjustified procurement provide reasonable cause for bodies that conduct audits to thoroughly investigate the supplier's actions for corruption. Sometimes, public procurement audit is called "anti-corruption audit", or "anti-corruption legislation compliance audit". So, today audit must be viewed as a key tool of financial control ensuring that corruption violations are exposed.

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