

WAYS OF IMPROVEMENT OF THE RUSSIAN GOVERNMENTAL AND INTERNAL FINANCIAL CONTROL SYSTEMS

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Abstract: *the following article gives a short analysis of the major disadvantages of the modern Russian governmental financial control system in the context of control over budgeting funds use, as well as over internal financial control system in private businesses. The article proposes several general and specific methods for improvement of both the Russian financial control traditions in the given context of modern economical and legal conditions. The proposed methods include further modernization of the legal and methodological frameworks considering in the context of control over state-funded organizations on one hand and formalizing the process of financial management in private businesses.*

Keywords: *financial control, governmental financial control, internal financial control.*

МЕТОДЫ УСОВЕРШЕНСТВОВАНИЯ СИСТЕМЫ ГОСУДАРСТВЕННОГО И ВНУТРИХОЗЯЙСТВЕННОГО ФИНАНСОВОГО КОНТРОЛЯ В РФ

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Аннотация: *в данной статье представлен краткий анализ основных проблем современной системы государственного финансового контроля в части контроля за использованием бюджетных средств, а также системы внутрихозяйственного финансового контроля на производствах. Выдвинуты несколько общих и частных решений по усовершенствованию финансового контроля в России в современных экономических и законодательных реалиях. Предлагаемые методы включают последовательную модернизацию законодательных и методологических основ финансового контроля за бюджетными организациями, с одной стороны, и формализацию процесса финансового контроля в частном секторе, с другой.*

Ключевые слова: *финансовый контроль, государственный финансовый контроль, внутрихозяйственный финансовый контроль.*

The facts that all the economic units are following the current legislation, government-funded organizations manage budget funds effectively, all the economical units are being examined for compliance with the financial discipline and are using internal financial monitoring techniques are the keys features of the financial stability.

Modern economic conditions predetermine that the fact of following financial discipline gains more and more impact from the points of view of both governmental and private sectors. Despite differences in historical background, subjects of management, methods and goals, both systems share the same essential issue that is to be further explained and analyzed.

The research conducted in the context of the given article has shown that an essential issue that explains a range of disadvantages of the Russian financial control system is not a form or structure of the system as much as the way of perception and interpretation of financial control as some outer or even extraneous independent institute aimed at providing businesses and state-funded organizations with off-site financial reviews.

The Russian system of governmental financial control lacks of any inner mechanism that would synchronize actions of a branched chain of controlling organizations, as well as a mechanism that would estimate effectiveness of such activities. Moreover, a definition of “effectiveness of a controlling organization” is not even formalized in legislation, which leads to absence of any obstacles that would prevent violation of inner financial discipline inside a controlling organization itself.

Essentially the same, but slightly transformed issue exists in the field of internal financial control inside private businesses that are provided by the government with no unified practical references or recommendations of conducting effective financial control during production processes, and controlling measures are often limited to tax and accounting audit.

As a result of the analytical research, several ways of improvement were developed for both spheres of financial control. These measures would presumably reduce the number of financial misconducts in both controlling and under-control organizations in a substantial way.

As for the system of governmental financial control, the following measures are offered for improvements in the system of controlling organizations:

1. The key issue to be eliminated is lack of legislative formalism of the financial control system in the context of control over the activities and use of budgetary funds by state-funded organizations.

The primary objectives to be determined in this context are to delineate responsibilities for financial misconducts (i.e. development and putting into use an all-Russia classifier of financial misconducts) and delimitation of responsibilities between controlling organizations.

2. It should also be emphasized that there is a great necessity in unplanned and on-the-spot investigations over improper use of budget resources and other financial misconducts anyhow connected to budgetary formation and performance. Such a necessity arises due to the fact that, in accordance with the Administrative Offenses Code of the Russian Federation [1], a judgment on the case of an administrative violation can only be ordered not later than one calendar year from the date of such a violation. In some cases, controlling organizations cannot pursue a liable person under administrative procedure due to expiry of periods of limitations.

3. In order to measure governmental financial control activities in statistical figures, a corresponding definition of “effectiveness of controlling activities” must be given. Nowadays there is no unified method or technique for measuring or estimating the effectiveness of governmental financial control activities. Moreover, any database that would combine all the results of controlling organization has not even been developed.

On top of everything, reviews prepared by the Auditing Chamber or the Ministry of Finance or any other controlling organizations do not give any relative indicators [3], providing only such data as: total sum of financial sources used improperly, number of financial misconducts, total sum of budget shortfalls, etc. No doubt, such absolute figures would never give us any opportunity to monitor a share of financial misconducts, their dynamics and significance. As effectiveness of governmental financial control activities cannot be estimated, it places transparency of the whole system in question.

Each organization inside the system conducts its own checks and issues its own reviews that will later not be organized or grouped in a single database, which makes it highly problematic to estimate the impact of the system in whole.

Modern researchers have already developed many different way of systematization of controlling methods and tried to introduce certain unified controlling methods to the academic community. The following are worth noticing [2]:

- Such definitions as “effectiveness of controlling activities”, “reasonability of controlling activities” and “improper use of budget resources” must be formalized in legislation:

- Effectiveness of governmental controlling activities must be formalized as a combination of the following ratios: total sum of financial resources returned to the budget to total sum of financial resources suggested to be returned to the budget; total sum of financial resources generated by the controlling activities to total sum of financial spent on controlling activities; number of fulfilled cases of financial misconducts to total number of financial misconducts; time costs of each controlling activity as compared to norms or standards, etc.

As for the system of internal financial control, indeterminacy and poor development of it is heavily based on the following reasons: lack of methodological recommendations, practical guidelines or sufficient experience in organizing an inner financial control system, as well as lack of some internal leverage, which could be an adequate market competition. The following is offered as ways of optimizing any internal financial control system:

1. Bearing in mind that the majority of domestic businesses do not have any sufficient experience in internal financial control, there is a strong necessity for some unified or standardized methodological recommendations of guidelines developed by the government or self-regulatory organizations for private businesses, which could standardize internal controlling procedures, increase clarity of financial operations and simplify the system of financial activities for both internal and external (independent) financial control.

2. As it is unlikely to estimate correctness of management and financial reporting with no formalized rules that regulate traceability of all the business activities, the first step to reach clear financial discipline is to develop and fulfill a unified accounting policy, especially inside big companies with multiple chains [4]. This could provide all the levels of management with reliable financial information and eliminate ambiguity in interpretation of financial information.

3. The final step to eliminate ineffectiveness of internal financial control systems in private businesses would be personnel development. It should be noticed that financial control is to be considered as a high order form of control standing above all other forms of control during manufacturing processes, especially in highly specialized businesses. In other words, reasonability of a financial operation may not even be estimated without understanding its manufacturing impact. It means that in order to be conducted correctly, internal financial control must be performed by narrowly focused specialists that has not only financial, but specialized background. That being said, a sufficient way of personnel development in the sphere of internal financial control would be cross-disciplinary education and high specialization in specific industries.

4. The last but not least is domestic and international competition on different markets, which is a lot more global but still significant way of financial control stimulation. Only practical experience and real market competition could potentially change the way a business manages its financial operations. All the mentioned above measures themselves can be enough to push the mechanism smart and clear financial management forward, but lack of market competition makes them all unnecessary to fulfil in modern Russian economic conditions characterized by a low market competitiveness, as Russian enterprises generally need some outer motivator to start such a reorganization process.

Such a vision of financial control as of a smooth-working natural mechanism implemented on all the levels of any organization to provide clarity on financial operations proves once more that a controlling function of finances does not eliminate, adsorbs or complicates other functions of finances, but makes the production process complete, providing a synergistic effect on the way any organization is managed.

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