

# Improving Financial Control over the Government System

## Mejorar el control financiero sobre el sistema gubernamental

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#### ABSTRACT:

The article develops offers related to improving the financial control over the government system. It is established that at the present time one of the considerable dangers of the financial system in the Russian Federation is the growth of the number and volumes of law infringements in the area of using state financial resources, unfair fulfillment of official duties by executive officers of executive agencies and local governments, controllers and recipients of taxpayer funds. The approach developed by the authors to estimating financial safety showed that its level over the recent period had been critically low. It can be related to almost doubling of controlling objects and revealed financial violations. In this context it is necessary to consider the activity of the Ministry of Finances of the Russian Federation as an efficient area of strengthening financial discipline that will finally contribute to improving the level of financial safety.

**Keywords:** financial control, system, government, resources, budget, market, safety.

#### RESUMO:

El artículo desarrolla ofertas relacionadas con la mejora del control financiero sobre el sistema gubernamental. Se ha establecido que en la actualidad uno de los peligros considerables del sistema financiero en la Federación de Rusia es el aumento del número y el volumen de infracciones de la ley en el uso de los recursos financieros estatales, Agencias ejecutivas y gobiernos locales, controladores y receptores de fondos de contribuyentes. El enfoque desarrollado por los autores para estimar la seguridad financiera mostró que su nivel durante el período reciente había sido críticamente bajo. Puede estar relacionado con la casi duplicación de los objetos de control y reveló violaciones financieras. En este contexto es necesario considerar la actividad del Ministerio de Finanzas de la Federación de Rusia como un área eficiente para fortalecer la disciplina financiera que finalmente contribuirá a mejorar el nivel de seguridad financiera.

**Palavras-chave:** Control financiero, sistema, gobierno, recursos, presupuesto, mercado, seguridad

## 1. Introduction

The financial and economic crisis in the Russian Federation is increased by the impact of social and political non-stability. It actualizes the task related to protecting national financial interests from external and internal destabilizing factors. At the present time one of the considerable threats for the Russian financial system is the increase in the number and volumes of law infringements in the area of using state financial resources, unfair fulfillment of official duties by executive officers of executive agencies and local governments, controllers and recipients of taxpayer funds.

That is why the organization of efficient control over the movement of funds accumulated in budgets of various levels and non-budgetary funds is an important task of state financial control. Fundamental basics of researching the role of financial control over the state market management were studied in details by O.V. Boltinova (2015), Yu.M. Voronin (2014), E.V. Leverieva (2015), E.E. Smirnov (2015), O.I. Usenko (2015), et al.

In spite of the increased scientific interest in the problem on providing financial control over the efficient use of state financial resources, there is no comprehensive approach to solving it. In particular, it is necessary to further research issues related to the development of methodological tools to estimate the level of financial control, stipulation and formalization of the impact of organizational basics of functioning of the state financial control bodies in the Russian Federation.

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## **2. Methodology**

The reasonability of researching financial control over government requires quantitative confirmation – stipulation of its impact on the indicator of the social and economic development level (in particular, GDP as macro-economic characteristics of the value added in the country during the current period) and economic growth (in particular, the tempo of GDP growth), because their increase says about the results of functioning of the system related to providing financial safety of the country.

When conducting such research, it is necessary to take into account the fact that reports of the Ministry of Finances of the Russian Federation contain statistical information for 145 financial control indicators that have key interrelations.

The formation of an adequate economic and mathematical model that would take into account their impact on GDP and tempo of its growth requires statistical data for the period whose duration must exceed the number of indicators. In order to decrease the dimension of the model without losing its adequacy and forecasting features, it is offered to use the method of principle components.

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## **3. Results**

In a broad sense, the financial control means the creation of conditions to protect financial interests from internal and external impacts, providing financial resources in the volumes that are sufficient to meet the current needs and fulfill obligations (Levinsohn 2003; Fedulin, et. al. 2015). In this context financial control over the government can be considered as an ability of the financial system as a whole and its separate subsystems to provide the protection of national financial interests and stability of social and economic development, stability of financial system towards exogenic and endogenic financial shocks.

According to the results of using the method of principle components, two spatially perpendicular vectors related to changing indicators of financial control over government were built. They cumulatively explain 72% of the features dispersion. There is no auto-correlation between them. Quantitatively we estimated these vectors as a sum of values of financial control indicators multiplied by their factorial loading within the existing vector.

The research of their impact on the level of Russian GDP and tempo of its growth for 2010-2015 allowed to obtain the following regression equation that are the basis for further forecasts

(1):

$$\begin{aligned}\Delta GDP &= 95.1 + 0.000015d_1 - 0.0012d_2 \\ GDP &= 515.6 - 0.003d_1 + 0.24d_2\end{aligned}\quad (1)$$

High values of the determination coefficients of the formed regression equations (0.81 and 0.74 respectively) say about the considerable impact of financial control on the level of social and economic development and economic growth of the Russian Federation. They are target landmarks of functioning of the system related to providing financial safety.

When researching, the authors' approach to estimating financial safety over government has been developed. It provides

- 1) Non-expert but statistical (using the method of principle components) value of weighing coefficients for generalizing indicators of the scale and efficiency of the controlling activity of the Ministry of Finances of the Russian Federation,
- 2) Normalization of indicators taking into account dynamics of their change as compared to the previous reporting period (based on the impossibility of objective defining of limits for each of them).

The calculations showed that the level of financial safety in government of the Russian Federation was the following: in 2010 – 0.84; in 2011 – 0.44; in 2012 – 0.28; in 2013 – 0.43; in 2014 – 0.14; and in 2015 - 0.76. The analysis of the obtained data allows to state that in 2014 its level was critically low. It can be related to almost doubling of objects of controlling activity and revealing financial infringements.

The organization of financial control over government can be considered efficient only when taking actions aiming at improving financial discipline during operations with state resources and property will cause the growth of financial safety. In this context defining the list of factors that have the greatest impact on financial control acquires special urgency.

In order to solve this task, we calculated coefficients of correlation with the level of safety of financial control over government for indicators that are found in the official report of the Ministry of Finances of the Russian Federation for 2010-2015. 18 most relevant indicators of them, whose correlation coefficient exceeded 0.74, were selected for further research.

The first group of factors was made by those ones that characterized the scale and systematic character of financial control of the Ministry of Finances of the Russian Federation (the number and volumes of conducted audits and inspections, revealed infringements, submitted legal claims, etc.)

The second group of factors was made by those that characterized real consequences of financial control over government (volumes of compensated expenses and revealed financial infringements according to the results of financial control). The results of factorial analysis of the estimation of financial control in the Russian Federation for 2010-2015 are shown in Table 1.

The analysis of openness of the activity of the Ministry of Finances of the Russian Federation and the Audit Chamber of the Russian Federation for 2010-2015 was the basis for calculating the index of informational transparency. It can be calculated as an average value of normalized indicators of openness and transparency of financial control over government for the research period.

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## 4. Discussion

The reliability of the above approaches to improving financial control over government is confirmed by the direct relation between the index of informational transparency of financial control over government and level of financial safety in the Russian Federation (correlation

coefficient was 0.61). The functional dependence between them is described as a multinomial of the second degree with the determination coefficient being 0.37.

Table 1 - Results of Factorial Analysis of Efficiency of Financial Control over Government in the Russian Federation

Indicators of efficiency related to financial control over government		Specifications	Correlation coefficient	Regressive dependence for the Russian Federation (for 2010-2015)
Indicators of scale of financial control over government	Total number of control measures that have been taken	CN	0.88	$FCG=0.00007CN-0.31625$
	Number of total complex audits or separate issues of the financial and economic activity	AN	0.87	$FCG=0.00009AN-0.31203$
	Number of enterprises, establishments and organizations involved in audits, inspections of state purchases and commissioning	AI	0.86	$FCG=0.00008AI-0.33301$
	Number of enterprises, establishments and organizations where financial infringements were found	IN	0.81	$FCG=0.00008IN-0.36998$
	Volume of revealed financial infringements that caused financial and material resources losses	VFL	-0.85	$FCG=2.04966-0.00013VFL$
	Volume of revealed non-target expenses of state resources	EV	-0.94	$FCG=2.24352-0.00092EV$
	Volume of the sent information about the results of audits, inspections of state purchases and commissioning to take management decisions	IV	-0.84	$FCG=2.11482-0.00011IV$
	Number of opinions and offers about applying financial sanctions and accruing payments provided by the Ministry of Finances of the Russian Federation	ON	-0.87	$FCG=12.62896-0.00136ON$
	Number of delivered written messages about suspecting criminal law infringement on the	MN	0.82	$FCG=0.70193+0.0000002MN$

	transferred materials of control measures			
	Number of offers taken into account and related to the results of state financial audits	AON	-0.83	FCG=95.30952-0.03576AON
Indicators of consequences of financial control over government	Number of adopted legislative acts and enactments on the results related to financial control over government	AN	0.81	FCG=0.07891AN-0.19175
	Number of management decisions taken according to the results of audits, inspections of state purchases and commissioning	MD	-0.92	FCG=2.36981-0.00014MD
	Volume of the decrease in budgetary assignments to recipients taxpayer funds	DV	-0.77	FCG=2.46892-0.00098DV
	Number of persons involved in administrative responsibility	RN	-0.79	FCG=0.79415-0.00003RN
	Volume of revealed financial infringements that caused financial and material resources losses	FIV	-0.82	FCG=3.75223-0.00026FIV
	Volume of compensated and renewed expenses of financial and material resources	CV	-0.83	FCG=3.67424-0.00027CV
	Volume of accepted requirements about returning subventions amounts and funds provided to recipients of taxpayer funds used improperly	ARV	-0.86	FCG=0.75368 -0.00059ARV
	Volume of funds charged by the taxation body for the budget income according to inspections materials	CFV	-0.91	FCG=0.87081-0.00118CFV

It proves that it is necessary to consider the provision of transparency of the activity of bodies involved in financial control over government as an efficient area in strengthening financial discipline. Finally it contributes to the improvement of the level of the country's financial safety. In the context of providing financial safety of the Russian Federation, openness and

transparency of financial control bodies are important (Lebedev 2014; Leitch and Chen, 1999; Sizeneva, et. al. 2015). On the one hand, it decreases the number of potential infringements of the financial and budgetary discipline due to providing a wide range of interested subjects in objective information about operations with state funds and property, cases of misuse, their reasons and consequences, including those related to administrative responsibility.

On the other hand, it increases the level of responsibility of officers of financial control bodies for the fair fulfillment of their direct duties as a result of constant monitoring of their activity by the society and mass media.

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## 5. Conclusions

It is established that at the present time one of the essential threats of financial system in the Russian Federation is the growth of number and volumes of infringements in the area of state financial resources, unfair fulfillment of official duties by executive officers of executive agencies and local governments, controllers and recipients of taxpayer funds.

The approach developed by the authors to estimating financial safety in government system showed that in 2014 its level had been critically low. It can be related to almost doubling objects of controlling activity and revealing financial infringements.

In this context the activity of the Ministry of Finances of the Russian Federation and the Audit Chamber of the Russian Federation must be considered as an efficient area to strengthen financial discipline. Finally it contributes to improving the level of financial safety. It is confirmed by the direct relation between the index of informational transparency of financial control over the government and level of financial safety in the Russian Federation (correlation coefficient was 0.61). The functional dependence between them is described as a multinomial of the second degree.

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