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# THE ISSUES OF MANAGEMENT OF PUBLIC FINANCE OF THE REPUBLIC OF ARMENIA

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**Abstract**

The article discusses the issues of the development, activities and management of so called "blood system" finance of the market economy. Moreover, the management of public finance was viewed from two perspectives. The first are functions of classical management such as accounting, programming (planning), organization, regulation and control and the second are functions of risk identification and identification in the public administration system in terms of implementing control over certain management. Significant attention is paid to the prevention of abuses in the development and use of public funds and to the management of their risks. Effective and working approaches and structures for neutralizing such risks have been proposed. It is recommended to be guided by the institutional principles of management at all stages of management of public finance by mostly using the classical approaches of strategic planning for the full effectiveness of the system.

***Key words:*** public management, management of public finance, financial control, risks of financial abuses, strategic planning, institutional development of public finance.

**Introduction**

In the current context of geopolitical, economic and scientific-technical development, control over the management of public finance is extremely important from the point of view of effective management of public funds. Control over the management of public finance can not be imagined as a specific body carrying out control functions which can ensure the implementation of the whole process within its functions as the mechanism of management of public finance is quite complex consisting of different levels, consequently, the control of public finance also includes multifunctional processes in different levels and requires a systemic approach. Depending on the form and structure of state government, the management of mechanisms of public finance, and therefore control systems of public finance may be different, but the individual control functions are often unanimous stated by developed countries to meet different standards of international financial processes.

**Conflict setting**

The need for control of management of public finance underlines the creation of many international institutions and establishments, the subsequent improvement and the increase in the number of member countries which is aimed at exchanging international experience and implementing anti-corruption programs to increase the effectiveness of control functions and minimize the risk of abuses. The international organization of supreme bodies of financial

control is INTOSAI as an independent international organization whose regional organization is EUROSAI. It was created in 1953 and it has become a platform for strengthening the accountability of public sector and developing the professionalism of higher auditing bodies as well as exchanging knowledge and best practices. INTOSAI brings together 194 of the world highest audit bodies and 5 supreme audit bodies with status of observer. The RA Supervising Chamber (now the Audit Chamber) has been a member of INTOSAI since 1998, of Supreme Audit Institution of European countries /EUROSAI/ since 2000 and of Supreme Audit Institution of Asian countries /ASOSAI/ since 2007 [14].

We should also note the importance of the topic in the context of the program of the Government of the Republic of Armenia of 2021-2026, in particular, point 6 in terms of institutional development, strategic planning and policy development initiatives and, in general, increasing the efficiency of public resource management of the Government of the Republic of Armenia as they refer not only to the control over the legality of expenditures and the execution of budgets but also to the formation stage of polices and strategies and planning as well as application of control mechanisms in the evaluation of results [1].

Control over the management of public finance should be aimed not only at reducing and identifying corruption risks, but also at preventing those risks, identifying the causes of violations, improving the legislative framework in the field of management of public finance and increasing the efficiency of public spending. From this point of view, the implementation of control over public finances should be considered from the point of view of comprehensive study of the formation of financial resources and expenditure processes which is to ensure the harmonization of the system of public financial control with the system of management of public finance. In this context, first of all it is necessary to study the structure of public finances in the Republic of Armenia in details, the budget system, which, being a set of state-community budgets, requires certain features of the applicability of control mechanisms. Due to the peculiarities of local self-government and the status of the community, as well as the right to self-management of community property and its budget, control over it and management of public finance is a multi-layered system of state bodies in Armenia. The control function of the first layer can be considered the exercise of control powers over the formation and expenditure processes of state funds through their inspectorates and other supervising subdivisions. The second layer of control can be considered the function of conducting internal-external audit in state bodies which is more aimed at increasing the efficiency and expenditure of state resources [5]. And the control of the third layer is carried out by the executive և legislative bodies carrying out control functions, which are currently three in the Republic of Armenia: the State Control Service, the Audit Chamber and the Ministry of Finance of the Republic of Armenia.

**Research results**

In order to consider the above-mentioned issues more in details, it is necessary to present the essence and features of the RA budget system, management of financial flow, activities of financial input bodies, budget expenditure process, the concept of risk in terms of generation and expenditure, implementation of control functions based on risk, the role of internal audit in this process as well as international cooperation in the process of management of public finance.

The budget system is the sum of all types of budgets that are part of each state. The structure of the budget system fully corresponds to the state structure of the given country and its administrative-territorial division. By budget structure we mean the organization of the budget system and the principles that operate under the budget legislation of the given country. The budget structure is determined by the state structure. There are 2 branches of state structure in developed countries: unitary and federal. Unitary states such as Armenia, Japan, Italy, France, England etc. usually have two levels of budgets: state and local, and federal states such as Russia, USA, Germany, Canada etc., already have 3 levels of budgets: republican (federal) budget, budgets of the members of the Federation (state, region, republic) and local budgets. In accordance with the current state structure and administrative division of Armenia, the budget system in Armenia has two levels: state and community budgets. The state budget is a financial document, a balance of monetary revenues and expenditures which is compiled for a certain period of time and it is a program of financial incomes and outcomes for each reporting year which is confirmed by the law on state budget annually. The issues of the structure of the budget system of the Republic of Armenia and budget relations are regulated by the Constitution of the Republic of Armenia and  special financial-budgetary legislative acts [9, p. 4]. According to the RA Law on the "Budget System", the state and community budgets are the financial programs intended for the implementation of the powers stated by the state and local self-government bodies for a certain period of time. Budget execution is the regulated activity of the implementation of both income and outcome formation of state and local self-government bodies.

The income sources of state budget are the following:
1. Tax revenues
2. State duties
3. Obligatory social insurance payments
4. Official grants
5. Other incomes

In order to ensure the harmonious development of the communities, the state budget expenditures envisage financial compensation to meet the expenditures of the communities in the form of non refundable financial means and subsidies.

The state budget expenditures can also envisage other financial aids to community budgets such as:

- Other subsidies for supporting the current expenditures of the community budget which are not connected with other program and which are non refundable financial means,
- Subsidies - free and non-refundable funds for the implementation of a specific target expenditure (program) implemented by the community. The Government of the Republic of Armenia has the right to reclaim the non-targeted expenditures of the subsidies from the community given to the community from the state budget. Subsidies are provided in accordance with the procedure established by the Government of the Republic of Armenia.

The control over the implementation of state budget is supported by the government according to its regulation.

The over control of state budget is implemented by the  National Assembly which:

- Controls the implementation of demands stated by law on the state budget of target year.

- Controls the realization of loans and credits from international organizations and foreign countries.
- Controls the activity to preserve the regulation of staff accountance and legacy of budgetary means and implementation of budgetary obligations [2].

In this sense, the authorized bodies ensuring the revenues of the RA state budget are the following bodies: the RA State Revenue Committee, the RA Real Estate Cadastre Committee, the RA Police and state-owned joint-stock companies that implement state budget dividend revenues through the authorized body and others.

Institutions receiving funds from the state budget are ministries, state administrative institutions and state non-profit organizations etc. The state authorized bodies receive donations and loans from the state budget of the Republic of Armenia as well as from republican special funds and commercial and non-commercial organizations receive money from other state sources.

The functions of financial management and control in Armenia mainly relate to ensure the correspondence of the spent budget funds and the objectives set by the legislation. This goal will be maintained, but more emphasis should be placed on managerial accountability which will make the system more result-oriented and more controllable within program (budgeting based on result).

The implementation of financial processes in the financial management system and the control over it are complementary in terms of increasing efficiency, therefore in the process of ensuring the improvement and modernization of the financial management system special attention should be paid to increasing the level of control over the mechanisms of financial management and from the point of view of control mechanisms the attention should be paid to not only the development of mechanisms of identifying the violations but also the introduction of preventive mechanisms.

In this context the multilayer and multilevel control system of the management of public finance is important, particularly it is necessary to provide control procedures not only in budget implementation, budget formation and expenditure level but also in the level of budget planning and evaluating of its efficiency.

**Control at the level of budget planning**

The control at the level of budget planning is implemented in the stage of budget planning according to which a part of budget incomes and donations are planned in correspondence to the programs by the social, protective, educational, cultural and other policies integrated by the state. The mentioned programs are developed on the basis of the strategic documents affecting on state revenues and expenditures which are of two types:

- Complete strategic document which is a long term strategic document including almost all main functional spheres.
- Mid level strategic document which is a mid term or long term document concerning separate functional sphere or field.

Complete strategic documents (CSD) are long term state strategies. The latter include all functional spheres. They are directly connected with RA Constitution, RA Laws, program of RA Government and international obligations. The expected results are the following: CSD define the long term strategic plans of the development of the country. They are defined at at least sectoral level in the form of long term final results (impacts).

Mid level strategy documents (MSD) are sectoral, mid term or long term strategies. The latter cover one specific area or sphere (for example, social protection, culture, territorial development etc.). MSD strategic goals are defined at least at the sub-sectoral or specific level in the form of intermediate and direct results. MSD must provide a subordination of the expected results, i.e. which final result (s) the intended intermediate results will mainly contribute to. In turn, each intermediate result must be presented in the form of more than one direct result that contributes to it [8].

The definition of strategic goals (their hierarchy) should be a precondition for the development of budget programs and measures, which, in the end, should contribute to the achievement of those goals.

The above mentioned statements prove that the basis of planning and management of public finance is the planning in accordance with the adopted policy which is carried out on the basis of strategic documents of different levels, consequently, control is necessary at the level of planning from the point of view of control over the procedures of formation and management of public finance which represent themselves as control functions to determine compliance with the methodological guidelines of the strategic documents as well as to determine the reliability of the financial (expenditure) and non-financial estimates given to the defined target and basic indicators, objectives and results and to the results of monitoring and current reports.

### Control at the level of budget implementation

Exercising control over the level of budget implementation presupposes exercising control over the actual processes of state budget execution, the legality of expenditures, the legality of collecting state financial revenues, the legality of the process of providing grants to communities and other legal entities, the state procurement process and other actual processes. The state budget is controlled by the government in accordance with procedure established by it and the National Assembly oversees the fulfillment of the requirements set by the state budget law, the use of loans received from foreign countries and international organizations, the fulfillment of budget obligations and the legality of budget expenditures in order to maintain discipline. Supervision is a function of ensuring the accuracy of the executive powers of the budget programs envisaged by the budget, as well as the state administrative institutions responsible for collection of budget revenue, state institutions subordinated to these administrative bodies and the powers fulfilled in the field of budget implementation by laws and other legal acts. The control over the management of public finance in the Republic of Armenia is implemented by the Government  and the National Assembly through the relevant state bodies. The control functions assigned to the Prime Minister by the Constitution, laws and other legal acts are implemented by the State Control Service of the Republic of Armenia [3], the control of the Government to the implementation of the state budget is implemented by the Ministry of Finance and the Department of Budget Control [6] and the control of National Assembly to the implementation of the state budget is implemented by the Audit Chamber of the Republic of Armenia [4].

According to the specifics of the control function, the state bodies implement state control function at the level of budget implementation on the basis of the annual plan, applications, complaints,  mediations, instructions by high rank state bodies and officials as well as mediations submitted by the criminal investigation body. The main guideline of the activity is the annual program of the supervisory body which is based on a certain

methodology through which the risk assessment is carried out. Risk assessment of sectors or government agencies is carried out through the methodology of performing risk-based control functions. The methodology of functions of risk-based control is developed through indicators and criteria which define risk in accordance with international auditing standards and their evaluation.

The methodology of risk assessment and criteria enable the control body to:
➢ Analyze and classify the controlled objects according to their risk factors.
➢ Form data base according to the sphere of activity and controlled objects.
➢ Invest effective control mechanisms.
➢ Effectively distribute the present resources to control risks.

Risk is the possibility of occurring undesired event and the combination of expected negative consequences from it [7].

As the purpose of the control is the organization and implementation of financial control over the activities of the communities at the expense of state budget of the Republic of Armenia through state administrative institutions, state non-commercial organizations and funds provided from the state budget of the Republic of Armenia, so the following definition of risk is typical to this sphere.

Risk = probability of non compliance with the provisions of the statements of legislation of the Republic of Armenia on the efficiency of the collection of state budget revenues by the controlled object and (or) the purpose of spending the funds allocated from the state budget of the Republic of Armenia x less collection of revenues to the state budget of the Republic of Armenia and (or) non targeted inefficient spending of the allocated funds the results of which affect the level of execution of the state budget of the Republic of Armenia. Moreover, a low probability may not mean a low risk if the result is big. In the same way, high probabilities do not necessarily imply high risk.

The risk assessment system is based on the analysis of the results of the relevant reports on the funds collected from the state budget of the Republic of Armenia by the bodies controlled by the objects particularly included in the mentioned subgroups as well as the results of previous inspections, assessment and classification of the results of the activity of controlled objects on the basis of information (in particular, proposals received from citizens, legal entities, individual entrepreneurs, applications-complaints, written information from state bodies, local self-government bodies, as well as the body of preliminary investigation or investigation or prosecutor or court). The risk assessment of the controlled objects is carried out through the risk assessment system and the frequency of their control is distributed according to the degree of risk of the given objects.

During the risk assessment the amounts allocated from the state budget of the Republic of Armenia to the controlled objects, the directions of their use by sectors of the economy, functional classification groups of budget expenditures and economic classification articles are mainly taken into account as well as the amounts of taxes to state budget with the payments of the companies having more than 50% participation in revenues to state budget. The indicators that are the basis for calculating dividends paid to the state budget of the Republic of Armenia are also taken into account. More details on risk assessment methodology will be provided in the following articles.

**Control at the level of evaluating the efficiency**
The implementation of financial processes in the system of management of public finance and control over it are complementary in terms of increasing efficiency.

In this sense, one of the programs aimed at increasing the efficiency of the RA financial management as well as the measurability of the control processes conditioned by the measurability of the indicators are the reforms of program budgeting (PB), which are a logical part of the second generation fiscal reforms that began in the 2000s. The first step in that direction was the gradual introduction of the Mid Term Expenditure Program (MTEP), which was followed in 2004 by the PB reforms. Prior to the end of 2008, the main assistance to the Government of the Republic of Armenia in the area of the mentioned reforms was provided within the framework of the program of the Ministry of International Development (DFID) of Great Britain called "Support to the Implementation of Program Budgeting in Armenia". Significant progress has been made during this period in terms of initiating PB reforms in Armenia. In particular, the first (pilot) methodological guidelines for implementation of PB were developed and approved which were then piloted and implemented in the ministries of social affairs. In the following years all budget implementing agencies were involved in the pilot implementation of the PB reforms until 2009. At the same time, in parallel with the traditional rate, the state budgets of the Republic of Armenia were gradually developed and presented in PB format as a supplement to the quarterly proportions of the state annual budget.

Further expansion of the PB reforms has been carried out with the technical assistance of the German Agency for International Cooperation (GAIC) since 2009. A general action plan was developed and agreed with the Ministry of Finance (MF) of the Republic of Armenia within that framework according to which the process of reforms was divided into three main stages:

1. First stage- 2012-2014 - the legislative confirmation of main elements of the system of program budgeting, in particular through the amendments in the Law of RA on «Budget system».
2. Second stage- 2014-2016 - partial transfer to the system of PB from the viewpoint of developing, implementing and control of RA budget.
3. Third stage-2016-2018 – complete transfer to PB from the viewpoint of developing, implementing and control of RA budget no later than since 2018.

The cooperation is organized since 2012 under the program of  «Management of public finance  in Southern Caucasus under the regional program» of GAIC.

The following results were obtained within the framework of cooperation [15, p. 4, 22].

a. new program structure of all supervising bodies implementing expenditure programs by RA state budget and new classifying system of  the program. A consultive support was given to the Ministry of Finance of the Republic of Armenia and other supreme bodies to aplly this new program. The projects of RA state budgets of 2012-2015 were made according to this program.

b. As a result of the change in the structure of programs, 153 programs have been developed in the budget system instead of about 860. It is planned to create a system of descriptions (passports) of budget programs for 83 of them which are of most interest to the public users of budget information. The description of budget plan is a tool that allows to bring together and present all the key financial and non-financial indicators and targets necessary for evaluation and planning of the project cost. Control at the level of evaluating the efficiency in the field of management of public finance presupposes the implementation of control functions at the stage of evaluation of performance and summarising the results which presupposes compliance with the performance of budget programs, project descriptions and

pre-defined budget allocation processes. It is also very important to improve the RA legislation on public procurement from the point of view of increasing the efficiency of control mechanisms as a significant amount of public expenditures are made through the public procurement system. A well-functioning procurement system ensures the efficient use of cash and value for money by the government for the implementation of programs, the provision of goods and services as well as the implementation of effective control.

**Conclusion**

As the research shows, there are many problems in the field of management of public finance in the Republic of Armenia and it is proposed to apply effective structures of risk management especially in the budget system for the solution of this problem which will make it possible to eliminate financial abuses in the system. If the proposed approaches are applied, it will be possible to introduce an institutional system for controlling financial flows in the field of management of public finance.

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## ՀԱՅԱՍՏԱՆԻ ՀԱՆՐԱՊԵՏՈՒԹՅԱՆ ՀԱՆՐԱՅԻՆ ՖԻՆԱՆՍՆԵՐԻ ԿԱՌԱՎԱՐՄԱՆ ՀԻՄՆԱԽՆԴԻՐՆԵՐԸ

**Ս.Խ. Թևոսյան**
*ՀՀ պետական վերահսկողական ծառայություն*

Հոդվածում քննարկվել են շուկայական տնտեսության «արյունատար համակարգի»՝ ֆինանսների, ձևավորման, գործունեության և կառավարման հիմնախնդիրները: Ըստ

որում, հանրային ֆինանսների կառավարումը դիտարկվել է երկու տեսանկյունից: Առաջինը դասական կառավարման գործառույթների՝ հաշվառման, ծրագրավորման (պլանավորման), կազմակերպման, կարգավորման և հսկողության, երկրորդը. կառավարման առանձին գործառույթների նկատմամբ վերահսկողության իրականացման և հանրային կառավարման համակարգում ռիսկերի ծնավորման ու դրանց բացահայտման առումով: Չգալի տեղ է հատկացված հանրային ֆինանսների ծնավորման և օգտագործման գործընթացում չարաշահումների բացահայտմանը և դրանց առաջացման ռիսկերի կառավարմանը: Առաջարկվել են այդպիսի ռիսկերի չեզոքացման գործոն և արդյունավետ մոտեցումներ ու կառուցակարգեր: Համակարգի ամբողջական արդյունավետության համար առաջարկվում է հանրային ֆինանսների կառավարման բոլոր փուլերում առաջնորդվել կառավարման ինստիտուցիոնալ սկզբունքներով, առավելապես կիրառելով ռազմավարական պլանավորման դասական մոտեցումները:

***Բանալի բառեր.*** հանրային կառավարում, հանրային ֆինանսների կառավարում, ֆինանսական վերահսկողություն, ֆինանսական չարաշահումների ռիսկեր, ռազմավարական պլանավորում, հանրային ֆինանսների ինստիտուցիոնալ զարգացում:

# ПРОБЛЕМЫ УПРАВЛЕНИЯ ГОСУДАРСТВЕННЫМИ ФИНАНСАМИ В РЕСПУБЛИКЕ АРМЕНИЯ

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В статье рассматриваются проблемы формирования, развития и управления «кровеносной системой» рыночной экономики – государственных финансов. При этом, управление государственными финансами рассматривается с двух ракурсов. Первый заключается в представлении классической функции управления, включающей учет, планирование, организацию, регулирование и контроль над всеми процессами. Второй подход заключается в разделении функций контроля над отдельными функциями управления и выявлении (идентификации) рисков в системе государственного управления. В статье значительное внимание уделено выявлению случаев злоупотребления при формировании и использовании государственных финансов, а также управлению рисками при осуществлении контроля над этими процессами. Предложены действенные и эффективные подходы и инструменты для нейтрализации подобных рисков. Для обеспечения общей эффективности системы рекомендуется руководствоваться институциональными принципами на всех этапах управления государственными финансами, преимущественно используя классические подходы стратегического планирования.

*Ключевые слова:* публичное управление, управление государственными финансами, финансовый контроль, риски финансовых злоупотреблений, стратегическое планирование, институциональное развитие государственных финансов.