

State financial control: comparative analysis of Russia and France

Galina Viktorovna Stankevich¹, Tatiana Valerievna Kara-Kazaryan¹, Ekaterina Viktorovna Kasevich²

¹Pyatigorsk State Linguistic University, Kalinin ave., 9, Pyatigorsk, 357500, Stavropol region, Russia

²North Caucasus Federal University, Kylakova ave., 2, Stavropol, 355029, Stavropol region, Russia

Abstract. The article provides a comparative analysis of systems of state financial control in Russia and France, including the functions and activities of chambers of accounts. An extensive description of the legal status and efficiency of the audit and control systems in the two countries is given. The comparative legal analysis reveals common tendencies and outlines the possible directions of perfecting the work of audit and control bodies.

[Stankevich G.V., Kara-Kazaryan T.V., Kasevich E.V. **State financial control: comparative analysis of Russia and France.** *Life Sci J* 2014;11(11s):348-352] (ISSN:1097-8135). <http://www.lifesciencesite.com>. 79

Keywords: financial control, public finances, auditing activity, state audit, audit and control bodies

Introduction

The objective of the given article is to do research into institutional specificities of state financial control in Russia and France. France originated the very idea of the system of chambers of accounts, which was borrowed by other countries, including Russia in 1995.

France was chosen as the object of research due to the fact that along with the National Chamber of Accounts it has a whole network of regional controlling bodies, whose chairs belong to the national chamber as well and whose main function is to implement limited scope audits, or thematic reviews, in order to support the activity of the national chamber [1].

In this connection the analysis of the organization and legal regulation of chambers of accounts in France is quite important to assess the efficiency of the corresponding system in the Russian Federation [2].

The topicality of a legal comparative research into the system of financial control and the structure of financial control bodies in Russia and France is defined by, firstly, the level of development of financial control in France, a country which is quite close to Russia not only in its cultural traditions, but its legal traditions and systems as well, and secondly, the necessity to perfect the existing system of state financial control in Russia on some tested conceptual basis [3].

The research is to fulfill the following tasks: to explore the general and particular features of the structure and functioning of the institute of state financial control; to consider the legal status of auditing bodies; to define potential ways of increasing the efficiency of state financial control in Russia based on the analysis performed.

Methodology

The pursuit of the given objective and the fulfillment of the above-mentioned tasks are based on

the principles of scientific cognition. The methods used refer to the methodological apparatus of humanities; these are the principles of dialectics, the systemic and functional approaches, the methods of synthesis and analysis, the legal-comparative method, etc.

The mechanism of administering the state through centralized accumulation of financial resources and organization of their reallocation demands an efficient system of financial control able to ensure the legitimacy of the financial activity of the state and to assess its appropriateness and efficiency.

Control is an integral element of any type of administration. Its legal nature is defined by the nature of social relations existing in a corresponding sphere of state governance of a given society. The implementation of decisions made in the course of state governance determines the type and degree of control over financial flows.

Universality of governance demands creating an efficient system of state financial control, which, based on the general principles of control and a distinct hierarchy of controlling bodies, is to guarantee the legal nature and universality of control over finances in the budgetary system and which allows comparing the efficiency of state financial resources at different levels.

It should be understood that state financial control consists of audit and control per se and the adequate operative response to the revealed financial violations, which may be quite different depending on the country. Russia's state system of financial control is undergoing reforms; this is why it seems expedient to carry out research into financial control practices also using the experience of the countries with a developed market economy. So, let us regard the existing financial control systems in the Russian Federation and France.

Today legal regulations of public relations in the sphere of state financial control and oversight as

well as organization of bodies implementing them are in the focus of attention. Recently Russia has undertaken reforms to update the mechanism of state financial control; for example, it did away with a number of financial control bodies, such as the Federal Service of Insurance Supervision and the Federal Service of Financial Markets and entrusted their functions to the Central Bank of Russia. Moreover, the functions of the Federal Exchequer of Russia have been broadened and reinforced which allowed the country to run the budgets of the budgetary system institutions more efficiently.

The most important element of the system of state (municipal) financial control is the control over the budget implementation as it guarantees the realization of the tasks and objectives at the state or municipal level.

The system of financial-budgetary control is characterized by a number of distinct features. Specialists, including A. Golubev [3], highlight that firstly control is based on the subordination of the controlled subject to the controlling body. As budgetary funds belong to the national treasury they are owned by the state and financial control over them is part of the state administrative system and is carried out by authorized bodies.

Secondly, control is implemented only by the authorized bodies of the state power, by local administration bodies and other participants of the budgetary process.

Thirdly, financial control is regulated by legal norms. Thus, in Russia, the budgetary control and the budgetary functions of the participants of the budgetary process are organized in accordance with the Budgetary Code of the Russian Federation.

Russia has created a whole system of financial control bodies at the level of the subjects of the federation as well as local governments [4]. In 2014 Russia is to launch the system of internal and external state (municipal) financial control [5].

According to the provisions of Article 265 of the Budgetary Code of the Russian Federation, external state (municipal) financial control is the prerogative of the RF Chamber of Accounts, controlling auditing bodies of the subjects of the Russian Federation and their municipalities. Internal state (municipal) financial control in the sphere of the state (municipal) financial control is the function of the Federal Service of Financial-Budgetary Oversight. Bodies of state (municipal) financial control, correspondingly, are the bodies or public officers of executive power of the subjects of the Russian Federation, local administration, or the Federal Exchequer (financial bodies of the subjects of the Russian Federation or local administrations).

The discrimination between external and internal control is important for the purpose of defining the vector of sharing responsibility between different bodies fulfilling it. However, it is not sufficient; it is important not only to outline the bodies of external and internal financial control, but also to describe the specificities of the implementation of each type of control at the legislative level.

In the framework of the implemented reform, the legal status of the RF Chamber of Accounts has undergone changes. According to the provisions of the Federal Law of April, 5, 2013 # 41-FL "On the Chamber of Accounts of the Russian Federation" [6], it has become the supreme organ of external state audit (control), which has organizational, functional and financial independence to fulfill its functions.

It should be stressed that in the system of independent bodies of state financial control in other countries, auditing bodies have a similar status.

Federal Statute # 41-FL "On the Chamber of Accounts of the Russian Federation" enlarged the authority of the RF Chamber of Accounts concerning its control and auditing activity. Thus it became responsible for the audit of the financial arrangement systems; audit of procurements implemented by the bodies controlled; audit (control) of the external and internal debt burden of the Russian Federation and the debt of foreign countries and/or foreign legal persons to the Russian Federation; audit of the budget credits accommodated from the federal budget; audit of the RF federal target programs; audit of the state and international investment projects as well as the audit of federal information systems and projects.

The controlling and expert analytical activity is implemented through financial, efficiency, strategic and other kinds of audit (control) in accordance with the standards of the external state audit (control) stipulated by the Chamber of Accounts.

According to sub-section 5 of Article 14 of Federal Law # 41 "On the Chamber of Accounts of the Russian Federation", financial audit (control) is implemented with the purpose of documentary verification of financial operations, budget management, budgetary and other kinds of financial reporting, proper use of federal and other resources received within the competence of the Chamber of Accounts, monitoring of financial and other activities of the bodies controlled. In the course of financial audit within the competence of the Chamber of Accounts the observance of the budgetary legislation of the Russian Federation, as well as observance of other legal acts regulating the legitimacy of budgetary relations, are checked.

The efficiency audit implies assessment of the efficiency of federal and other kinds of resources received by the body controlled to reach the set goals

of the socio-economic development of the Russian Federation and to fulfill the given tasks.

The strategic audit is used to evaluate the feasibility, risks and consequences of the realization of strategic goals which ensure the security and socio-economic development of the Russian Federation. This kind of audit compares the target figures of the key national indices with the degree and quality of results achieved and also reflects the cumulative effects of the socio-economic development of the Russian Federation.

According to Article 17 of Federal Law # 41 "On the Chamber of Accounts of the Russian Federation", the law-enforcement bodies are to inform the Chamber of Accounts about investigations and decisions made concerning the materials submitted to them by the Chamber of Accounts.

On the 7th of February, 2011, Federal Law # 6-FL "On the general principles of the organization and activity of the control-auditorial agencies of the subjects and municipalities of the Russian Federation" was passed. It heralded a new stage of development of the legal regulation of the institutional mechanism of the Russian Federation financial control. According to this law, control-auditorial agencies are the permanently acting agencies of external financial control formed by the legislative (representative) body of the state power in the subject of the Russian Federation or municipality in question and they exercise financial independence. The activity of the control-auditorial agencies cannot be stopped or suspended due to an early termination of power of the given legislative (representative) body.

It effectively solves the long-standing question about the degree of independence of the chambers of accounts from regional legislative bodies. The law effectively separates control-auditorial agencies from these bodies of state power. This is why in those subjects of the Russian Federation where control-auditorial agencies still belong to the legislative (representative) bodies and report to them, the approach to their formation and status must be changed. The establishment of the structurally and functionally independent control-auditorial regional agencies will contribute to a more consistent realization of the principle of their independence and will enable the state financial control agencies to implement control measures in the budget sphere more efficiently.

The structure of internal financial control agencies has not considerably changed. Such state financial control agencies as the Federal Service for Financial and Budgetary Supervision (budgetary and currency control), the Federal Tax Service of Russia (tax and currency control), the Federal Service of Financial Monitoring (financial security control), the

Federal Customs Service (tax and currency control) have preserved their authority.

Despite the reform, the question concerning the system of financial control agencies in the Russian Federation remains a topic of discussion and has not yet been fully resolved.

In many foreign countries financial control, depending on the implementing bodies, is divided into parliamentary, presidential, administrative, and judicial [1]. The Russian Federation has not yet adopted the Federal Statute "On Financial Control in the Russian Federation", whose importance has been long and repeatedly stressed by specialists [7], as it would reinforce the unity and uniformity of the principles of control implementations as well as outline the questions of coordination and interaction of various control agencies and establish other forms of financial control besides the internal and external ones.

France has a system of parliamentary, administrative and judicial financial control. Parliamentary financial control is implemented by the Chamber of Accounts, while judicial control - by special financial courts. The administrative control is carried out according to the hierarchical structure of accounting, when accountants of a higher level control the lower one and report to the treasurer general. France also has the General Inspection of Finances, which is bound to the cabinet of the Minister of Finance but is not part of any of its divisions. Financial inspectors have the right to check accounting in any state financial structure, which means any state institution including private companies and organizations whose activity affects the interests of state finances, e.g. transportation and construction companies. French legislation envisages bodies of internal audit and control and external audit bodies [8]. However, the French system of external control of state finances is characterized by the presence of a national structure of state accountants working in the administrative-territorial units of the country (communes, departments, districts). They are endowed with the authority to manage state finances, are responsible for the correctness of financial transactions performed and are obliged to reimburse their mistakes at their own expense. The accounting of state financial transactions is on the one hand based on a whole hierarchy of state credit managers (ministers, heads of various departments, chairs or mayors of local self-governing units, managers and directors of state companies and institutions, state accountants), and on the other hand on the personal financial responsibility of the state accountants [9].

In France the independent control-auditing agencies are represented by the French Chamber of

Accounts and its regional chambers, which serve as bodies of external financial control.

It is worth mentioning that from the very beginning independent control in France was implemented similarly to the legal procedure – a Court of Accounts was established, which was to rule on corresponding issues. Today's Chamber of Accounts in France was founded based on Article 4 of the Constitution of October, 4, 1958. The authority of the Chamber of Accounts of France is quite broad [10]. Suffice it to say that it can control the accounts and account management both in state and privately owned companies which receive financial aid from the state or national state companies or institutions. The Chamber of Accounts of France implements control in the following forms:

- a) approval of financial reports;
- b) legal and judicial control;
- c) management control (in Russian terms efficiency control).

A new stage of modernization of the Chamber of Accounts of France started in 2001, when in the course of the reformation of the state financial system the Chamber of Accounts received essentially new functions. According to Article 58, sub-section 5 of the Organic Law on Laws of Finance (Article 58, sub-section 5), the Chamber of Accounts is to confirm the reliability of financial reports submitted to it. This reliability control of reports submitted by the state-run companies and institutions implies verification of three aspects. It should be established that the records are kept in accordance with the existing rules, that there are no intentional falsifications, and that the data submitted are accurate. The paper confirming reliability of the state reports is sent by the Chamber of Accounts to parliament as a supplement to the bill on the execution of the budget. For the first time this kind of document concerning the validity of state reporting was issued by the Chamber in 2006.

The Chamber of Accounts of France also controls the implementation of laws on social welfare financing. Since 1996 it has been drawing reports on their execution and submitting them to parliament. Parliamentary commissions may prompt the Chamber to start an investigation concerning the implementation of these laws.

Members of the Chamber of Accounts have the right to be present at the sessions of the parliamentary evaluation and control mission (since 1999) and the mission of evaluation and control of social welfare financing (since 2005).

The activity of the Chamber of Accounts is intertwined with the activity of the so-called associated organizations. They are:

- the Court for the budgetary and fiscal discipline (imposes sanctions on administrative officers);
- the Council for mandatory allocations (analyses the tax revenues of the state and its administrative units);
- the Committee for the cost and quality of the state-provided services (regards changes as applied to the functioning of the state bodies and institutions);
- the Standing Commission for control over organizations supervising copyright transfer.

The Chamber implements control over the state accountants and finance managers. This is why some French researchers distinguish between the activity of the Chamber of Accounts control over administrative execution of the budget and control over account management/ execution [11]. Both for the Chamber of Accounts and the Court of Budgetary and Fiscal Discipline the function of the reviewing court is carried out by the State Council, which allows the referral of these bodies to institutions of administrative justice.

Today the activity of the Chamber is regulated by the Code of financial legal institutions, a compilation of laws adopted in 1994 to regulate financial activity. The code also stipulates the activity of regional chambers of accounts and the Court for the budgetary and fiscal discipline.

Regional chambers of accounts were set up in the framework of the policy of decentralization of the state administration system upheld by Statute # 82-213 of March, 2, 1982.

According to J. Raynaud's study "Regional Chambers of Accounts", the independence received by local authorities in decision-making, would not be possible without some kind of financial control. This is why regional chambers of accounts were supposed to at least partially replace the old system of budgetary on-site local control and to ensure the consequent control over the budgetary implementation by the local authorities [12].

Decisions taken by regional chambers of accounts can be appealed in the Chamber of Accounts of France.

Between the national Chamber of Accounts and the regional chambers there are both institutional and functional ties:

- the president of a regional chamber of accounts serves as a magistrate of the national chamber;
- the Supreme council of regional chambers of accounts, presided by the first president of the chamber of accounts, includes magistrates of two levels of legal competence, i.e. magistrates of the

national Chamber of Accounts as well as of regional chambers;

- Prosecutor-General under the Chamber of Accounts directs and coordinates the activity of the government commissars under regional chambers;

- the liaison committee coordinates the planned annual joint assessments by the national and regional chambers;

- the national Chamber of Accounts has the right of inspecting the work of the regional chambers;

- the general management problems of regional chambers are regarded by the administrative services of the national Chamber without any infringement on the administrative independence of any of them;

- the annual report contains considerations of both the national and regional chambers.

Alongside the above-mentioned controlling bodies, France has a number of other specialized state institutions with control functions: the Central service of credit watch; Center for balance reporting; Chamber for budget discipline. Thus, France employs a whole system of financial control embracing all sides and stages of the budgetary process [13].

Today in Russia there is an urgent demand for adequate legal regulation of the organization and functioning of state control bodies, as controlling activity in this country is not very efficient yet.

Conclusion

Thus it is important to further perfect the legislation currently in force and to work out a methodology, create uniformity in terminology and develop a mechanism of forming a viable system of financial control. There is still some ambiguity in the legal basis of state control. The tasks, objectives, rights, purview of activity of every body of financial control should be legally stipulated.

While improving the Russian system of financial control it is expedient to use the expertise of other countries. It may mean a stage-by-stage process of approving and implementing (partially or fully) foreign policies and procedures. We believe it is time to establish specialized judicial bodies for assessment of balance reporting of administrative institutions, as well as to give to the Chamber of Accounts effective legislative authority, thus following the positive experience of France and other developed countries where the Chamber of Accounts serves as a supreme independent judicial institution of control over budget finances.

7/4/2014

Corresponding Author:

Dr. Galina Viktorovna Stankevich
Pyatigorsk State Linguistic University
Kalinin ave., 9, Pyatigorsk, 357500, Stavropol region,
Russia

References

1. Demesstère, R., 2005. Le contrôle de gestion dans le secteur public, 2^{ème} éd., LGDJ, coll. Systèmes, pp: 224.
2. The Chamber of Accounts of the Russian Federation. Date Views 05.05.2014 www.ach.gov.ru/ru/.
3. Goloubev, A., 2011. The Legal Status of Subjects of Financial-Budgetary Control. Moscow: Norma, pp: 10-18.
4. The Law of the Russian Federation 'On General Principles of Organization and Activity of Audit Control Bodies of the Subjects of the Russian Federation and Municipalities' of 07.02.2011, # 6-FL Code of Laws of the Russian Federation, #7-903.
5. The Russian Federation Budgetary Code of July, 31, 1998, # 145-FL, Code of Laws of the Russian Federation, # 31-3823.
6. The Law of the Russian Federation 'On the Chamber of Accounts of the Russian Federation' of 05.04.2013, # 41-FL, Code of Laws of the Russian Federation, # 14-1649.
7. Konyukhova, T.V., 2006. On the question of the concept of the federal bill 'On Financial Control'. Journal of Russian Law, 6.
8. Waline, C., P. Desrousseaux et B. Pellé, 2009. Contrôle et évaluation des finances publiques, La documentation française, pp :127.
9. Vassiljeva, M., 2011. The world experience of organizing state and municipal financial control and its applicability in Russia. National Interests: Priorities and Security, 25:46-56.
10. Deruel, F. et J. Buisson, 2001. Finances publiques, budget et pouvoir financier, 13^{ème} éd., Mémentos, Dalloz, pp : 284.
11. Barilari, A., 2003. Les contrôles financiers comptables, administratifs et juridictionnels des finances publiques. Paris: LGDJ, pp: 110-115.
12. Raynaud, J., 1984. Les chambres regionales des comptes: Que sais-je. Paris, 2178.
13. Magnet, J., L. Valleraud et T. Vught, 2007. La Cour des comptes, les institutions associées et les chambres régionales des comptes, 6^{ème} édition, Berger-Levrault, collection les indispensables, pp : 616.