BUDGET PERFORMANCE RISKS ASESSMENT ISSUES IN RA

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Abstract: The article analyses the budget system of control implementation and applied approaches in the implementation stage of budgeting performance. The methodology of risk-based inspections in RA was surveyed, and some problematic parts were highlighted. By addressing the above-mentioned questions, it has been proposed more complete and effective approach to risk assessment, which allows more accurate assessment for the implementation of maximum effective control with limited resources.

Keywords: public finances, supervision, monetary relations, monetary funds, taxes, expenditures, budget, risk indicators

JEL code: G18, H61

Research aim: categorize budget performance risks by public sectors and propose indicators for their assessment.

Research novelty: group and sectorial indicators are proposed, which represent the goals of budget revenue collection

and sectorial directions of expenses, on the basis of which a general indicator of budget performance evaluation is built.

Introduction

Firstly, we need to understand the concept of "finance", which is a historically formed economic category which has no unequivocal definition and different authors give different formulations for it [1].

C. B. Polyak defines finance as the monetary relations that arise during the formation, distribution and use of monetary funds between economic entities [2]. According to Glotova's: finances are monetary relations arising during the formation, distribution and use of monetary funds between business entities [3]. American economist Bodie Z. and Nobel laureate R. Merton in their textbook "Finance" defines finance as the science of how people manage the inflows and outflows of scarce monetary resources over time. It is also noted that the most important function of the financial system is the creation of people's needs, including food, clothing and living conditions, which should be aimed by the activities of individual business entities and different levels of government [4].

A prominent Russian statesman of the end of the 19th century and the beginning of the 20th century S. Y. Witte (1849-1915), who was also the Minister of Finance, described the science of finance as follows: "Financial science is about how to procure goods for the state and effectively spend these funds in order to solve state problems, more precisely, it is a science about the means of meeting the state's material requirements" [5]. Armenian economist L. Badanyan gives quiet complete definition of the

concept of finance. Badanyan defined finance as a set of monetary relations arising in the process of formation and use of targeted monetary funds [6].

Summarizing the approaches mentioned above, it can be concluded, that the concept of "finance" is studied as a set of money, which is used to obtain and distribute economic benefits within any unit of the economy.

According to Adam Smith's "An Inquiry into the Nature" and "Causes of the Wealth of Nations", public expenditure is classified as general expenditure which is compensated by the revenue of society (defense and maintenance of royal authority) and expenditure in which individuals and members of society are interested (education, justice etc.). On this basis, he later separated the concepts of state economy and local economy [7].

The nineteenth century became the age of laissez-faire. This doctrine, which translates as "leave us alone," holds that government should interfere as little as possible in economic affairs and leave economic decisions to the private decision making of buyers and sellers. Many governments adopted this economic philosophy starting in the middle of the nineteenth century. The economic role of government has increased sharply over the last century. The government influences and controls private economic activity by using taxes, expenditures, and direct regulation [8].

The role of the state as the regulator of the whole system is very vividly presented by the Nobel laureate American professor W. Leontief. He compares the country's economy to a sailing ship in the sea, according to which he states, "For things to go well, wind is needed, it is interest, and state regulation is the rudder [9].

Research results

Macroeconomic policies for stabilization and economic growth include fiscal policies (of taxing and spending) along with monetary policies (which affect interest rates and credit conditions) [8]. Public finance is the money spent and collected to buy public goods, which make up the revenues and expenditures of the state budgets. According to the Law of the Republic of Armenia "On the Budget System", public finances are the relevant financial inputs and outputs for the implementation of the powers granted by the constitution and laws of state and local self-government bodies, in other words, they are the sums of money that circulate in the public sector of the economy [10].

After understanding the concept of public finance, let's briefly return to public finance management. In their "Management problems" by American economists K. H. Killen and M. Mescon, F. Khedouri and M. Albert's "Fundamentals of Management" works, economists describe management as a process of its functions: planning, organizing, motivating and controlling, which is necessary for the formation of goals and their achievement [11, 12]. According to another economist P. Drucker's formulation, management is a special type of activity that transforms a disorganized crowd into an effective and purposeful group [12].

The "Lima Declaration of Guiding Principles of Supervision" adopted at the 9th Congress of the International Organization of Supreme Audit Institutions defines, that supervision is not the goal in itself, but an integral part of the regulatory system, the purpose of which is to identify deviations from established standards and violations of the principles of legality, efficiency and economy

during the use of material resources at the earliest possible stages, so that it is possible to take appropriate steps, bring the culprits to justice, receive compensation for the damage caused, and implement measures to prevent or eliminate similar violations in the future [13].

Among the directions of state control, budget control stands out in terms of its importance, the main task of which is ensuring the proper fulfillment of budgetary process. Budget control is carried out directly through the assessment of budget indicators, the main of which are income and expenses [14]. Based on the description of public finances presented above, it can be assumed that the management of public finances, the totality of money circulating in the public sector of the economy, or according to a more modern description, ensuring the effectiveness and usefulness of financial inputs and outputs for the implementation of the powers granted by the constitution and laws of state and local self-government bodies.

State budget supervision and management is a complex and evolving field that has seen significant academic research and practical applications. To have understanding about state budget supervision and control system we need to have a good and practical ideas about key areas of **budgetary process**. Our research has focused on the stages of the budgetary process, including **formulation, approval, execution, and evaluation**. We need to understand how state budgets are used as tools for implementing fiscal policy, addressing issues like taxation, public expenditure, and deficit management and the issues of the control

system over them for establishing budget transparency and accountability.

There is a significant body of research on the importance of budget transparency and accountability in ensuring that state budgets are used effectively and ethically. This includes studies on the impact of open budget initiatives and accountability mechanisms. Scholars have explored the adoption of performance-based budgeting, which links budget allocations to the achievement of specific outcomes and results, as a means to improve budget supervision. For establishing *revenue and expenditure efficiency* and *supervision* government must examine revenue collection methods, tax policies, and the efficiency and effectiveness of public expenditures. Understanding the political factors that influence budgetary decisions is crucial, for what we established government priorities defined in the government programs as indicators characterizing the groups in the provided risk assessment methodology.

Summarizing the above processes, the **budget process** can be divided into three main levels:

1. Planning level

2. Performance level

3. Level of accountability [15]

By this division it is very important to implement effective control for each level of budgetary process, which in large scale will make up the control system for public finance management.

We have already discussed the improvement of the strategic management process through the implementation of control at the ***planning level*** [16].

Budget revenues and expenditures are carried out through budget programs and measures arising from them, which are diverse and multifaceted. These include the costs of tangible assets, maintenance and salaries of staff, the costs of public goods such as defense, education, social security, environmental protection and other costs, as well as the revenues collected for the implementation of these costs, such as taxes, tariffs, dividends received and other income.

The methodology of risk-based inspections and the criteria for determining riskless for Ministry of Finance of the RA are defined by the decision of the Government of the RA No. 207 of February 23, 2012 and are calculated according to the regulation established by the relevant order of the Minister of Finance of the Republic of Armenia, where the criteria characterizing the degree of riskiness and the adjustment coefficients are presented, the thresholds defined. Through the calculation of risks and the use of adjusting coefficients it is evaluated the degree of riskiness of the inspected object [17].

Indicators expressing the level of environmental variability, specification criteria. It is also necessary to consider both the internal and external control levels of each facility by other organizations during the risk assessment.

By this research it has been noted that the current method does not ensure the impact of the variability of sectors, branches and individual facilities both internal and external control levels on the risk assessment result, as well as does not take into account the specifications of individual groups, branches or facilities, those specifications that are not possible, or it is not appropriate to

predict, express with indicators and taking into account that the risk assessment system assesses the risk based on the principle of maximum reduction or prediction, not risk elimination or full assessment. It can be said that each risk assessment mechanism does not imply a full risk assessment or elimination and contains a risk of incomplete evaluation, which also needs to be reflected in the existing mechanism.

By this consideration it is presented a recommended approach for risk assessment system and metodology:

From the point of view of risk assessment, the controlled objects are divided into **2 groups**, which in turn are divided into **branches**:

Group 1:

Controlled objects that provide revenues to the state budget of the RA

Branches:

a. Tax inspections of the State Revenue Committee under the Government of the RA

b. Customs of the State Revenue Committee under the Government of the RA

c. State owned enterprise

d. other objects that provide revenues to the state budget

Group 2:

Controlled objects that are financed from the state budget of the Republic of Armenia

Branches:

a. ministries, departments

b. governorates

c. communities

The **indicators** used to assess the degree of risk of controlled objects are defined according to **3 levels:**

1. Indicators characterizing the groups, which show the given level of risk for each group.

2. Indicators characterizing branches, showing the risk level for every branch and including weighted averages of baseline data.

3. Adjustment factors that adjust the level of risk for each branch and include statistical data.

The degree of riskless of the controlled object is determined by the arithmetic average of the indicators of these three levels, where the influence of each level on the arithmetic average is defined by a ratio (percentage weight).

1. *Indicators characterizing the groups:*

- Indicators expressing the level of changes:

a. the precentage weight of the changes of legal acts in the field of activity of the group, in the changes of general legal acts,

b. the precentage weight of the number of organizations operating in the field, in the total number of organizations subject to inspection,

- The government priorities defined in the government programs.

2. *Indicators characterizing the branches:*

1. **Controlled objects that provide revenues of the state budget of the RA:**

a. *Tax inspections of the State Revenue Committee under the Government of the RA:*

- The ratio of taxpayers with an annual turnover (income from activity) above the threshold for being considered a value added tax payer as defined by law in the total number of taxpayers submitting a report and/or calculation,

- The ratio of taxpayers who made imports with a customs value of AMD 50.0 million or more in the total number of taxpayers submitting reports and/or calculations
- The ratio of taxpayers who made payments (taxes and mandatory fees) of 30.0 million drams or more to the state budget of the Republic of Armenia among the total number of taxpayers submitting reports and/or calculations
- The share of taxpayers with an exempt turnover of 10.0 million drams or more for VAT among the total number of taxpayers submitting reports and/or calculations.

b. *Customs of the State Revenue Committee under the Government of the RA:*

- The share of business entities carrying out imports with a customs value of AMD 50.0 million or more in the total number of business entities carrying out imports,
- The share of economic entities exempted from paying customs duty and/or value added tax in the total number of economic entities carrying out imports,
- Imports into the territory of the Republic of Armenia and the share of economic entities that make annual payments of 30.0 million drams or more to the state budget of the Republic of Armenia through the customs authorities of the Republic of Armenia in the total number of economic entities carrying out imports,
- Share of economic entities that have received privileges regarding the postponement of the value added tax payment period in the total number of economic entities carrying out imports,

c. *For sate-owned enterprises:*
- The share of sales turnover in the total volume of sales turnover of commercial organizations with 50 percent or more state participation
- The share of profit (loss) in the volume of total profit (loss).
- The specific weight of the dividend amount due to the state budget of the Republic of Armenia in the volume of the total dividend amount due,
- The size of the dividend debt to the state budget of the Republic of Armenia, in the total volume of the dividend debt,

2. Controlled objects that receive funds from the state budget of the Republic of Armenia:

a. *Ministries, departments:*
- The share of money financed from the state budget of the Republic of Armenia, including loan and grant money from foreign countries, in the total volume of money financed from the state budget of ministries and departments, including loan and grant money from foreign countries
- The specific weight of the number of budget programs implemented by the ministry, department, in the total number of budget programs implemented by the ministries, departments,
- The specific weight of the number of organizations subordinated to the ministry, department, among the total number of organizations subordinated to ministries, departments
- The share of expenses related to non-financial assets and capital grants of the ministry, department, in the total amount

of expenses related to non-financial assets and capital grants of ministries, departments.

b. *for governorates:*

- The specific weight of the amount financed from the state budget of the Republic of Armenia to the regional administration (including subsidy, etc.), in the volume of the total amount financed by the regional administrations,
- The amount of money allocated from the state budget of the Republic of Armenia for capital expenses, in the amount of the total amount allocated for capital expenses to regional governorates
- The specific weight of the number of state non-commercial organizations under the governorate, in the total number of state non-commercial organizations under the governorate
- The share of the amount of benefits paid through the SPGs of the governorate, in the total volume of the benefits paid through the SPGs

c. *communities:*

- The proportion of the amount financed from the state budget of the Republic of Armenia - the size of the subsidy - in the total volume of subsidies
- The specific weight of the volume of subsidies and other funds allocated to the community from the state budget of the Republic of Armenia, in the total volume of subsidies and other funds allocated to the community from the state budget,
- The specific weight of the amount of money allocated from the state budget of the Republic of Armenia for capital expenses to the community, in the amount of money allocated to the

community for capital expenses from the state budget of the Republic of Armenia

- The specific weight of the amount of funds allocated from the state budget of the Republic of Armenia to the head of the community for the purpose of exercising the powers delegated by the state, in the total amount of funds allocated from the state budget of the Republic of Armenia to the heads of communities for the purpose of exercising the powers delegated by the state.

Adjustment coefficients for the risk assessment of the areas of controlled objects:

a. The proportion of the amount of violations found in the given object as a result of inspections carried out in the previous reporting period in the total amount of violations found as a result of all inspections carried out in the reporting period.

b. The number of types of violations found in the given facility as a result of the inspections carried out in the previous reporting period in the total number of types of violations recorded in the reporting period.

c. The precentage weight of the number of checks previously carried out in the facility, in the total number of checks carried out in all facilities of the branch: (this coefficient should be expressed with a minus sign, according to the principle of reduction).

d. Indicators of inspections carried out by other bodies during the reporting period and their results.

Conclusion

The annual program of revision is made in the following stages:

In the **1st stage**, taking into account the labor resources and time, the number of inspections that is possible to be carried out annually.

In the **2nd stage**, with the results of the group indicators and the coefficients or percentage expressions calculated the number of inspections to be allocated in each group, which is determined from the total number of annual inspections by dividing them accordingly among the branches and gives the number of inspections allocated to each branch in the **annual program**.

In the **3rd stage**, the table of the riskness of the objects of branches is drawn up, according to the percentage indicators of the riskiness of the objects, which is the arithmetic mean of the percentage indicators of the branch indicators for each object and the percentage indicators of the adjusting coefficients given to each object according to the percentage weights given to these levels.

The risk percentage indicator is the arithmetic average of the percentage indicator of the branch indicators and the percentage indicator of the adjustment factors according to their given weights or the weight of the impact on the result.

In the risk table, the facilities occupying the first 20 percent places are high risk, the next 70 percent are medium, and the next 10 percent are low risk. Thus, we have the table of risk of objects by branches, and the number of annual inspections available to each branch, where we include the highest risk assessed objects in the number of the corresponding branch.

Tables may also have places provided for objects included in the order of exception due to unforeseen changes in the environment with specification coefficients, due to the incompleteness of the risk assessment mechanism, and the presence of unforeseen possible circumstances.

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ԲՅՈՒՋԵԻ ԿԱՏԱՐՄԱՆ ՌԻՍԿԵՐԻ ԳՆԱՀԱՏՄԱՆ ՀԻՄՆԱԽՆԴԻՐՆԵՐԸ ՀՀ-ՈՒՄ

Սարգիս Թևոսյան
Երևանի պետական համալսարան, հայցորդ

Բանալի բառեր – հանրային ֆինանսներ, կառավարում, դրամային հարաբերություններ, դրամային ֆոնդեր, հարկեր, ծախսեր, բյուջե, ռիսկերի ցուցիչներ

Հանրային ֆինանսների հավաքագրման և բաշխման գործընթացն իրականացվում է բյուջետային համակարգի միջոցով: Ունենալով տեղեկատվական հոսքերի թափանցիկություն, այնուամենայնիվ բյուջեի կատարողականի գնահատումը ներառում է ռիսկեր, որոնց կանխարգելման ուղիներից մեկն է հանդիսանում ոլորտային ցուցիչների սահմանումը: Ընդ որում, այդ ցուցիչները սահմանվում են ըստ բյուջեի կատարողականին առնչվող շահառուների, ինչպիսիք են պետական գերատեսչական մարմինները, համայնքային կառույցները, պետական մասնաբաժնով գործող ձեռնարկությունները, հասարակական կազմակերպություն-ները:
Հոդվածում առաջարկվում են խմբային և ոլորտային ցուցիչներ, որոնք ներկայացնում են բյուջեի եկամուտների հավաքագրման նպատակադրումներն ու ծախսերի ոլորտային ուղղությունները, որոնց հիման վրա կառուցվում է բյուջեի կատարողականի գնահատման համընդհանուր ցուցանիշ: