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CONTROL FUNCTIONS OF ACCOUNTING IN PUBLIC PROCUREMENT

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Abstract: When applying control levers in the process of implementation of public procurement, it is necessary to take into account the relationship between public sector accounting and public procurement, identifying the relationships between the legal frameworks regulating the above areas.

Introduced in recent years, public sector accounting standards, legislation, and legislative and by-laws governing public procurement are closely related to each other and complement each other; moreover, during accounting, control over expenditures in the field of public procurement is implemented in practice.

The relationship between public procurement and public sector accounting is reflected not only in the disclosure of control functions, but also in various economic operations, through time and methodological differences in balance sheet items (assets, liabilities) recognition.

Keywords: public procurement, public sector organizations, accounting, control, functions, legislation

JEL code: M48

Research aims: The main purpose is to show the link between public procurement and accounting and confirm the control functions that have accounting over the procurement process in public sector organizations.

Research novelty: The novelty refers to the fact, that in practice there is a clear connection between accounting and public procurement and it is important to demonstrate this connection by revealing the interdependence of legislative acts.

Introduction

In the work, the legislative acts regulating the field of public procurement and public sector accounting were studied, the relationships between them were revealed, the control levers used by accounting in the field of public procurement were highlighted through the relationships, in order to optimize the management of expenses made with state and municipal budget funds and increase the credibility of financial reports.

The main goal of the work is to highlight all the control functions by which the accounting of the public sector is connected with the sphere of public procurement by revealing the relationships of legislative acts.

The relevance of the article lies in the fact that there is still no clear legal regulation that presents the connections between accounting and public procurement, despite their similarities in purpose. In addition, having been introduced only in recent years,

the importance of legislative enforcement of public sector accounting needs to be justified from the perspective of optimal cost management through the introduction of control functions.

As a result of the research, the approaches to the recognition of accounting articles in the field of public sector accounting and public procurement were identified, the similarities and differences were revealed, by revealing the relationships of the legislative fields, control functions were identified, with which public sector organizations can practically control the field of public procurement through accounting.

Research results

According to the RA Law "On Procurement," procurement is considered the acquisition of all types of goods, works, and services through the conclusion of a contract with the selected participant by the customer, as well as the acquisition of goods, works, and services by the customer through donation of funds to legal entities, and the acquisition of goods, works, and services through exchange, including granting rights to the private sector partner within the framework of public-private partnerships, including trust management and concession transactions.

Customers are considered to be the state and local self-government bodies provided for by the Constitution and laws of the Republic of Armenia, state or community institutions, the Central Bank of the Republic of Armenia, state or community non-commercial organizations, organizations in which the state or community has a 50% (fifty percent) or more share.

According to the RA Public Sector Accounting Standard, public sector organizations are considered to be state management institutions, community leader offices, and state and community non-commercial organizations (hereinafter referred to as organizations).

Based on the mentioned legislative features, we can conclude that organizations considered as customers under the RA Law "On Procurement" are the public sector organizations defined by the Public Sector Accounting Standard.

Here, there is a specific feature, particularly those state non-commercial organizations that can independently make operational and financial decisions during their operational activities, supply goods, provide services with the expectation of profit, can be considered state commercial organizations and during their subsequent activities prepare financial statements in accordance with the IFRS (International Financial Reporting Standards).

However, a state commercial organization has another distinctive feature that differentiates it from private sector organizations: state commercial organizations are controlled by public sector organizations. This means that when organizing their procurement processes, organizations must disclose the nature of control by identifying the realization of control rights and the opportunities to benefit from these organizations to determine whether they can organize public procurement processes without following the procedures defined by the RA Law "On Procurement". If the organization is purchasing goods, then after signing the purchase contract and the acceptance of the goods by

the responsible subdivision acting as an expert for those goods, the goods become the property of the organization. However, in accounting, the purchased goods are considered an asset and are recognized in the financial statements when it is probable to estimate the future economic benefits from the asset and the cost can be measured reliably. If the organization cannot reliably measure the costs incurred (or to be incurred) on the given goods/asset, the purchase of goods is reflected as an expense rather than an asset. This is another supervisory function in accounting for public procurement procedures.

The same applies to the recognition of liabilities. A liability must be recognized in the financial position statement when:

1. the organization has an obligation at the end of the reporting period as a result of a past event,
2. it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation,
3. the amount can be measured reliably.

In the procurement process, the acquisition of goods, services, or works naturally leads to the formation of liabilities for the organization. However, in accounting, the formation and recognition of these liabilities occur when the above three conditions are met.

If the procurement process has taken place according to the procedures, the contract is signed, but the criteria for measuring liabilities are not met, then it is considered a contingent liability in accounting until the appropriate measurement criteria are met.

After revealing the conditions for meeting the criteria for recognition and measurement of assets, organizations are required to account for the assets by classifying them into current or non-current asset groups. Such classification is again based on the main provisions of the Public Sector Accounting Standard and the expediency of their use or application in the organization's statutory/operational activities. Accurate classification of the organization's assets ensures the reliability of the organization's financial statements. Reliability is ensured both when preparing the balance sheet and other financial statements.

Accurate classification of current and non-current assets helps to clearly distinguish in the balance sheet, accurately conduct liquidity analysis of the balance sheet.

In income statement, information on procurement is summarized through accurate classification of expenses, revealing what expense item the obligation formed by the purchased goods or received service constitutes.

In the cash flow statement, the separation of assets into current and non-current allows for accurate classification of the cash outflow caused by the procurement object: attributing it to operational activity in the case of current assets, and to investment activity in the case of non-current assets. According to the RA Law "On Public Sector Accounting," accounting is mandatory for organizations. The law also stipulates that it is mandatory to conduct accounting based on the chart of accounts of public sector organizations. The generation of economic transaction entries through the chart of accounts enables the disclosure of the purpose of procurement, the classification of the acquired goods

as assets, and the type of asset, thus ensuring the reliability of financial statements.

Let's illustrate the supervisory functions of accounting through a conditional example with the chart of accounts. If the provision of services by public sector organizations is carried out through budget financing, the related expenses are recorded under account 0711 "Outflows for acquiring services from state management institutions or community leader offices with budgetary funds."

The cash outflows for the repayment of debts or prepayments related to the acquisition of services from state management institutions and community leader offices with budgetary funds are reflected with the following entries:

Dr 0711 "Outflows for acquiring services from state management institutions or community leader offices with budgetary funds"

Cr 252 "Treasury accounts"

Cr 255 "Unified treasury account"

Through such entry, organizations separate the expenses incurred for providing services with budgetary financing. For the acquisition of supplies from suppliers, the following entry is given:

Dr 211 "Raw materials and supplies"

Dr 216 "Goods"

Dr 218 "Low-value or quickly-wearing items"

Cr 521 "Accounts payable for domestic purchases"

The payment of cash for the acquisition of supplies is recorded as:

Dr 0426 "Outflows for the acquisition of materials"

Dr 0522 "Outflows for the acquisition of production supplies"
Dr 0523 "Outflows for the acquisition of goods for resale"
Dr 0524 "Outflows for the acquisition of supplies for consumption"
Cr 251 "Cash"
Cr 252 "Treasury accounts"
Cr 253 "Bank accounts"

Another supervisory function that ensures the link between public procurement and accounting is the disclosure of the connection between the cost estimates and procurement plans of public sector organizations. According to RA Government Decision No. 390-N of 2017 "On approving the form of the procurement plan, its filling and publication procedure," organizations are obliged to publish information on their procurement plans for the current year in the procurement bulletin by February 1 after the approval of the respective cost estimates for the planned expenses for that year. In the cost estimates, expenses are presented according to economic classification and purpose, with the corresponding classification in the treasury system.

In the treasury system, the classification of expenses is done based on RA Minister of Finance Order No. 5-N "On approving the classifications and instructions for the application of the budgetary and public sector accounting" According to the RA Law "On the Treasury System," the management of budgetary cash resources in public sector organizations is carried out through the treasury system.

After the approval of the cost estimates, the expenses included in them are separately entered into the treasury system with the

corresponding accounting classification monthly, quarterly, and annually. Then, later organizing the public procurement process according to the corresponding procedures and signing the procurement contracts, they are entered into the system.

For each contract entered into the system, it is necessary to apply the supervisory function of accounting: accurately accounting for the procurement contract with the corresponding procedures and precise accounting classification of the expense item. This function allows for the creation of reliable financial information, accurately accounting not only for the number of procurement procedures in quantitative and monetary terms but also for the precise selection of expense items.

For the precise selection of expense items, in addition to the above-mentioned supervisory function, it is also possible to separate the transactions/contracts types defined by the RA Law "On Procurement" to which the provisions of the RA legislation on procurement do not apply (employment contracts, services provided by officials conducting criminal, administrative, or judicial proceedings in cases provided by law, transactions related to the trust management of securities, etc.)

This implies that in the process of parallel management of procurement and accounting, it is necessary to clearly distinguish between work performed under labor and civil contracts and the corresponding contracts concluded as a result, to ensure accurate accounting and compliance with legislative requirements for organizing procurement procedures.

It is also crucial to accurately distinguish contracts. Specifically, if a civil contract for the provision of services is initially concluded and it is later revealed that the contract

contains elements of a labor contract, the provisions of the RA Labor Code apply to it.

It is also important to reveal the nature of the work to be performed before concluding a contract, based on whether it is a one-time or periodic service: for one-time services, conclude a contract for the paid provision of services, and for periodic work, conclude a labor contract.

The main characteristics about the link between these two areas, are represented in the Table 1.

Table 1. The link between public procurement and public sector accounting¹

Feature	Public Procurement sphere	Public Sector Accounting sphere
1. Determination of the organizational-legal form (particularly state commercial and non-commercial establishments)	State non-commercial organizations are considered customers. State commercial organizations are not defined by law. By their nature, they can be considered participant organizations.	State non-commercial organizations are separated from state commercial organizations to determine which accounting standards they will follow in their activities.

¹ Composed by the author

2. Recognition and measurement of assets and liabilities	Payment is made based on the concluded contract and the resulting acceptance act for the acquired goods or services, recognizing the corresponding asset or expense and liability.	Assets and liabilities are recognized in the balance sheet only if the inflow/outflow of future economic benefits is expected from/to the organization, and the value can be measured reliably. Until such reliable measurement, there is a time difference between public procurement and public sector accounting.
3. Classification of expenses	According to the purpose of execution	According to nature

Conclusion

Summarizing the analyses conducted in the study, let us highlight the supervisory functions by which the public procurement area is connected with public sector accounting and controlled by the latter. Accurate selection of the organizational - legal form of organizations to ensure the reliability of future financial statements. Recognition and accounting of assets and liabilities by linking them with the contracts to be concluded through public procurement procedures.

Truthful classification of cash flows according to the purpose in the cash flow statement, classification of expenses in the

treasury system according to purpose and harmonization with the classification of expenses by nature in public sector accounting, precise differentiation of expenses through the chart of accounts and the formation of cash outflows, and also clear distinction between contracts implying procurement and those that do not, based on the provisions of the Labor and Civil Codes, are ensure accurate accounting and compliance with legislative requirements for organizing procurement procedures.

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ՀԱՆՐԱՅԻՆ ԳՆՈՒՄՆԵՐԻ ՀԱՇՎԱՊԱՀԱԿԱՆ ՀԱՇՎԱՌՄԱՆ ՎԵՐԱՀՍԿՈՂԱԿԱՆ ԳՈՐԾԱՌՈՒՅԹՆԵՐԸ

Լուիզա Սարաֆյան

Հայաստանի պետական տնտեսագիտական համալսարան,
ավագ դասախոս

Բանալի բառեր - հանրային գնումներ, հանրային հատվածի կազմակերպություններ, հաշվառում, վերահսկողություն, գործառույթներ, օրենսդրություն

Հոդվածում ներկայացվում է հանրային գնումների և հաշվապահական հաշվառման միջև եղած կապը՝ օրենսդրական ակտերի վերլուծության միջոցով: Վերջինում ներկայացվում հաշվապահական հաշվառման վերահսկողական գործառույթների միջոցով հանրային գնումների գործընթացի բարելավումը՝ օրենսդրական ակտերի փոփոխակազմակերպությունը տեսականորեն և պրակտիկորեն կիրառելու տեսանկյունից դիտարկելով:

Ֆինանսական հաշվետվությունների տեղեկատվության արժանահավատության բարձրացման և հանրային գնումների

գործընթացը օրենսդրական պահանջներին համահունչ իրականացնելու համար կարևոր է վերահսկողական մեխանիզմների դիտարկումը, որի միջոցով հաշվապահական հաշվառումը կաավում է հանրային գնումների գործընթացի հետ և նպաստում վերջինիս արդյունավետ իրականացմանը:

Այդ համատեքստում կարևորվում է դիտարկել պետական բյուջեից ֆինանսավորում ստացող կազմակերպությունների ծախսային նախահաշիվների համապատասխանեցումը գնումների պլանի հետ՝ ռեսուրսները արդյունավետ և խնայողաբար օգտագործելու տեսանկյունից, գնում հանդիսացող և գնում չհանդիսացող գործարքների տարանջատումը աշխատանքային և վճարովի ծառայությունների ճանաչումը, ակտիվների, պարատավորությունների ճշգրիտ հաշվառումը և նեկայացումը ֆինանսական տեղեկատվության համակարգում:

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