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# Algorithm for Internal State Financial Control by the Treasury of Russia: Problems and Solutions

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## ABSTRACT

The paper discusses an integrated research of implementing internal state financial control by the Federal Treasury. **The aim** of the study is to show the organization and stages (algorithm) of implementing internal state financial control, to identify problems and possible solutions. **The relevance** of the study determines the modern development of financial control, aimed at automation and digitalization. Scientific novelty is in systematizing problems of financial control and finding new solutions. The author uses **methods** of analysis, synthesis, induction, deduction, scientific abstraction, logical thinking, the dialectical method of cognition and observation. The study **results** in describing an algorithm for internal state financial control by the Treasury of Russia, and identifies problems (weaknesses) related to the planning and implementation of control measures in the financial and budgetary sphere, as well as possible solutions. The author points out the need to revise the procedures for implementing internal state financial control and its new forms with the current methods of financial control. The study suggests such a new form of financial control as automated remote financial monitoring, which warns on the impermissibility of violations in the financial and budgetary sphere. The author **concludes** that in order to automate and digitalize internal state financial control, it is necessary to create a unified information base, including systematized information according to the criteria set by the state. This will allow for a deeper economic analysis of using budgetary funds allocated by the state for certain purposes, at the stages of preliminary and subsequent control, that will improve and increase the efficiency of financial control, and save time and labor during control activities. The author **recommends** to improve the regulatory framework governing the implementation of financial control by the Russian Treasury, including internal state financial control.

**Keywords:** Federal Treasury; financial control; internal state financial control; control measures; financial and budgetary sphere

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## INTRODUCTION

There are many gaps that impede the further development of implementing financial control. First, we would like to emphasize to the lack of a single regulatory legal act in the field of finance in the Russian Federation (hereinafter — Russia), that would document basic concepts such as “financial system”, “structure of the financial system” and “financial control”. These concepts are the foundation for an effective model of the state financial management system, which is the subject of ongoing research [1] and generates a diverse approach to their interpretation.

Before, Presidential Decree No. 1095 (25.07.1996) “On measures to ensure state financial control in the Russian Federation”<sup>1</sup> indicated what includes state financial control and which authorities it is entrusted to. However, the Decree became invalid in 2018.

Under Art. 265 of the Budget Code of the Russian Federation,<sup>2</sup> state (municipal) financial control is currently divided into external and internal, preliminary and subsequent.

At the federal level, external state financial control is the control activity of the Accounts Chamber of the Russian Federation, the authority of internal state financial control lies with the Federal Treasury.

At the regional level, under the regulatory legal acts of the constituent entities of the Russian Federation, external state financial control is exercised by the control and accounting bodies of the constituent entities of the Russian Federation, and internal state financial control is exercised by the executive authorities of the constituent entities of the Russian Federation.

At the municipal (local) level, under the regulatory legal acts of local governments in each constituent entity of the Russian Federation, external municipal financial control is exercised by the control and accounting bodies of municipalities, and internal state financial control is exercised by municipal financial control bodies, which are local administration bodies in the constituent entities of the Russian Federation.

In Russia, much attention is paid to the implementation of external and internal state (municipal) control.

When analyzing the implementation of external state financial control in the scientific literature, they often investigate the performance audit within the state financial control system [2], as well as issues of its improvement [3–6].

The directions of development of internal state financial control, problems and solutions are also discussed in scientific legal and economic literature [7–18], at various meetings,<sup>3</sup> seminars [19] and international conferences [20–23].

Head of the Federal Treasury R. E. Artyukhin and the Deputy Head of the Federal Treasury in charge of control in the financial and budgetary sphere E. A. Isaev gave interviews,<sup>4</sup> where highlighted the devel-

<sup>3</sup> Presentation by E. A. Isaev “Specific of the implementation of control in the financial and budgetary sphere in 2020 and prospects for 2021” (presented at a videoconference meeting in the Federal Treasury on May 20, 2020). URL: <https://roskazna.ru/kontrol/vnutrenniy-gosudarstvennyy-finansovyy-kontrol/> (accessed on 20.08.2020). A meeting of the Working Group of the Accounts Chamber of the Russian Federation and the Federal Treasury on State Financial Control took place on May 27, 2020. URL: <https://roskazna.ru/novosti-i-soobshheniya/novosti/1440888/> accessed on 20.08.2020). On August 7, 2020, Deputy Head of the Federal Treasury Eli Isaev held a videoconference meeting with the territorial bodies of the Federal Treasury on the implementation of control activities in 2020 and planning for 2021. URL: <https://roskazna.gov.ru/novosti-i-soobshheniya/novosti/1451411/> (accessed on 20.08.2020).

<sup>4</sup> Interview with the Head of the Russian Treasury R. E. Artyukhin “The Russian Treasury feels confident about the future and is dynamically developing” in Finance journal. 2017;(11):3–8. URL: [https://roskazna.ru/upload/iblock/071/finansy\\_-11-2017\\_r.e.-artyukhin.pdf](https://roskazna.ru/upload/iblock/071/finansy_-11-2017_r.e.-artyukhin.pdf) (accessed on 20.08.2020). Interview with the Deputy Head of

<sup>1</sup> Presidential Decree No. 1095 (25.07.1996) (as amended on 18.07.2001). On measures to ensure state financial control in the Russian Federation (invalidated from October 25, 2018 due to the issuance of the Decree of the President of the Russian Federation of October 25, 2018 No. 610).

<sup>2</sup> Budget Code of the Russian Federation of July 31, 1998 No. 145-FZ (as amended on July 31, 2020).

opment prospects of the Federal Treasury, including those related to the direction of internal state financial control.

At the legislative level, the authority of control and supervision in the financial and budgetary sphere lies with the Federal Treasury and its territorial bodies are regulated by the Budget Code of the Russian Federation (Article 269.2), the implementation standards for the internal state (municipal) financial control<sup>5</sup> (provided for

in clause 3 of Article 269.2 of the Budget Code of the Russian Federation), the rules for the Federal Treasury to control the financial and budgetary sphere, approved by the Government of the Russian Federation dated November 28, 2013 No. 1092 (as amended on December 27, 2019)<sup>6</sup> (which are applied to control activities started before August 24, 2020 — before the release of the Standard approved by the Russian Government Decree of August 17, 2020 No. 1235), the rules approved by the Russian Government Decree of 11.28.2013 No. 1092 (as amended on August 17, 2020),<sup>7</sup> the Regulation on the Federal Treasury, approved by the Government of the Russian Federation of 01.12.2004 No. 703 [p. 5.15 (1)],<sup>8</sup> the Housing Code of the Russian Federation of December 29, 2004 No. 188-FZ

the Russian Treasury E. A. Isaev “It is necessary to improve control methods and introduce new effective tools into practice” in *Finance journal*. 2017;(11):17–22. URL: [https://roskazna.ru/upload/iblock/57e/finansy\\_-11-2017-\\_e.a.-isaev\\_.pdf](https://roskazna.ru/upload/iblock/57e/finansy_-11-2017-_e.a.-isaev_.pdf) (accessed on 20.08.2020).

<sup>5</sup> Decree of the Government of the Russian Federation of 06.02.2020 No. 95 “On approval of the federal standard for internal state (municipal) financial control “Principles of control activities of internal state (municipal) financial control” (effective from 01.07.2020). Decree of the Government of the Russian Federation of 06.02.2020 No. 100 “On Approval of the Federal Standard for Internal State (Municipal) Financial Control “Rights and Obligations of Officials of Internal State (Municipal) Financial Control Bodies and Objects of Internal State (Municipal) Financial Control (their officials) implementation of internal state (municipal) financial control” (effective from 01.07.2020). Decree of the Government of the Russian Federation of 27.02.2020 No. 208 “On approval of the federal standard for internal state (municipal) financial control “Planning inspections, audits and surveys” (effective from 01.07.2020). Decree of the Government of the Russian Federation of August 17, 2020 No. 1235 “On approval of the federal standard for internal state (municipal) financial control “Conducting inspections, audits and examinations and registration of their results” (applies to control activities begun on August 24, 2020). Decree of the Government of the Russian Federation of July 23, 2020 No. 1095 “On approval of the Federal standard for internal state (municipal) financial control “Implementation of the results of inspections, audits, surveys”. Decree of the Government of the Russian Federation of August 17, 2020 No. 1237 “On approval of the federal standard for internal state (municipal) financial control “Rules for pre-trial appeal of decisions and actions (inaction) of internal state (municipal) financial control bodies and their officials”. Order of the Treasury of Russia dated 01.03.2017 No. 39 (as amended on 05.12.2018) “On approval of the Standard for the internal organization of a control event “General requirements for the internal organization of a control event” (planned to be canceled). Order of the Treasury of Russia dated December 29, 2017 No. 385 “On approval of the Standard of internal organization “Exercise by the Federal Treasury of powers on internal state financial control in the field of budgetary legal relations”. Order of the Ministry of Finance of Russia dated 03.10.2018 No. 203n “On approval of the Standard for the implementation of internal state financial control by the Federal Treasury “Checking the provision of subsidies from the federal budget to federal budgetary and autonomous institutions

and (or) their use” (effective from 29.12.2018). Order of the Ministry of Finance of Russia dated 05.28.2018 No. 113n “On approval of the Standard for the implementation of internal state financial control by the Federal Treasury “Verification of the provision of interbudgetary transfers from the federal budget for a specific purpose, and (or) their use” (effective from 14.08.2018).

<sup>6</sup> Decree of the Government of the Russian Federation of November 28, 2013 No. 1092 (as amended of December 27, 2019) “On the procedure for the exercise by the Federal Treasury of powers to control the financial and budgetary sphere” (together with the “Rules for the exercise by the Federal Treasury of powers to control in the financial and budgetary sphere”) (as amended and supplemented, entered into force on 03.01.2020) (applies to control activities initiated before 24.08.2020).

<sup>7</sup> Decree of the Government of the Russian Federation of November 28, 2013 No. 1092 (as revised on August 17, 2020) “On the procedure for the Federal Treasury to exercise its powers to control the use of specialized non-profit organizations that carry out activities aimed at ensuring the overhaul of common property in apartment buildings, funds, received as state support, municipal support for capital repairs, as well as funds received from the owners of premises in apartment buildings that form capital repair funds on the account (accounts) of the specified specialized non-profit organizations” (together with the “Rules for the exercise by the Federal Treasury of powers to control the use of specialized non-profit organizations that carry out activities aimed at ensuring the overhaul of common property in apartment buildings, funds received as state support, m municipal support for capital repairs, as well as funds received from owners of premises in apartment buildings that form capital repair funds on the account (accounts) of the specified specialized non-profit organizations”) (entered into force on 27.08.2020).

<sup>8</sup> Resolution of the Government of the Russian Federation of 01.12.2004 No. 703 (as amended on 15.06.2019) “On the Federal Treasury”.

(Article 186),<sup>9</sup> Federal Law of July 21, 2007 No. 185-FZ (part 1.2 of Article 20),<sup>10</sup> Federal Law of April 05, 2013 No. 44-FZ (parts 8, 9 and 11.2 of Art. 99)<sup>11</sup> and the Code of the Russian Federation on Administrative Offenses (Part 1 of Art. 28.3, Clause 11 of Part 2 of Art. 28.3, 23.7).<sup>12</sup> In some cases, by the Administrative Regulations approved by Order of the Ministry of Finance of Russia dated March 20, 2014 No. 18n.<sup>13</sup>

Planning and selecting control objects, as well as organizing control measures (hereinafter — CM) is carried out under the orders of the Russian Treasury dated July 13, 2018 No. 199,<sup>14</sup> dated December 26, 2018 No. 433,<sup>15</sup> dated January 31, 2017 No. 15<sup>16</sup> and dated December 16, 2019 No. 401,<sup>17</sup>

<sup>9</sup> Housing Code of the Russian Federation of December 29, 2004 No. 188-FZ (as amended on July 31, 2020).

<sup>10</sup> Federal Law of 21.07.2007 No. 185-FZ (as amended on 07.04.2020) "On the Fund for Assistance to Reforming the Housing and Communal Services".

<sup>11</sup> Federal Law No. 44-FZ of 05.04.2013 (as amended on 31.07.2020) "On the contractual system in the field of procurement of goods, works, services to meet state and municipal needs".

<sup>12</sup> Code of the Russian Federation on Administrative Offenses of December 30, 2001 No. 195-FZ (as amended on July 31, 2020) (as amended and supplemented, entered into force on August 11, 2020).

<sup>13</sup> Order of the Ministry of Finance of Russia dated March 20, 2014 No. 18n "On Approval of the Administrative Regulations for the Execution of the State Function of Control in the Financial and Budgetary Sphere by the Federal Service for Financial and Budgetary Supervision".

<sup>14</sup> Order of the Russian Treasury dated July 13, 2018 No. 199 (as revised on August 24, 2018) "On approval of the Procedure for planning control measures in the financial and budgetary sphere carried out by the Federal Treasury and departments of the Federal Treasury for the constituent entities of the Russian Federation, and invalidating some orders of the Federal Treasury" (planned to be canceled).

<sup>15</sup> Order of the Treasury of Russia dated December 26, 2018 No. 433 «On approval of methods for selecting control measures for developing plans for control measures of the Federal Treasury and territorial bodies of the Federal Treasury in the financial and budgetary sphere» (planned to be canceled).

<sup>16</sup> Order of the Treasury of Russia dated January 31, 2017 No. 15 (as amended on May 30, 2018) "On approval of the Rules for assigning identifiers for control measures of the Federal Treasury and its territorial bodies in the financial and budgetary sphere".

<sup>17</sup> Order of the Treasury of Russia dated December 16, 2019 No. 401 (as revised on March 18, 2020) "On approval of the Classifier of internal (operational) treasury risks in the areas of activity of the Federal Treasury department for a constitu-

ent entity of the Russian Federation (constituent entities of the Russian Federation located within the boundaries of the federal district)".

and is also regulated by the Federal Law of 02.05.2006 No. 59-FZ.<sup>18</sup>

When carrying out CM and implementing inspection materials, officials of the Federal Treasury and its territorial bodies exercise their powers under the rules approved by the Government of the Russian Federation of November 28, 2013 No. 1092 (as amended on 12.27.2019) and (as amended on 08.17.2020), the standards for implementing internal state (municipal) financial control, including the Standard approved by order of the Treasury of Russia dated 01.03.2017 No. 39, and the Standard approved by the Government of the Russian Federation dated 17.08.2020 No. 1235, the Code of the Russian Federation on Administrative Offenses, orders of the Treasury of Russia dated 28.05.2019 No. 17n, dated 16.12.2019 No. 401, dated 14.06.2016 No. 9n, dated 30.11.2016 No. 437, dated 28.11.2017 No. 328, dated 28.09.2018 No. 288, dated 18.08.2017 No. 206 and dated December 29, 2017 No. 402, the Classifier of violations (risks) detected by the Federal Treasury in the course of control in the financial and budgetary sphere (approved by the Federal Treasury on December 19, 2017),<sup>19</sup> by the Accounts Chamber of the Russian Federation No. 128, the Ministry of Finance of Russia No. 214n dated 25.12.2015,<sup>20</sup> as well as by the Decree of the

ent entity of the Russian Federation (constituent entities of the Russian Federation located within the boundaries of the federal district)".

<sup>18</sup> Federal Law of 02.05.2006 No. 59-FZ (as amended on 27.12.2018) "On the procedure for considering applications from citizens of the Russian Federation".

<sup>19</sup> Classifier of violations (risks) detected by the Federal Treasury in the course of control in the financial and budgetary sphere (approved by the Federal Treasury on December 19, 2017, as amended on December 31, 2019).

<sup>20</sup> Order of the Accounts Chamber of the Russian Federation No. 128, the Ministry of Finance of Russia No. 214n dated 25.12.2015 (as amended on 24.08.2017) "On approval of the Regulation on the state information system "The official website of the Russian Federation in the information and telecommunication network Internet for posting information on the implementation of the state (municipal) financial audit (control) in the field of budgetary legal relations".



President of the Russian Federation dated 03.03.1998 No. 224.<sup>21</sup>

In 2020, due to the spread of coronavirus infection COVID-19 on the territory of Russia, when carrying out control measures, the Federal Treasury is also guided by the Decree of the Government of the Russian Federation of 03.04.2020 No. 438,<sup>22</sup> under which some restrictions are associated with the implementation of field CM [the grounds for the departure of officials persons of internal state (municipal) financial control bodies can only be orders of the President of the Russian Federation, the Government of the Russian Federation and the requirements of the prosecutor].

The reporting on the CM conducted by the Federal Treasury and its territorial bodies is documented under the order of the Ministry of Finance of Russia dated 05.18.2016 No. 67ni<sup>23</sup> and the order of the Federal Treasury No. 375<sup>24</sup> dated 22.11.2018.

## RESEARCH RESULTS

Based on the regulatory legal acts specified in this article, we conclude that it takes a lot of time and energy to plan and implement CM, as well as the materials.

The procedure for implementing the CM conducted by the Federal Treasury and its

territorial bodies under paragraph 2 of Art. 269.2 of the Budget Code of the Russian Federation in the form of inspections (field and office), audits and surveys, is enshrined in the rules for the exercise by the Federal Treasury of powers to control the financial and budgetary sphere, approved by the Government of the Russian Federation dated November 28, 2013 No. 1092 (refers to CM, started before August 24 2020), as well as the standards for internal state (municipal) financial control, including the Standard for the internal control event "General requirements for the internal organization of the control event", approved by Order of the Treasury of Russia dated 01.03.2017 No. 39, as well as the Federal Standard internal state (municipal) financial control "Conducting inspections, audits and examinations and registration of their results", approved by Decree of the Government of the Russian Federation of August 17, 2020 No. 1235 (applies to CM, started on August 24, 2020).

Until August 24, 2020, the procedure for implementing CM, enshrined in clause 28 of the rules approved by Decree of the Government of the Russian Federation dated November 28, 2013 No. 1092 (as amended on December 27, 2019), included the appointment of CM, their implementation and implementation of the results.

Starting from August 24, 2020, the appointment of CM, their preparation and conduct [including the appointment (organization) of examinations, the registration of their results] and the registration of the results of the CM are governed by clause 2 of the Federal standard approved by the Decree of the Government of the Russian Federation dated August 17, 2020 No. 1235. The implementation of the results of the CM are governed by the Federal Standard approved by the Decree of the Government of the Russian Federation of July 23, 2020 No. 1095.

Under clause 1.4 of the Standard approved by Order of the Treasury of Russia

<sup>21</sup> Decree of the President of the Russian Federation of 03.03.1998 No. 224 (as amended on 25.07.2000) "On ensuring the interaction of state bodies in the fight against offenses in the economic sphere".

<sup>22</sup> Decree of the Government of the Russian Federation of 03.04.2020 No. 438 (as amended on 28.07.2020) "On the specifics of the implementation in 2020 of state control (supervision), municipal control and on amending paragraph 7 of the Rules for preparation by state control (supervision) and control of annual plans for scheduled inspections of legal entities and individual entrepreneurs".

<sup>23</sup> Order of the Ministry of Finance of Russia dated 05.18.2016 No. 67ni (as amended on 04.04.2017) "On approval of the form and procedure for submitting a report on the results of the Federal Treasury of control measures in the financial and budgetary sphere".

<sup>24</sup> Order of the Treasury of Russia dated November 22, 2018 No. 375 "On the submission of reports, information, information, documents on the implementation of control measures in the financial and budgetary sphere and the monitoring of control activities" (as amended on May 14, 2020).

dated 03.01.2017 No. 39 (also applies after August 24, 2020, until the release of the new departmental standard), the stages of CM implementation are more detailed and include planning, preparation and appointment of CM, conducting and formalizing their results, reviewing and implementing them, monitoring the execution of submissions (instructions) for the results, as well as reporting on the results.

*Fig.* shows an algorithm for the internal state financial control of the Treasury of Russia, which allows for the clear view of the mechanism for exercising control in the financial and budgetary sphere at the federal level step by step (by actions, stages), as well as the complexity and risk intensity of the process itself, associated with the need for strict adherence to the regulations established at the legislative level of procedures and deadlines. In certain life situations, in practice, weak points (problems) requiring solutions (sometimes global ones) are identified.

*Table* contains a list of problems in implementing state financial control by the Treasury of Russia and possible solutions.

Despite today's problems, all executive authorities, including the Treasury of Russia, are being digitalized and automated [24, 25]. Therefore, implementing internal state financial control, the mechanism for detecting violations in the financial and budgetary sphere also require the development of other control principles and methods [26]. It is also necessary to increase the forms of existing control methods (for example, to introduce remote forms when carrying out desk inspections), not excluding the use of international experience [27, 28].

For example, today at the legislative level (Art. 267.1 of the Budget Code of the Russian Federation) methods of financial control in the form of inspections, audits and surveys are documented. They state that "inspections are divided into office

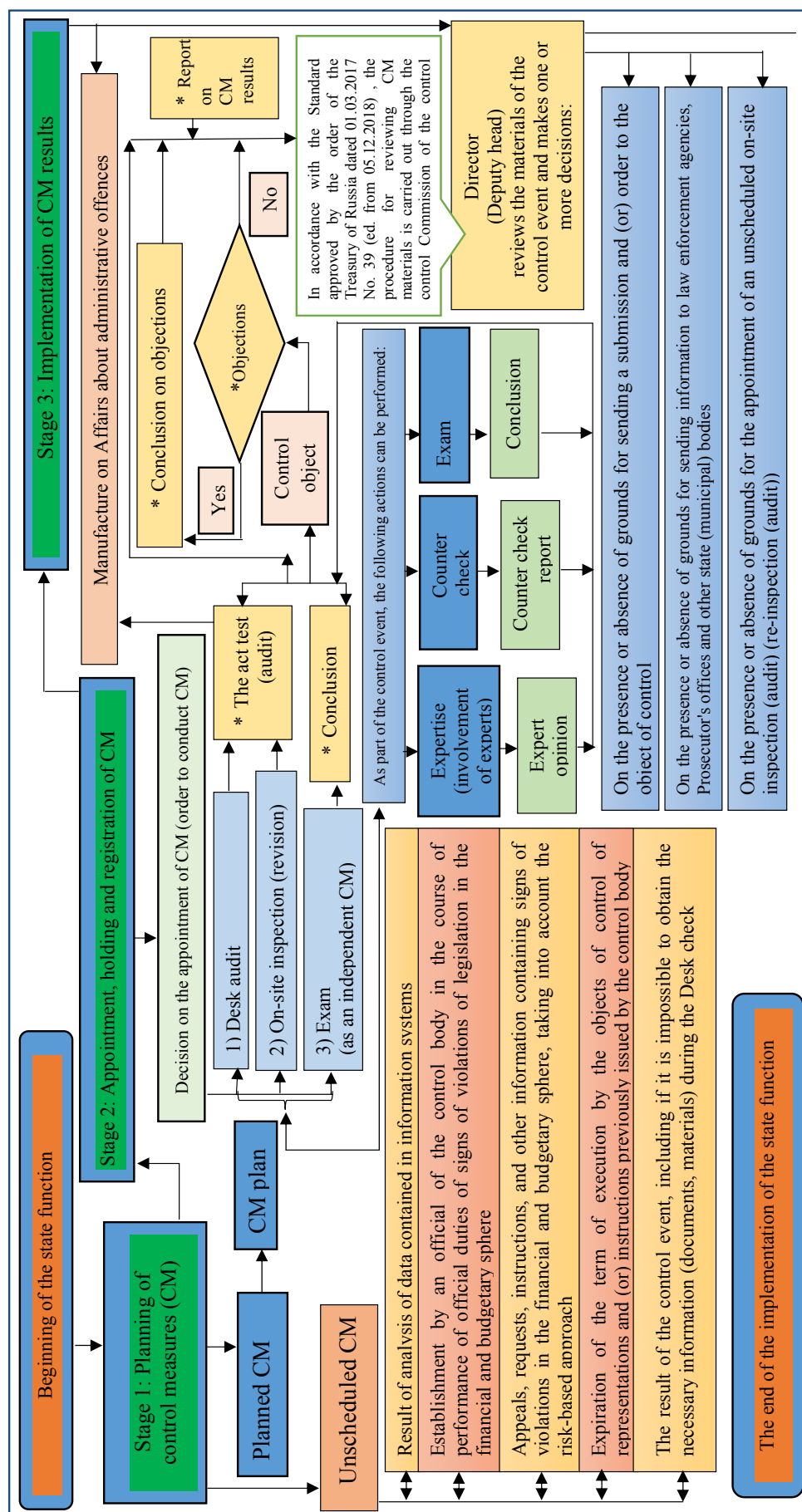
and field, including counter ones". At the same time, they do not describe the forms of implementing CM.

Within preliminary control, considering the risk-oriented approach by the Federal Treasury, there must be a law to consolidate the application of analysis and monitoring during the implementation of control and expert-analytical measures in the prescribed manner [as it is provided for (municipal) control (clause 3 of Art. 268.1)].

At the stage of preliminary financial control, we propose automated remote financial monitoring as a new control form. The monitoring should result in a automatically created document warning of a possible offense in the financial and budgetary sphere, including an administratively punishable one.

The idea of the proposed innovations is as follows. At the stage of budget execution, the "Electronic Budget" system and the Unified Information System in procurement carry out information interaction at the stage of preliminary control according to criteria and parameters defined by the state. This considers a risk-oriented approach using methods of economic and mathematical modeling. The calculation procedure and the selection of criteria and parameters must be documented in a regulatory legal act. Recipients of funds from the federal budget (including subsidies, subventions, loans, investments, etc.) receive an automatic warning about the inadmissibility of violations in the financial and budgetary sphere, recorded in an automatically generated document. We see this document as a Warning about the inadmissibility of violations in the financial and budgetary sphere.

If the control object ignores and does not correct the deficiencies (signs of violations) identified automatically mode or does not provide the control body with objective reasons why they cannot be eliminated, including those proving the absence of guilt



**Fig. Algorithm of internal state financial control of the Russian Treasury**

Source: data visualization by the author based on the Standards approved by the resolutions of the Government of the Russian Federation of 27.02.2020 No. 208, of 17.08.2020 No. 1235, and of 23.07.2020 No. 1095.

Table

**Problems in implementing state financial control by the Treasury of Russia and possible ways to eliminate them**

No.	Action	Problems (weaknesses) related to appointing, conducting and implementing control measures (according to the author)	Possible solutions for eliminating problems (weaknesses) and reducing the risks
1	2	3	4
1.	<b>CM planning</b>		
1.1	Financial and budgetary sphere	<p>1. The lack of clear, normatively established, uniform, regulated and systematized sources of information that are the basis for planning and assigning CM (considering a risk-based approach)</p> <p>2. The lack of accounting in the costs of working time of controllers-auditors, considering the timing of working hours, the statutory period of time associated with preparing for CM (for reference: under clause 29 of the Administrative Regulations approved by order of the Ministry of Finance of Russia dated 20.03.2014 No. 18n deadline implementation of the administrative procedure for the preparation and appointment of a control measure in the Federal Service for Financial and Budgetary Supervision was no more than ten working days. In practice, this period was no more than three days, was recorded in the inspection report (as preparatory procedures for CM) and was included in the period for the implementation of CM with the entry of time expenditures in man-days in the SPP ASP-Planning)</p> <p>3. Planning of control objects is based on the regular staffing of the control and auditing unit, and not from the actual staffing. Therefore, the number of checks per one auditor is more than the norm. As a result, the duration of the CM and the composition of the audit (verification) group has to be reduced to fulfill the entire staff load provided for by the approved CM Plan of the Federal Treasury and the CM Plan of the territorial bodies, which cannot but affect the quality of CM and the labor intensity of the process</p>	<p>1. Integration of systematized information from various sources into the applied software product ASP-Planning (hereinafter – PPP ASP-Planning) of the Federal Treasury, as well as other publicly available open information posted on the Internet (for example, data from the Unified State Register of Legal Entities from the website of the tax inspection) in order to select objects of control according to the risk intensity criteria established by law when planning CM</p> <p>2. The previous experience of organizing CM, accumulated earlier by the Federal Service for Financial and Budgetary Supervision should be considered. The departmental legal act of the Federal Treasury should provide a period of time that allows the controller-auditor [primarily the head of the audit (verification) group] to prepare for the CM program, the work plan for conducting the CM, familiarize the members of the verification (audit) group with the issues of verification, study the regulatory legal acts, issue an order for the CM, get acquainted with the acts of previous CM related to the object of control, study financing, as well as the main directions of its use, etc.</p> <p>3. To introduce changes to the methods for calculating load indicators on structural divisions of territorial bodies when planning CM, which is Appendix No. 10 to the Procedure for planning control measures in the financial and budgetary sphere, carried out by the Federal Treasury and departments of the Federal Treasury for the constituent entities of the Russian Federation, approved by order of the Federal Treasury of 13.07.2018 No. 199, planning CM for the corresponding year according to the actual number, based on the data as of December 31, preceding the planned period, since no territorial bodies will be able to change the number of the population in the next year in the next two to three months, since admission to the civil service is carried out in compliance with a number of procedures that take time</p>



Table (continued)

No.	Action	Problems (weaknesses) related to appointing, conducting and implementing control measures (according to the author)	Possible solutions for eliminating problems (weaknesses) and reducing the risks
1.2	Consideration of written appeals on issues of control measures in the financial and budgetary sphere	1. The control body sometimes receives appeals from citizens and legal entities in order to punish the "offenders", using the financial control body as an "instrument of revenge". Moreover, the appeals of these persons are sometimes annoying and are about nothing. For example, they may first point to violations in the field of wages, reflecting in their appeal fabulous amounts of payments to the heads of state institutions and underpayments to employees, which in practice is not confirmed by the results of the CM. Then they report about the outstanding work in the same institution, which CM also do not confirm. Thus, the state financial control body spends money and time on mindless CM, which negatively affects the performance of control activities	1. Since the Federal Standard of 06.02.2020 No. 100 deprives the state control body of the right not to consider the applications of unscrupulous citizens and legal entities, it is proposed to consider the possibility and procedure for specific actions for the state control body in the departmental regulatory legal act
2.	<b>Appointment, conduct and registration of CM</b>		
2.1	Organization and conduct of CM (planned and unplanned)	1. The Classifier of violations (risks) does not detail violations (risks), including those related to illegal and ineffective spending of federal budget funds. 1. There is also a closed list of violations in the absence of such a type of violation as "Other violations (risks), shortcomings in the financial and budgetary sphere". This does not help develop the versatility and nature of detected violations (to find atypical violations) and subsequently note them in the statements of the Federal Treasury, formed when posting the results of control measures in the PPP ASP-Planning. Moreover, references to regulatory legal acts in the Classifier are largely outdated due to the changes in the legislation of the Russian Federation	1. Today, the Classifier of violations (risks) requires changes, including due to changes in the norms of law. The references by type of violation are given in this regulatory legal act applied by the Federal Treasury
		2. There are contradictions in implementing CM procedures. Under clauses 48, 61 and 62 of the rules approved by the Government of the Russian Federation dated November 28, 2013 No. 1092 (as amended on December 27, 2019), applied to CM, started before August 24, 2020, based on the results of an on-site inspection (revision) first, a certificate of completion of control actions is drawn up, and then, an act, which must be signed within 15 working days after signing a certificate of completion of control actions. Meanwhile, under clauses 5.6.19 and 5.6.20 of the Standard approved by Order of the Treasury of Russia dated 01.03.2017 No. 39, a certificate of completion of control actions and an inspection report are drawn up and handed over to the control object simultaneously (the time for compiling an act within 15 working days by the Federal by the Treasury in the departmental regulatory legal act was excluded) Today, due to the release of the Standard dated August 17, 2020 No. 1235 (applied to CM started after 08/24/2020), the CM procedure is also not clear. This Standard sets deadlines for conducting CM, but at the same time it is indicated that control actions are carried out and an inspection (audit) act and a conclusion based on the results of the survey are drawn up. Thus, clause 48 of this Standard states that "the registration of the results of inspections (audits), counter inspections, examinations assigned under clauses 36 and 42 of the Standard is carried out within 15 working days from the end date of control actions". Registration of the results of other surveys is carried out no later than the last day of the survey. It is not clear why 15 working days are provided for registration of the results, since this period is included in the CM period. In this case, the control body is limited in time to carry out control actions. If 15 working days period is not included in the CM period and this period is really intended for registering the CM results, then it is not clear how to calculate the CM period and what it includes. Also, the reference in clause 33 to clause 19 of this Standard is not clear, whether all the control actions specified in it are applicable to a desk audit (for example, inventory, measurement, etc.), which is carried out exclusively at the place of the control object	2. It is proposed to clarify the procedure for CM implementation in the departmental Standard of the control body

Table (continued)

No.	Action	Problems (weaknesses) related to appointing, conducting and implementing control measures (according to the author)	Possible solutions for eliminating problems (weaknesses) and reducing the risks
3.	<b>Implementation of CM results</b>		
3.1	Organizing implementation of CM results	<p>1. The lack of a normatively established period of time for the implementation of the completed CM and accounting it in the cost of working time, considering the timing, leads to the fact that after CM are complete, the inspectors have to simultaneously participate in the next CM and draw up the materials of the previous one, which affects the CM quality. In practice, the Federal Service for Financial and Budgetary Supervision for a period of no more than 15 working days provided item 45(b) of the Administrative Regulations approved by Order of the Ministry of Finance dated 20.03.2014 No. 18n. In fact, it took 3 to 15 working days, depending on the nature of the violations, since administrative liability is provided for some offenses. Therefore, under the Code of Administrative Offenses of the Russian Federation, it was required to draw up a protocol on an administrative offense</p>	<p>1. It is proposed to amend the methods for calculating load indicators on structural divisions of territorial bodies when planning a CM, which is Appendix No. 10 to the Procedure for planning control measures in the financial and budgetary sphere, carried out by the Federal Treasury and departments of the Federal Treasury for the constituent entities of the Russian Federation, approved by Order of the Federal Treasury of 07.13.2018 No. 199, providing when planning the CM for the corresponding year, considering the load in time, allowing the controller-auditor:</p> <ul style="list-style-type: none"> <li>– to initiate cases of administrative offenses and conduct administrative investigations;</li> <li>– enter the CM results in the PPP ASP-Planning;</li> <li>– enter information about the CM results in the state information system "The official website of the Russian Federation in the information and telecommunications network Internet for posting information on the implementation of the state (municipal) financial audit (control) in the field of budgetary legal relations", whose placement procedure is stipulated by the Order of the Treasury of Russia dated December 29, 2017 No. 402, or assign these responsibilities to other officials.</li> </ul> <p>Today, this responsibility has been assigned by the Federal Treasury to auditors.</p> <p>For reference: in the Federal Service for Financial and Budgetary Supervision, these functions were delimited among other departments (legal and control and analytical in accordance with the specifics of the duties performed)</p>
3.2	Execution of proceedings on cases of administrative offenses and registration of cases on administrative offenses	<p>1. In the Federal Treasury, the lack of a normative legal act regulating the procedure for initiating and considering "secret" and "top secret" cases of administrative offenses</p> <p>2. Initiating cases of administrative offenses occurs only after consideration of violations by the control commission, when violations are accepted or not accepted, which is contrary to the Administrative Code (according to which the decision on an offense and guilt should be made by a person authorized to consider the case, and not by the control commission). In practice, the decision of the control commission may not always be objective, since not all members of the commission look at the documents confirming violations</p>	<p>1. It is proposed to provide for the procedure for initiating and considering "secret" and "top secret" cases of administrative offenses in the Order of the Treasury of Russia dated November 30, 2016 No. 437 (as amended on December 18, 2019) and the Order of the Russian Treasury dated November 28, 2017 No. 328 (as amended 12.18.2019), by making the appropriate changes</p> <p>2. In our opinion, the first thing to do is to initiate cases, to consider them, and to submit proposals to the control commission, considering the time for the cases.</p> <p>It is proposed to amend the departmental Standard approved by order of the Treasury of Russia dated 03.01.2017 No. 39 (revised from 12.05.2018), indicating that "violations in the financial and budgetary sphere that have signs of offenses, the responsibility for the commission of which is stipulated by the Administrative Code, are issued to the control commission after drawing up protocols and considering cases of administrative offenses"</p>

Table (continued)

No.	Action	Problems (weaknesses) related to appointing, conducting and implementing control measures (according to the author)	Possible solutions for eliminating problems (weaknesses) and reducing the risks
		<p>3. Today, when carrying out control actions during the CM period, officials of the Federal Treasury and its territorial bodies often meet with control objects who do not want to provide information or provide information in a timely manner for exercising control in the financial and budgetary sphere.</p> <p>Under Art. 19.7 of the Code of Administrative Offenses of the Russian Federation for failure to submit or untimely submission of documents to the state body (official) exercising state financial control, administrative liability is provided in the form of a warning or an administrative fine – 300–500 roubles for officials; 3000–5000 roubles for legal entities</p> <p>These types of liability do not stop the control objects from committing an offense in terms of non-submission of documents due to the fact that the sanctions are insignificant and, in general, for the control object are more beneficial than the established amount of violations to be returned to the federal budget</p>	<p>3. In our opinion, to reduce the risk associated with the failure to submit documents or with their untimely provision, which significantly reduces the effectiveness of the results of control activities, it is necessary to exclude from Art. 19.7 of the Code of Administrative Offenses of the Russian Federation administrative responsibility in the form of a warning and increase the amount of an administrative fine by 10 times (or more)</p>
3.3	Placing information on the CM results in information systems	<p>1. Placing information based on the CM results in information systems and software complexes of the Federal Treasury should not be related to the official duties of controllers-auditors (traveling to the control objects and not being constantly at their workplace), since their main activity is the CM implementation</p>	<p>1. For uniform distribution of the CM results, it is proposed to consolidate this function in the duties of other officials who do not belong to the auditing unit, which, in our opinion, are directly related to reporting on control implementation in the financial and budgetary sphere of the Federal Treasury (its territorial bodies); they are not involved in conducting CM in the general rate, and are permanently in the building of the Federal Treasury (its territorial body) and do not leave for control objects. Working in different software products requires compliance and knowledge of technological regulations, which are constantly updated</p>
3.4	Interaction with the Federal Treasury, regulatory and supervisory, law enforcement and other bodies	<p>1. The prosecutor's office delivers applications (requests) for immediate CM (or the allocation of specialists for planned CM conducted by the prosecutor's office, for example, on the instructions of the General Prosecutor's Office) that do not contain signs of violations. This inables high-quality CM, as well as distracts the control body's from conducting planned CM provided by the Federal Treasury and territorial bodies. Also, when checking the control object, it often turns out that the signs of violations in the financial and budgetary sphere indicated by the prosecution authorities are described in the requirement formally and have no grounds. Thus, the time of the inspection body was wasted, and the unscheduled CM was carried out with no result</p>	<p>1. In the Agreement on the procedure for interaction between the Prosecutor General's Office of the Russian Federation and the Federal Treasury, to provide for specific situations when the prosecutor's office applies to the supervisory authority with the "Requirement to conduct CM" or "Requirement to appoint a specialist" to comply with the requirements provided for in Art. 6 of the Federal Law of 17.01.1992 No. 2202–1 (as amended on 31.07.2020) "On the Prosecutor's Office of the Russian Federation"</p>

Source: compiled by the author.

of the control object, then it automatically should be fined. Accordingly, the procedure will return funds to the budget, for example, by sending a notification about applying budgetary enforcement measures.

Today, under Art. 306.2 of the Budget Code, measures of budgetary coercion can be applied as follows:

- undisputed collection of funds provided from one budget of the budgetary system of the Russian Federation to another budget of the budgetary system of the Russian Federation;
- undisputed collection of funds for the use of funds provided from one budget of the budgetary system of the Russian Federation to another budget of the budgetary system of the Russian Federation;
- undisputed collection of penalties for late return of budget funds;
- suspension (reduction) of the provision of interbudgetary transfers (excluding subventions).

The source of funding and the nature of the violation are important.

The existing procedure does not provide for the collection of funds to the federal budget for violations from state institutions, which are fully financed from the federal budget. It would be fair that a mechanism for returning funds allocated from the federal budget for violations committed in the financial and budgetary sphere would be provided for legal entities and officials of state institutions, since they are fully responsible for their use.

#### DIRECTIONS IN THE DEVELOPMENT OF INTERNAL STATE (MUNICIPAL) FINANCIAL CONTROL

The Federal Treasury is trying hard to put the mechanism of remote interaction into practice, as well as remote access technologies.

The promising directions in the development of internal state (municipal) control are as follows:

**1. Application of remote forms of control using information available in the control body itself.** At the same time, authorized officials should be guided by the following principles:

- *automation* — the use of technologies that automate permanent and monotonous processes, as well as ensure the prompt processing of a large amount of data and the automated generation of documents;
- *informatization* — the use of information available in state and municipal information systems at all stages of CM implementation without requesting it from the control object.

For example, in the Federal Treasury, when providing access in the “view” mode, the controllers-auditors have the opportunity to analyze information from individual subsystems (components, modules) of the state integrated public finance information system “Electronic budget”, whose operator is the Federal Treasury in accordance with the Order Ministry of Finance of Russia dated 30.12.2019 No. 259n.<sup>25</sup> These subsystems include: expense management subsystem, procurement management subsystem, income management subsystem, cash management subsystem, payroll management subsystem, non-financial assets management subsystem, accounting and reporting subsystem, etc.

Due to the lack of access to these subsystems in practice (despite the fact that the powers to exercise control in the financial and budgetary sphere were transferred to the Treasury of Russia in February 2016), controllers-auditors today do not have experience in them, they do not know the possibility of forming and obtaining

<sup>25</sup> Order of the Ministry of Finance of Russia dated December 30, 2019 No. 259n “On approval of the list of subsystems (components, modules) of the state integrated information system for public finance management ‘Electronic budget’ operated by the Ministry of Finance of the Russian Federation, and the list of subsystems (components, modules) of the state integrated information system the public finance management system ‘Electronic budget’ operated by the Federal Treasury”.

the necessary information. It takes time to study the technological regulations of work in these subsystems.

**2. Obtaining remote access (in “view” mode) to the software products of the control object from the control object itself.** This is possible in the personal account, which has the information about the activities of the control object, including those related to the expenditure of funds, accounting (budget) and reporting. It should be possible to print out the necessary information, automatically certified by the electronic signature of the authorized person of the control object.

Today, under clause 6 of the Standard approved by Decree of the Government of the Russian Federation No. 1235 of August 17, 2020, the Federal Treasury already has the opportunity to make requests for access to information systems owned and operated by the control object. Meanwhile, the control object requires experience and knowledge of the specifics of the activity to work in these systems. Given the CM timeframes provided by the Standard and approved by Decree of the Government of the Russian Federation of August 17, 2020 No. 1235, they are impossible to acquire.

**3. Amendments to regulatory legal acts in terms of the possibility, in some cases, to go to the control object for a desk check, for example, for the purpose of conducting an inspection.**

For example, under Art. 92 of the Tax Code of the Russian Federation,<sup>26</sup> tax authorities performing a desk tax audit based on a value-added tax declaration, which declares the right to a tax refund, as well as in cases where it reveals contradictions between information about transactions, or any inconsistencies in the information on transactions, is entitled, *based on a revised resolution of the official of the tax author-*

*ity* carrying out the inspection, approved by the head (deputy) of the tax authority, to inspect the territories, premises, documents and items of the person in respect of whom the tax audit is being carried out.

Today, under clauses 19 and 33 of the Standard approved by Decree of the Government of the Russian Federation of August 17, 2020 No. 1235, the Federal Treasury, as an internal state financial control body, does not have an unambiguous understanding of whether it is possible to carry out control actions with a visit to the control object during a desk audit, since:

- first, Decree of the Government of the Russian Federation of 03.04.2020 No. 438 restricts the departure of internal state financial control bodies in 2020 to control objects;
- second, the Federal Treasury has a departmental regulatory legal act (Order of the Treasury of Russia dated May 28, 2019 No. 17n), in which there is no approved form of access to control actions during a desk audit (for example, a tax authority has a motivated decision of the tax authority, provided for in Appendix 15 to the Order of the Federal Tax Service of Russia dated 07.11.2018 No. MMB-7-2/628 @<sup>27</sup>);
- third, paragraph 3 of Art. 267.1 of the Budget Code of the Russian Federation provides a definition of an in-house audit, by which it is carried out at the location of the state (municipal) financial control body based on budget statements, accounting

<sup>27</sup> Order of the Federal Tax Service of Russia dated 07.11.2018 No. MMB-7-2/628@ “On approval of the forms of documents provided for by the Tax Code of the Russian Federation and used by tax authorities in exercising their powers in relations regulated by the legislation on taxes and fees, the grounds and procedure for extending the term conducting an on-site tax audit, requirements for documents submitted to the tax authority on paper, the procedure for interaction of tax authorities in fulfilling orders to request documents, requirements for drawing up a tax audit report, requirements for drawing up an act on the discovery of facts that testify to those provided for by the Tax Code of the Russian Federation tax offenses (with the exception of tax offenses, cases on the detection of which are considered in the manner prescribed by Article 101 of the Tax Code of the Russian Federation)”.

<sup>26</sup> Tax Code of the Russian Federation (part one) of July 31, 1998 No. 146-FZ (as amended on July 20, 2020).



(financial) statements and other documents submitted at its request. According to this provision, the right to access the control object is not provided.

**4. Creating a single information base for all state (municipal) financial control bodies.** It should include certain systematized information according to criteria set by the state, obtained both from the information systems of the Federal Treasury and from other open sources of information generated by various executive authorities. This database will make it possible to perform the control function at the federal, regional and municipal levels both to the bodies of internal state (municipal) control and external state (municipal) financial control.

### CONCLUSIONS

The development of the digital economy in Russia will inevitably entail the digitalization of the control and supervisory activities of all financial control bodies in the near future.

Today, despite the difficulties in implementing control activities due to the spread

of coronavirus infection COVID-19, it is very important to create and develop an optimally convenient effective mechanism and algorithm for implementing internal state (municipal) financial control in the digital economy. It should also correspond to the mission of the Russian Treasury "To promote Russia's leadership in the world in the quality of public finance management for the benefit of citizens."

We proposed some directions in the development of internal state (municipal) financial control (considering the resolution of the indicated problems). They will allow the bodies of state (municipal) financial control to independently form a sample of documents and information of the required format in electronic form, reduce the time to prepare and obtain information from the control object, and minimize paper workflow. Electronic signatures on documents and other information in the software products of the control object will provide the required level of protection of transmitted information, reduce corruption risk and increase the efficiency and quality of implementing control measures.

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