

## CHANGES IN THE REGULATORY BASE OF THE BUDGETARY PROCESS

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*In February 2016, in the field of budgetary processes the following developments took place among other things: the program of support to light industry enterprises in 2016 was approved; the Rosfinnadzor was abolished; the rules of fiscal monitoring of budget funds in 2016 were approved.*

By **Resolution No.85-r of 26 January 2016 of the Government of the Russian Federation**, the program of support of light industry enterprises in 2016 (hereinafter the Program) was approved. The Program provides for measures aimed at securing budget support to light industry enterprises.

It is planned to allocate subsidies from the federal budget to Russian entities to compensate a portion of expenditures related to production of worsted cloth school uniform for junior grade school students (garments for school students). The above subsidies will be provided on the basis of the Act of the Government of the Russian Federation.

Also, the Program envisages extension of the period of the effective Rules of allocation of subsidies in 2015 out of the federal budget to industrial enterprises for compensation of a portion of expenditures incurred in 2015 on payment of interests on loans – for replenishment of the working capital and (or) funding of day-to-day operations – received from Russian credit institutions, the Bank for Development and Foreign Economic Affairs (the Vneshekonombank), a state-owned corporation, as well as international financial institutions established on the basis of international agreements which the Russian Federation is a party to.

In addition to the above, in 2016 the rules of allocation of subsidies out of the federal budget to light and textile industry enterprises for compensation of a portion of expenditures on payment of interests on loans received from Russian credit institutions in the 2013–2015 period for implementation of new investment projects on technical upgrade will remain in force.

By **Order No.41 of 2 February 2016 of the President of the Russian Federation** on Some Issues of State Control and Supervision in the Financial and Budgetary Sphere, the Federal Service of Financial and Budgetary Supervision (the Rosfinnadzor) was abolished. Prior to its abolishment, the Rosfinnadzor is placed under the supervision of the Ministry of Finance.

The Rosfinnadzor had vast supervising authorities in the budgetary field. According to the rules of carrying out by the Federal Service of Fiscal and Budgetary Supervision of its authorities – which rules were approved by Resolution No.1092 of 28 November 2013 of the Government of the Russian Federation – the Rosfinnadzor carried out the following function:

1) control over:

- compliance with the budgetary legislation of the Russian Federation and other statutory acts regulating budget legal relations;
- completeness and authenticity of reporting on implementation of state programs of the Russian Federation, including that on fulfillment of state assignments;

- compliance with requirements to justification of purchases provided for by Article 18 of the Federal Law on Contract System;
  - a number of other functions in the specified sphere;
- 2) checking of fulfilment by state (municipal) financial supervision bodies which are executive authorities (officials) of constituent entities of the Russian Federation (local governments) of control over compliance with the Federal Law on Contract System;
  - 3) control over utilization of funds of the Fund for Facilitation of Reforms in housing and public utilities;
  - 4) control over utilization of budget funds allocated for major overhaul of common property of apartment houses.

In addition to the above, the Rosfinnadzor carried out analysis of fulfilment of budget authorities of state (municipal) financial supervision bodies which were executive authorities (officials) of constituent entities of the Russian Federation (local governments) and prepared on its basis reports and methodological proposals for the Ministry of Finance of the Russian Federation.

In addition to controlling functions in the budgetary sphere, the Rosfinnadzor carried out functions of an authority in charge of foreign currency regulation control in the non-banking area, as well as functions related to external control over the quality of operations of audit institutions. So, the Rosfinnadzor was an intersectorial supervising authority.

By Order No.41 of 2 February 2016 of the President of the Russian Federation, supervising functions in the budgetary sphere, as well as those related to external control over the quality of operations of audit institutions were assigned to the Federal Treasury. By the above Order, functions of the authority in charge of foreign currency regulation control were assigned to the Federal Customs Service of the Russian Federation and the Federal Tax Service of the Russian Federation.

By **Resolution No. 70 of 4 February 2016 of the Government of the Russian Federation**, the rules of fiscal monitoring in 2016 of state contracts, agreements, as well as contracts, agreements and treaties concluded within the frameworks of fulfilment thereof (hereinafter, the rules of fiscal monitoring) which heralded a new stage of development of the so-called “fiscal monitoring of allocation of budget funds” were approved.

Fiscal monitoring of allocation of budget funds represents a scheme of allocation of *budget purpose funds* in terms of target subsidies out of the federal budget to legal entities, budget investments, contributions to charter capital of legal entities, other purpose funds out of the federal budget, as well as transfers of budget funds on *state contracts* concluded with legal entities and carried out from the single account of the federal budget to accounts opened by territorial bodies of the Federal Treasury with offices of the Central Bank of Russia. It is to be noted that operations related to crediting and debiting of funds to the above accounts are reflected in customer accounts opened to recipients of federal budget funds at territorial offices of the Federal Treasury. Earlier, budget funds were transferred to accounts with credit institutions and that situation resulted in abuse of funds by recipients.

The principle of fiscal monitoring of budget funds was introduced into the budget legislation by Article 5 of Federal Law No.384-FZ of 1 December 2014 on The 2015 Federal Budget and the 2016–2017 Planned Period, as well as Resolution No. 1563 of 27 December 2014 of the Government of the Russian

Federation on Measures Related to Implementation of Federal Law on the 2015 Federal Budget and the 2016–2017 Planned Period.

The fiscal monitoring rules were approved for the purpose of implementation of Article 5 of the Federal Law on the 2016 Federal Budget and specify the conditions and mechanism of fiscal monitoring of allocation of budget funds in 2016.

Fiscal monitoring rules set the regime of fiscal monitoring in respect of the following:

- agreements (contracts) on allocation of subsidies to legal entities (except for subsidies to federal budget and autonomous institutions), including state-owned corporations and Russian Motorways, a state-owned company;
- budget investments to legal entities in accordance with Article 80 of the Budget Code of the Russian Federation;
- state contracts on delivery of goods, fulfilment of jobs and rendering of services (except for state contracts concluded for fulfilment of the state defense order);
- state contracts whose fulfilment is subject to bank monitoring in compliance with the legislation of the Russian Federation on the contract system in the sphere of purchasing of goods, jobs and services for state and municipal needs in the amount of over Rb 100m if advance payments are provided for by the terms of the above state contracts;
- state contracts on individual purchasing of goods, jobs and services in cases established by the Government of the Russian Federation, as well as contracts, agreements and treaties concluded within the frameworks of fulfilment thereof.

In case of fiscal monitoring, state contracts (contracts, agreements and treaties) include the following provisions:

- a) on a ban to transfer funds:
  - to accounts opened to the entity with a credit institution (except for payments of the entities' liabilities in foreign currency and labor remuneration with accruals and social payments, payments of jobs, services and goods actually fulfilled, rendered and delivered, respectively, as well as compensations of the entity's expenditures (a portion of expenditures) if they are provided for by statutory acts regulating the procedure for allocation of funds and state contracts (contracts, agreements and treaties);
  - as a contribution to the charter (pooled) capital of another entity if it is not provided for by statutory acts regulating that procedure;
  - for placement in deposits, as well as in other financial instruments unless otherwise is provided for by federal laws;
- b) on carrying out of operations related to fulfilment of obligations under state contracts (contracts, agreements and treaties) in customer accounts for accounting of operations by non-participants in the budgetary process;
- c) on submission to territorial offices of the Federal Treasury of documents envisaged in the procedure established by the Ministry of Finance for authorization of operations;
- d) on specification of the identifier of a state contract and agreement (treaty) in contracts, agreements and treaties concluded within the frameworks of fulfilment of state contracts and agreements (treaties), payment and settlement documents and documents certifying origination of cash liabilities. ●