REGIONAL PUBLIC SECTOR AUDIT IN THE RUSSIAN FEDERATION

Introduction and legal framework

In the aftermath of the break-up of the Soviet Union, the Russian Federation replaced what had been a highly centralised, unitary state with a decentralised federal system. As defined by the Federal Treaty (Constitution) of 1992, the new federation consists of 89 "subjects" (members of the Federation; the term “regions” is frequently used to describe all of the Russian Federation "subjects") - 21 republics, six krais (territories), 49 oblasts (sometimes translated as regions), one autonomous oblast, 10 autonomous okrugs (districts), and two cities of federal importance (Moscow and St. Petersburg). The republics are the titular homelands of non-Russian ethnic groups. They have their own constitutions and elect their own presidents. Oblasts and krais are run by elected governors. Autonomous okrugs are ethnic subdivisions of oblasts or krais. According to the 1993 Russian Constitution, all regions are equal subjects of the Russian Federation. A third level of local government - cities, towns, villages and counties - are subordinate to the subjects. Local administrations range from large cities to small rural communities, often within the context of larger local government units. Some local administrations have the status of municipalities, while others do not.

Russian regions began playing an increasing role in resource allocation in the mid-1980s with the weakening of the product-line ministries. This process intensified during the first wave of the large and laborious transition to a market economy in the early 1990s, leading to a significant devolution of effective power and authority to the regional level of government. This decentralisation process of the late 1980s and early 1990s was a rather chaotic, largely informal process. It derived from strong autonomous centrifugal forces that followed a weakening of the central government and its inability or unwillingness to meet a large part of former expenditure obligations. Subsequently, an attempted retrenchment of central authority took place and measures were approved which intended to strengthen the central control over subnational budgets. This includes the creation of a new tier in the federal hierarchy based on 7 macro-regions (federal districts) which are headed by presidential representatives who stand above regional governors and operate independently of them. Although changes in legislation and other measures have increased the coercive power of the federal government in the regions and, in some cases, promoted a clearer and more rational division of budgetary assignments, the current system of severe explicit central control effectively absolves subnational administrations from genuine budgetary responsibility and encourages them at the same time to create their own informal budgets and conduct informal fiscal policies through many devices (such as bilateral agreements with major taxpayers in the region and hidden extra-budgetary funds). Therefore, so far, measures aimed at bringing subnational finance under greater central control have had mixed effects at best, and negative effects at worst.

1 In 1993, when the Constitution was adopted, there were 89 federal subjects listed. In the last few years, however, the number of regions has decreased to 83 (21 republics, 46 oblasts, 9 krais, 1 autonomous oblast, 4 autonomous okrugs and 2 federal cities) due to mergers. The merging process was finished on March 1, 2008. No new mergers have been planned since March 2008.
Thus, since the birth of the new Russia with its federal structure, authorities have felt the sharp necessity to build up public sector audit bodies in accordance with the spirit and requirements of the time. Modern public sector audit started in 1994 in the city of Moscow with the municipal council, the Moscow City Duma, approving the law of creation of the first public sector audit body in new Russia. At the beginning the choice of the specific directions and objects of its audit and assessment activities was closely coordinated with the municipal council and not casually the audit body was therefore called the Chamber of Control and Accounting of the Moscow City Duma.

But at the beginning of 1995 the Accounts Chamber of the Russian Federation was founded. The Accounts Chamber is the standing body of state financial control and is accountable to the Federal Assembly of the Russian Federation that established it as a legal entity with organizational and functional independence in order to enable it to achieve its objectives. Following the example of the Federal Accounts Chamber and the Law which regulates its status, objectives, composition, structure and procedures, in November 1995 the audit body of the city of Moscow became the Chamber of Control and Accounting of Moscow and a new law introduced several changes to the 1994 Act.

As the Budget Code of the Russian Federation enables state, regional and municipal authorities to create public sector audit bodies, several regional and local authorities followed the example of the Accounts Chamber of the Russian Federation and the Chamber of Control and Accounting of Moscow and set up control and accounting bodies in their regions and municipalities. Thus, as of 1<sup>st</sup> March 2003 80 subjects of the Russian Federation have created their own public sector audit body, although their status is not always the same. Most of them (48) obtained the status of legal entity with the relevant legislative assembly approving its law of creation, whereas the remaining (32) were formed within the legislative assemblies of the subjects of the RF. The great majority are already operative, although in some regions the law of creation has been passed but the audit body has not started activities yet. At this actual stage there are also regions where the current status and legislation concerning the audit body is being amended.

Similarly towards March 2003 68 local authorities set up municipal bodies responsible for local government audit. Some of these bodies have been given the status of legal entity but most of them are organs of the relevant municipal council or even part of the municipal administration.

Within those audit bodies which were set up as organs of the legislative assemblies there are several cases where legislation establishes that the activity of the audit body cannot be suspended because of the discontinuance of the parliamentary activity.

**Types of activity**

According to the Budget Code of the Russian Federation state, regional and municipal

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2. The bicameral Federal Assembly consists of the Federation Council (upper house; members are appointed by the top executive and legislative officials in each of the subjects of the RF) and the State Duma (lower house; fully elected by proportional representation from party lists).

3. The abovementioned decrease in the number of federal subjects due to mergers will also lead to a decrease in the number of existing audit bodies.
audit bodies shall audit the execution of public budgets, the movement of non-budgetary public funds and the use and the management of public properties.

The detailed types of activity to be carried out by the audit bodies is regulated in their creation acts, although in some cases the activity is guided by other legislative or normative acts.

In accordance with their foundation acts the audit bodies shall perform not only control and audit tasks, but also analytical assessment and other informative activities in order to ensure an overall system of control over the planning and the execution of the budget and the movement of non-budgetary funds. By doing so audit bodies aim at helping to raise the efficiency of both budgetary planning and implementation processes.

Thus, beneath the conduct of comprehensive audits and specific investigations, audit bodies also examine budget drafts, target programmes, laws and other legislative initiatives concerning the budget and the finances of the state, region or local authority. They report on a regular basis on the results of their work to the relevant authorities.

If audit bodies detect - during the performance of their audit task - evidence of infringements, misuse, dubious practices, etc. in the handling of public funds, they will refer the matter to the organs of prosecution.

Organization and planning of the work

Audit bodies usually base their work on annual plans and programmes which are set up in order to ensure the comprehensive and systematic control over the execution of the budget. Petitions, enquiries and proposals from parliament and government must be taken into consideration and sometimes they even must be included on a mandatory basis when preparing plans and programmes. In some regions parliament and government have even more influence on the setting-up of the plans and programmes of the audit bodies. There are, for example, cases where the audit body has to perform its work in accordance with the requirements of regional parliament.

Reporting

The presentation of reports to parliament is provided for by legislation. The audit body is obliged to inform on the execution of the budget and the results of its work to the legislative assembly on a regular basis. This is done normally on an annual basis but there are regions where reports on the execution of the budget have to be submitted on a quarterly basis. According to the Budget Code of the Russian Federation parliaments must approve the annual report of the audit bodies on the execution of the budget in order to grant discharge to government.

The annual report is subject to mandatory publication. In addition, in some regions the chairman of the audit body presents the report before parliament and government. Furthermore, there are some audit bodies which regularly provide the mass media with information on their activity and the results of their work. Some even publish a monthly bulletin.
Relationships between audit bodies

After an embryonic start in 1997, the Association of the control and accounting bodies of the Russian Federation was finally created in 2000 with the aim of improving efficiency of the functioning of the financial control system in Russia. The Association is presided by the Chairman of the Accounts Chamber of the Russian Federation and its members are, beneath the state audit body, the 80 audit bodies of the subjects of the RF as well as the Union of the municipal audit bodies, this latter since 2002. Members of the Association meet on a regular basis (several conferences have been organised over the last few years and there are multiple training initiatives) in order to exchange experiences and reinforce cooperation. The main objective of the Association is to help establish and implement a unified system of public sector audit with standard methods and procedures. Likewise, the Association aims at assisting the public authorities in elaborating the legislation which regulates not only the setting-up of new public audit bodies, but also helps to improve the efficiency of those already existing. Further initiatives include constant information flows among all members as well as setting up the framework for future joint audits.

The Union of the municipal audit bodies was created in 2002 and its main objective is to strengthen cooperation among its members and to assist in the development of local public sector financial control.

Composition and structure of the audit bodies

Each regional audit body is headed by a chairman who is appointed by the relevant regional Duma for a term which ranges between 4 and 6 years. The resolution on the appointment of the chairman is generally adopted by a majority of votes of the total number of deputies of the appropriate Duma. There are, however, some distinctive characteristics in some regions, where there are, for example, cases where the chairman is appointed by the elected auditors of the audit body. In those regions where the audit body is closely linked to parliament the term of office of the chairman is restricted to the parliamentary mandate.

The chairman has usually one or rarely two deputies who, among other duties, perform the chairman's functions in his absence. The term of office of deputies is the same as that of the chairman.

Among the functions of a chairman can be mentioned the exercise of overall control over the activity of the audit body and the organization of this activity in accordance with the relevant legislation. Furthermore, the chairman represents the audit body before parliament and government and all other authorities. To execute the powers he has been conferred, he can issue orders and directives, hire and dismiss personnel and conclude economic and other agreements.

Generally the chairman cannot be a member of parliament or of government.

Audit work is performed in directions or divisions which are headed by auditors. In comparison with the structure of the Accounts Chamber of the Russian Federation which has 12 areas of work, the control and accounting bodies of the subjects of the RF
have 3-8 directions or divisions. As mentioned above, auditors are also elected, but not always by parliament. Auditors bear full responsibility for the quality and the results of the work performed by their subordinates within the direction or division they are in charge of.

There are a few audit bodies in which a governing board (collegium) is established in order to plan and organize the work, to decide on methodology and to consider those matters related to reports and other information delivered to parliament and government. The governing board is composed of the chairman of the audit body, the deputy chairman and the auditors. Its decisions are normally taken on a collegiate basis by simple majority.

Most of the audit bodies created by the subjects of the RF have very few staff; more than 50 of them have less than 20 employees, which include inspection and administrative staff. In seven regions staff employed by the audit body exceeds 50 persons; there are even two subjects which have more than 100 employees.

There is a tendency to introduce safeguards of the legal status of the members and officers of the audit bodies into the relevant legislation in order to make them enjoy professional independence. The intention is, for example, to prevent the chairman, deputy chairman and auditors from being detained, arrested or made criminally responsible without the consent of the legislative assembly which has appointed them. Besides, they can only be relieved of their post before their term of office by decision of the assembly that has appointed them and, in the case of breaches of legislation or committal of abuses, such a decision requires a large parliamentary majority. Inspection staff is also protected by legal provisions against pressures and coercion.

**Financial resources**

Financing of the audit bodies of the subjects of the RF is provided for either in a separate line of the region's budget or from the budget funds that are allocated to regional parliament. In the latter case in some regions parliaments have established a separate budget line for the expenditure of the audit body.

Even if audit bodies have the right to ask for appropriate allocation of funds and make use of those funds allocated to them within the limits of their authority, they quite often lack of sufficient financial support, what makes it difficult for them to achieve their objectives.

Thus, there are more than 10 regional audit bodies which have to perform their work with less than 5 million roubles and the big majority has to manage with less than 20 million roubles. Only 6 audit bodies have been allocated more than 50 million roubles.