

Development of a Methodology for Assessing the Quality of Financial Management in the Public Administration Sector

Elena Markina^a, Oksana Gorlova^{b*}, Olga Makashina^c, Marina Sedova^d, Nataliya Shmigol^e, ^a Candidate of Sciences (Economics), First Vice-Rector for Academic Affairs, Professor of the Department of Public Finance, Financial University under the Government of the Russian Federation, Moscow, Russia, ^{b,e} Candidate of Sciences (Economics), associate professor of the Department of Public Finance, Financial University under the Government of the Russian Federation, Moscow, Russia, ^c Doctor of Sciences (Economics), Professor of the Department of Public Finance, Financial University under the Government of the Russian Federation, Moscow, Russia, ^d Candidate of Sciences (Economics), Professor of the Department of Public Finance, Financial University under the Government of the Russian Federation, Moscow, Russia, Email: ^{b*} ksana.gorlova@yandex.ru

This article analyses the compliance of the indicators for assessing the quality of financial management with the authority assigned to the chief administrators of budgetary funds. The analysis is based on conceptual approaches to assessing the quality of financial management in the public sector with the consideration of the requirements for effective, responsible public finance management and on the results of summarizing the advanced international experience. Based on the proposed principles for assessing the quality of financial management in the public administration sector, the focus areas and indicators for assessing the quality of financial management of the chief administrators are determined. These administrators include the chief managers of budgetary funds, the chief administrators of budget revenues and the chief administrators of sources of financing the budget deficit. This study presents a methodology for calculating the proposed indicators and criteria for their evaluation and assesses the indicators in the context of federal executive agencies.

Key words: *Chief administrators of budgetary funds, quality of the financial management, methodology, monitoring, public administration sector, public funds management.*

Introduction

In practice, the lack of uniformity of approaches to understanding financial management in the public administration sector and to assessing its quality leads to significant variability both in content and in the number of focus areas of assessment. This variability makes it difficult to compare the results of the financial management quality assessment (Samadi F., Motlagh S.S., 2018; Lobão J., Pereira C., 2016).

In the Russian regulatory legal acts (Order No. 264 n), the definition of monitoring the quality of financial management emphasizes monitoring tools (i.e., analysis and assessment). The definition, however, does not consider important characteristics, such as unity of the approaches for assessing the activity of the CABF (chief administrators of budgetary funds), transparency of the applied methodology, nature of complexity, comparability of the indicators over time and accessibility of the results.

It is proposed to amend the methodological documents of the Ministry of Finance of the Russian Federation and define the assessment of the quality of financial management in the public administration sector as a formalized process. This process should be based on principles of transparency and accessibility. It should provide orderly judgments, expressed in quantitative and qualitative indicators, about the degree to which the actual actions of the participants in the budget process in the course of its implementation comply with established principles, norms, authority, and procedures for managing the public funds, as represented in strategic supranational and state documents, current regulatory acts, internal documents and standards and regulations for implementation of activities. The proposed definition contains the following important characteristics of the concept of assessing the quality of financial management in the public administration sector:

- The formalized nature of the assessment (i.e. the existence of an assessment methodology approved by a regulatory act, which provides a set of assessment indicators and establishes a method for their calculation);
- The regularity of the assessment, which emphasizes that effectiveness of this procedure depends on the regularity of its use in the budget process;
- A combination of quantitative and qualitative indicators of assessment to ensure its comprehensive nature;
- Accessibility that implies open access of participants in the budget process to the assessment methodology, which allows for internal control of financial management;
- Transparency, evidenced by the availability of assessment results for a wide range of users, and the timely publication of results in the public domain;

- The result of the assessment, defined as the determination of the degree to which the actual actions of the participants in the budget process at all its stages comply with the authority and requirements established in legal acts of different levels. This corresponds with the key requirement of management theory and practice – the obligation to demonstrate that the work is performed in accordance with the established rules and standards.

The assessment system of national financial management in the public administration sector is being developed in accordance with the requirements of the international public finance management quality standards. This is proven by the relatively high positions of the Russian Federation in the international ratings. In the International Budget Partnership ranking of countries on the Open Budget Index in 2017, Russia took 15th place out of 115, gaining 72 points out of 100. The rating obtained by Russia, however, does not correspond with the expected scores on this index; the projection of 78 points by 2017 and 85 points by 2020 were declared in the state program of the Russian Federation, “Management of Public Finances and Regulation of Financial Markets.” Experts attribute the insufficient level of points compared to the planned target to multiple factors: (1) the lack of completeness in the application of certain indicators of the draft federal budget; (2) the poorly timed publication of the preliminary budget statement (i.e., the main directions of the tax, budget and customs tariff policy); and (3) the low level of the society’s participation in the budget process. These shortcomings are directly related to the quality of financial management in the public sector and can be taken into account during assessment.

With the expansion of the practice of motivational financial management in the public sector further development of the quality assessment of financial management should be carried out as follows:

- In the set of the quality indicators of financial management, it is necessary to find the optimal balance between budget indicators and other indicators that can significantly affect the quality of the budget implementation or the financial and economic activities of the controlled entity.
- It is important to introduce the practice of internal self-assessment of financial management on a full-time basis, which will strengthen the administrative and public responsibility of senior officials of the CABF for conducting high-quality financial management that meets the principles of responsible and effective budget policy.
- The development and application of incentives for improving financial management for those public entities that have shown good results over the years possibly due to increased self-sufficiency in the management of allocated budget funds — is relevant.

Methodology

Given the impact of both external and internal factors in the analysis of foreign and domestic experience in assessing the quality of financial management carried out by the CABF, the following principles are proposed:

- Achieving the goal of increasing the efficiency and effectiveness of the use of budgetary funds;
- Full coverage of the whole set of departmental processes and procedures at the stages of budget drafting and implementation, budgetary accounting and reporting;
- Full accounting for changes made to the procedures of justification and fulfilling of the budget assignments using a system of indicators and determination of their “weight” in the overall assessment indicator;
- The use of advanced domestic and foreign experience in evaluating the quality of financial management;
- Feasibility, objectivity and accuracy of the assessment indicators ensured by the collection and comparison of reliable information contained in the open and departmental electronic databases and by the documents submitted by the CABF;
- Ability to identify budget risks;
- Continuity of the assessment process based on the operational and annual reports;
- Accessibility of the assessment results for a wide range of information users.

The recommended list of the main mandatory areas of assessing the quality of financial management for the CABF includes:

- Budget expenditure management;
- Budget revenue management;
- Budget accounting and reporting;
- Organization and establishment of the internal financial control and audit;
- Asset management;
- Management of the sources of financing a budget deficit.

An analysis of the coverage of the main CABF authorities, provided for by the Budgetary Code of the Russian Federation with the use of the assessment indicators of the quality of financial management carried out by the CABF in accordance with the Order No. 264n will be conducted. It is based on the stated conceptual approaches to assessing the quality of financial management carried out by the CABF, which also include the complex nature of the methodology based on a combination of quantitative and qualitative assessment approaches. In addition, it is based on the fact that the assessment should result in the determination of the



degree to which the actual actions of the participants in the budget process at all its stages comply with the authority and requirements established in legal acts of different levels.

Considering the specifics of the budgetary authorities of the different CABF within the methodology framework, it is necessary to assess the quality of financial management carried out by the CMBF (chief managers of budgetary funds), CABR (chief administrators of budget revenues) and CASFBD (chief administrators of sources of financing the budget deficit) separately.

An analysis of the conformity between the assessment indicators of financial management quality and the authorities assigned to the CMBF and CABR shows that a number of authorities are not assessed (there are no indicators). An analysis of the existence of the assessment indicators for the authorities assigned to the CASFBD shows that for most authorities the assessment is not carried out (there are no indicators). Thus, the analysis demonstrates that not all of the CABF authorities can be evaluated using the indicators regulated by the Order No. 264n.

Results and discussion

When assessing the quality of financial management carried out by the CABF, a number of indicators should be adopted in order to obtain the overall indicator that serves as a measure of the quality of exercising the main authorities assigned to each CABF. The indicators adopted by the CABF, along with their calculation and assessment criteria, are given in Table 1–3.

1) for the CMBF

Table 1: Additional indicators for assessing the quality of financial management carried out by the CMBF in accordance with the authority assigned to them

№	Indicator Name	Calculation	Evaluation	Notes
The authority of the CMBF: To form a list of its subordinate managers and recipients of budgetary funds.				
1	Availability of an up-to-date list of subordinate managers and recipients of budgetary funds.	$I1 =$ availability of a regulatory legal act issued by CMBF on approval of the list for the current financial year.	$A(I1) = 1, 0.5,$ or $0,$ depending on whether the required regulatory legal act has been adopted, is in the process of adoption, or is lacking.	The indicator serves as a measure of the quality of the formation of the list of subordinate managers and recipients of budgetary funds. Promptness of the list formation and adoption of the respective regulatory legal act should be the orienting points for the CMBF. The indicator is calculated annually.
The authority of the CMBF: To keep a register of expenditure obligations to be discharged within the approved scope of budgetary obligations and budgetary appropriations.				
2	Identification of facts pertaining to non-inclusion / ill-timed inclusion of regulatory legal acts stipulating public normative obligations and/or legal grounds for other expenditure obligations in the register of expenditure obligations.	$I2 = Qe,$ where Qe is the number of identified facts pertaining to non-inclusion/ ill-timed inclusion of regulatory legal acts stipulating public normative obligations and/or legal grounds for other expenditure obligations in the register of expenditure obligations.	$A(I2) = 0,$ if facts pertaining to non-inclusion/ ill-timed inclusion of regulatory legal acts stipulating public normative obligations and/or legal grounds for other expenditure obligations in the register of expenditure obligations could be identified; $A(I2) = 1$ otherwise.	The indicator serves as a measure of the quality of financial discipline of the CMBF in terms of compliance with the Rules of Maintaining the Register of Expenditure Obligations of the Russian Federation. Prevention of facts pertaining to non-inclusion / ill-timed inclusion of regulatory legal acts stipulating public normative obligations and/or legal grounds for other expenditure obligations in the register of expenditure

				<p>obligations should be the orienting point for the CMBF.</p> <p>The indicator is calculated quarterly and annually.</p>
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2) for the CABR

Table 2: Additional indicators for assessing the quality of financial management carried out by the CABR in accordance with the authority assigned to them.

No	Indicator Name	Calculation	Evaluation	Notes
The authority of the CABR: To form a list of the subordinate administrators of budget revenues.				
1	Availability of an up-to-date list of the subordinate administrators of budget revenues.	I1 = availability of a regulatory legal act issued by CABR on approval of the list for the current financial year.	A(I1) = 1, 0.5, or 0, depending on whether the required regulatory legal act has been adopted, is in the process of adoption, or is lacking.	<p>The indicator serves as a measure of the quality of the formation of the list of subordinate administrators of budget revenues. Promptness of the list formation and adoption of the respective regulatory legal act should be the orienting points for the CABR.</p> <p>The indicator is calculated annually.</p>
The authority of the CABR: To keep a register of the assigned sources of budgetary revenues.				
2	Compliance of the information contained in the list of revenue sources with the regulatory	I2 = Qrs, where Qrs is the number of identified facts of discrepancies between the	A(I2) = 0, if discrepancies between the information contained in the	The indicator serves as a measure of the quality of the financial discipline of the CABR in terms of

	legal acts.	information contained in the list of revenue sources and the regulatory legal acts.	list of revenue sources and regulatory legal acts exist, and $A(I2) = 1$ otherwise.	<p>compliance with the Rules of Formation and Maintenance of a List of Revenue Sources.</p> <p>Prevention of discrepancies between the information contained in the list of revenue sources and regulatory legal acts should be the orienting point for the CABR.</p> <p>The indicator is calculated quarterly and annually.</p>
The authority of the CABR: To approve the methodology for forecasting budgetary revenue receipts.				
3	Existence of a methodology for forecasting budgetary revenue receipts, which allows for high-quality budget planning.	$I3$ = existence of a methodology for forecasting budgetary revenue receipts, which allows for high-quality budget planning, approved by a corresponding regulatory legal act.	$A(I3) = 1$, if the specified methodology has been developed; $A(I3) = 0$, if the specified methodology is lacking.	<p>The indicator serves as a measure of the quality of forecasting budgetary revenue receipts by the CABR. The value of 1 should be the orienting point for the CABR.</p> <p>The indicator is calculated annually.</p>

3) for the CASFBD

Table 3: Additional indicators for assessing the quality of financial management carried out by the CASFBD in accordance with the authority assigned to them.

№	Indicator Name	Calculation	Evaluation	Notes
The authority of the CASFBD: To form lists of subordinate administrators of sources of financing the budget deficit.				
1	Availability of an up-to-date list of the subordinate administrators of the budget deficit financing sources.	I1 = availability of a regulatory legal act issued by the CASFBD on approval of the list for the current financial year.	A(I1) = 1, 0.5, or 0, depending on whether the required regulatory legal act has been adopted, is in the process of adoption, or is lacking.	The indicator serves as a measure of the quality of the formation of the list of subordinate administrators of the budget deficit financing sources. Promptness of the list formation and adoption of the respective regulatory legal act should be the orienting points for the CASFBD. The indicator is calculated annually.
The authority of the CASFBD: To plan and forecast receipts and payments according to sources of financing the budget deficit.				
2	Quality of planning and forecasting the receipts and payments according to sources of financing the budget deficit.	$I2 = \frac{1}{N} \sum_{i=1}^N FS_i$ $FS_i = \begin{cases} \frac{0.1 - FS_i}{0.1}, & \text{if } 0 \leq FS_i < 0.1 \\ 0, & \text{if } FS_i \geq 0.1 \text{ or } FS_i < 0 \end{cases}$ $FS_i = \frac{FS_{li} - FS_{ci}}{FS_{li}}, \text{ where}$ <p>N – the number of indicators of the consolidated budget inventory according to budgetary appropriations by payments made by means of the sources of financing budget</p>	A(I2) = I2	The indicator serves as a measure of the quality of planning by the CASFBD. The value of 1 should be the orienting point for the CASFBD. The indicator is calculated annually.

		<p>deficit, except for operations for managing fund balances in a single budget account, approved at the beginning of the reporting period;</p> <p>FS_{li} – the amount of budgetary appropriations according to sources of deficit financing by the i indicator of the consolidated budget inventory as of the beginning of the reporting year (in thousands of rubles);</p> <p>FS_{ci} – cash execution by the i indicator of the consolidated budget inventory according to sources of financing the budget deficit, except for operations for managing fund balances in a single budget account, approved at the end of the reporting period (in thousands of rubles);</p> <p>FS_i – the value of the specific deviation of budgetary appropriations according to sources of financing the federal budget deficit from the amount by the i indicator of the consolidated budget inventory according to budgetary appropriations by sources of financing the budget deficit, approved before the reporting period.</p>		
The authority of the CASFBD: To ensure targeting and purposeful nature of the payments by means of the sources for financing a budget deficit.				
3	Untargeted payments by means of the sources for	$I3 = \frac{S_{up}}{C_{bd}}$, where S_{up} – the sum of untargeted payments by means of the	$A(I3) = 1$, if $I3$ is 0; $A(I3) = 0.5$, if $I3$ is	The indicator serves as a measure of the degree of compliance with

	financing a budget deficit.	sources for financing budget deficit (in thousands of rubles); C_{bd} – cash execution by the sources of financing budget deficit (in thousands of rubles)	between 0 and 0.1; $A(I3) = 0$, if $I3 \geq 0.1$	budget legislation and other regulatory legal acts of the Russian Federation governing budget relations in terms of the implementation of the federal budget in accordance with the budgetary appropriations according to the sources of financing budget deficit, as well as the reliability of the internal financial control established by CASFBD. Prevention of untargeted payments by means of the sources of financing budget deficit should be the orienting point for the CASFBD. The indicator is calculated annually.
The authority of the CASFBD: To distribute budgetary appropriations to subordinate administrators of sources of financing the budget deficit and to implement the appropriate part of the budget.				
4	Implementation rate of the appropriate part of the budget by sources of financing budget deficit.	$I4=R_{exec}$, where R_{exec} – implementation rate of the appropriate part of the federal budget	$A(I4) = 1$, if R_{exec} is between 95 and 100%; $A(I4) = 0.5$, if R_{exec} is between 85	The value of the indicator shows by what percentage the budget implementation by the CASFBD differs from the planned

			and 95%; $A(I4) = 0.2$, if R_{execis} is between 75 and 85%; $A(I4) = 0$, if R_{execis} lower than 75%	indicators. The value of 1 should be the orienting point for the CASFBD. The indicator is calculated quarterly and annually.
The authority of the CASFBD: To approve the methodology for forecasting the receipts and payments according to sources of financing the budget deficit				
5	Availability of the methodology for forecasting the receipts and payments according to sources of financing the budget deficit.	$I5$ = availability of the methodology for forecasting the receipts and payments according to sources of financing the budget deficit that allows for high-quality budget planning, approved by a corresponding regulatory legal act.	$A(I5) = 1$, if the methodology has been developed; $A(I5) = 0$, if the methodology is lacking.	The indicator serves as a measure of the quality of the forecasting receipts and payments according to sources of financing the budget deficit by the CASFBD. The value of 1 should be the orienting point for the CASFBD. The indicator is calculated annually.
The authority of the CASFBD: To substantiate budgetary appropriations				
6	The quality of the preparation of the budgetary appropriation substantiation according to the payments by means of sources of financing budget deficit.	$I6 = \frac{I_{decl}}{I}$, where I_{decl} – the number of substantiations for budgetary appropriations for payments by means of sources of financing the budget deficit which were declined by the Ministry of Finance of the Russian Federation; I – the number of substantiations for budgetary appropriations for payments by	$A(I6) = 1 - I6$	The indicator serves as a measure of the quality with which the CASFBD prepare the substantiation for budgetary appropriations that are submitted to the Ministry of Finance of the Russian Federation, including their

		<p>means of sources of financing the budget deficit that were submitted to the Ministry of Finance of the Russian Federation.</p>	<p>compliance with the budget legislation of the Russian Federation, the rules of the formation and submission of substantiation for budgetary appropriations. The value of 1 should be the orienting point for the CASFBD.</p> <p>The indicator is calculated annually.</p>
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Considering the practicability of supplementing the methodology for assessing the quality of financial management carried out by the CABF with the indicators that characterize the fulfillment of the authority assigned to CASFBD, it is proposed to include another focus area of assessment in the overall quality assessment of financial management carried out by the CABF – assessment of the quality of managing sources of financing the budget deficit. In this case, the overall assessment should be calculated using the following formula:

$$I_b \sum_{i=1}^6 S_i * I_i, \text{ where} \quad (1)$$

S_i is the weight of the i focus area of assessment of the financial management quality in the overall assessment of the finance management quality ($S_1 = 0.4$; $S_2 = 0.2$; $S_3 = 0.1$; $S_4 = 0.1$; $S_5 = 0.1$; $S_6 = 0.1$);

I_1 – the assessment of the budget expenditure management quality;

I_2 – the assessment of the budget revenue management quality;

I_3 – the assessment of the accounting and budget reporting quality;

I_4 – the assessment of the establishment and exertion of the inner finance control and audit quality;

I_5 – the assessment of the asset management quality;

I_6 – the assessment of the sources of financing the budget deficit management quality.

In case any of the focus areas for evaluating the quality of financial management carried out by the CABF are absent, the weight of this area will be proportionally distributed between other areas.

As a result, the amended methodology for assessing the quality of financial management carried out by the CABF allows to monitor the quality of financial management. By monitoring the dynamics of the complex indicator over a period of time, conclusions about the presence or absence of a tendency of quality improvement and the effectiveness of the proposed measures to improve quality can be drawn. The fact that the methodology is universally applicable justifies its practical significance for any CABF.

Conclusion

It is proposed to use the CABF of the Ministry of Culture of the Russian Federation that exercise its authority in the framework of the budget process as CMBF and CABR as an example to test the methodology for assessing the quality of financial management using the proposed indicators, on the base of the data for 2017.

The values of indicators stated in Table 1 for the Ministry of Culture of the Russian Federation exercising the authority of the CMBF are as follows:

$A(I1) = 0$, since the regulative legal act for the current year is lacking;

$A(I2) = 1$, since there are no identified facts pertaining to non-inclusion/ ill-timed inclusion of regulatory legal acts stipulating public normative obligations and/or legal grounds for other expenditure obligations in the register of expenditure obligations.

The values of indicators stated in Table 2 for the Ministry of Culture of the Russian Federation exercising the authority of the CABR are as follows:

$A(I1) = 0.5$, since the required regulatory legal act is currently in the process of adoption;

$A(I2) = 1$, since there are no identified facts of discrepancies between the information contained in the list of revenue sources and regulatory legal acts;

$A(I3) = 0$, since the specified methodology is lacking.

The overall assessment of the quality of financial management carried out by the Ministry of Culture of the Russian Federation in terms of the calculated additional indicators is determined by the formula (1).

Since the calculation of the indicators for the focus areas 3, 4, 5 and 6 to evaluate the quality of financial management executed by the Ministry of Culture of the Russian Federation was not performed, the weight of these areas is proportionally distributed between the areas in which the calculation has been made.

To assess the quality of financial management carried out by the Ministry of Culture, the formula will be as follows:

$$I_b = 0.67 * I_1 + 0.33 * I_2 \quad (2)$$

$$I_b = 0.67 * 1 + 0.33 * 1.5 = 1.7 \quad (3)$$

Considering that the calculations have been made and presented on the Ministry of Finance of the Russian Federation website for the remaining indicators of the quality evaluation of the financial management carried out by the CABF, it is necessary to adjust the value of the overall assessment in points for the Ministry of Culture of the Russian Federation (57.3 points) by the value of the calculated additional indicators.

$$I = I_a + I_b = 57.3 + 1.7 = 59 \quad (4)$$

Thus, the calculation and inclusion of the additional indicators to assess the quality of financial management and, accordingly, a more comprehensive assessment of the quality of fulfillment pertaining to the of the Ministry of Culture of the Russian Federation's authority increased the total score and increased the rating of the Ministry of Culture of the Russian Federation's rating, although this increase was not significant due to the low values of the obtained indicators.

Another example for testing the methodology to evaluate the quality of financial management using the proposed indicators on the basis of the 2017 data is the Ministry of Finance that exercises its authority in the framework of the budget process as CMBF, CABR and CASFBD.

The values of indicators stated in Table 1 for the Ministry of Finance of the Russian Federation exercising the authority of the CMBF are as follows:

A(I1) = 1, since the required regulatory legal act has been adopted;

A(I2) =1, since there are no identified facts pertaining to non-inclusion/ ill-timed inclusion of regulatory legal acts stipulating public normative obligations and/or legal grounds for other expenditure obligations in the register of expenditure obligations.

The values of indicators stated in Table 2 for the Ministry of Finance of the Russian Federation exercising the authority of the CABR are as follows:

A(I1) = 0, since the required regulatory legal act is not available;

A(I2) =1, since there are no identified facts of discrepancies between the information contained in the list of revenue sources and regulatory legal acts;

A(I3) = 1, since the specified methodology has been developed.

The values of indicators stated in Table 3 for the Ministry of Finance of the Russian Federation exercising the authority of the CASFBD are as follows:

A(I1) = 1, since the required regulatory legal act has been adopted;

$A(I_2) = 0.8$, since the cash execution by one indicator of the consolidated budget inventory according to budgetary appropriations by sources of financing the budget deficit, except for operations for managing fund balances in a single budget account, approved at the end of the reporting period (in thousand rubles) is 95%;

$A(I_3) = 1$, since I_3 is 0;

$A(I_4) = 0.5$, since I_{exec} is 91%;

$A(I_5) = 1$, since the required methodology has been developed;

$A(I_6) = 1$, since there were no declined substantiations for budgetary appropriations according to the payments by means of the sources of financing the budget deficit.

To calculate the overall assessment of the financial management carried out by the Ministry of Finance of the Russian Federation Formula (1) was used.

Since the calculation of the indicators for the focus areas 3, 4 and 5 to evaluate the quality of financial management executed by the Ministry of Finance of the Russian Federation was not performed, the weight of these areas is proportionally distributed between the areas in which the calculation has been made.

To assess the quality of financial management carried out by the Ministry of Finance, the formulas will be as follows:

$$I_b = 0.57 * I_1 + 0.29 * I_2 + 0.14 * I_6 \quad (5)$$

$$I_b = 0.67 * 2 + 0.33 * 2 + 0.14 * 5.3 = 2.7 \quad (6)$$

Considering that the calculations have been made and presented on the Ministry of Finance of the Russian Federation website for the remaining indicators of the quality evaluation of the financial management carried out by the CABF, it is necessary to adjust the value of the overall assessment in points for the Ministry of Finance of the Russian Federation (78.3 points) by the value of the calculated additional indicators.

$$I = I_a + I_b = 78.3 + 2.7 = 81 \quad (7)$$

Thus, the calculation and inclusion of the additional indicators to assess the quality of financial management and, accordingly, a more comprehensive assessment of the quality of fulfillment pertaining to the Ministry of Finance of the Russian Federation's authority increased the total score and somewhat increased the Ministry of Finance's rating.



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