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IMPACT OF ORGANIZATIONAL FAILURE OF RELEVANCE CONSOLIDATED BUDGET

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Summary

Financial concept of consolidated treasury account includes integration of basic factors of the business system's budget and other public funds. In this way established the relevance of the organizational structure of the system causes a systematic approach to fully satisfy the request. Normative conflict with the actual situation of the organization of the budget system causes partial financial coverage of budgetary positions and the actual non-compliance with the bookkeeping records.

Key words: *organizational structure, budget system, consolidation.*

JEL: *H61, H 60*

Introduction

A financial segment of budget system reflects through a set of accounts and sub-accounts of the Treasury's consolidated account. Approved budget appropriations perform by the budget business through the set of goals and tasks of the budget assets' users.

The necessity of setting up the financial balance among the budget incomes and expenditures requires a use of accounting system in tracking the budget implementation. This system bases on the budget organizational structure, which sets up in accordance to advance created tasks and they appoint in front of the budget assets' users in forthcoming period.

Normative deeds must follow and, in legal sense, to reflect in such way set budget management, followed by financial organization of cleared budget assets' planning and implementation. In order to anticipate this system in normative system of financial tracking and reporting has been engaged also the international accounting standards for public sector.

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Integration of budget system factors into one accounting system improves a ground for making business decisions at the level of budget user, in its narrower and wider sense. Organizational failures, which could be developed in some of the budget system factors, would reflect on entire accounting system, and thereby on business decisions.

In this paper we will focus at the users of budget assets that cannot be rank neither in direct, nor in indirect users, but in other users of the budget assets, who have an open sub-account within consolidated treasury's account. Primarily, starting from their emergence time, through the organizational and normative changes, to the final purpose of these users of the budget assets, we encounter many unarranged and financially-undisciplined users of the budget assets.

Their detection and ascertainment of their organization and inclusion frame procedure into the budget system, by estimation of domicile and international regulatory rules, represents this paper's basic motive.

Determination of other budget assets' users

Defining the other budget assets' users, beyond the direct and indirect users⁴, who have an open account within the treasury's consolidated account, represents a great challenge, as in theoretical, as well as in practical sense.

A question what, in fact, represent other the users of the budget assets, puts as a motive for identification of causes in organizational failures' emergence, regarding the treasury's account consolidation and its adjustment to approved appropriations of the budget users.

For determination of other budget assets' users, we must proceed from a fact that the budget assets are within the public assets, managed by the state.⁵ As the users of such represented budget assets appear the direct and indirect budget users, who have also been just a part of public assets' users, and besides them comprise also the assets' users of the organizations for obliged social insurance, public enterprises, as well as the legal entities under which the state have a majority share in equity capital.

Where then appear the other users of the budget assets, who have open sub-account within the consolidated account of the treasury?

The budget users represented in that way appear within the direct or indirect users of the budget assets, who use the same personal identification number and tax identification number, and were established by the manager's decision, i.e. the direct and indirect user of the budget assets.

What will be the status of such represented budget users is determined by their purpose and predominant relation with the user, it was founded by. This method of status determination is unknown to any normative system; it does not support it either, while

4 *Budget System Law*, Official Gazette of RS, No. 54/2009, 73/2010, 101/2010.

5 Bacoc, H., Jason, L. (2004): *Modern Budgetary System*, McGraw-Hill, Irwin, p. 307.

it means an attack to the completeness principle, as a basic principle of each reporting system, therefore the financial, too.

The purpose of the other budget users requires a research of their business activities, but, at the same time, is very significant for subject of our research in the segment referring to their organizational-legal status. In determination of these budget users' status will lead to a part of assets being excluded from the budget annual balance sheet, does not represent special annual balance sheet, but, at the same time being included in the consolidated account of the treasury.

This is one among many unsuccessfully executed transitions from partial users of public assets to unique arranged budget system.

A lack of regulated legal status of such represented users makes a vacuum in financial and material sphere of business of the budget assets' users and is insufficiently clear relation within the organizational system of the budget assets' users. In business environment, unregulated organizational-legal status of the other budget users makes difficulties which reflect as business ability of these entities which exist with the same elements as some indirect or direct user of the budget assets.

Business of the other budget assets' users

The business cycle of the other users of the budget assets we will observe through their autonomy in using the material assets they are entrusted to use, and the financial assets which are approved for them from the budget.

Here, we will point out the "budget paradox", as an important characteristic regarding the financial assets which approve from the budget to the other users of the budget assets.

The budget paradox reflects in dual budgeting of assets being already budgeted by the state legislative body, by passing a normative deed on the budget. The budget paradox procedure starts at the moment when the assets approve to the direct or indirect user of the budget assets. Next phase continues with transfer of assets onto the sub-account of other user of the budget assets for certain purpose, in order that the way of such represented assets use is in competence of the other user of the budget assets, i.e. out of the budget procedures.

This paradox can be treated as a financial phenomenon of the twenty first century in domain of the public finances.

Even greater phenomenon in regard to the budget procedure, previously mentioned, is the procedure of signing a contract within the direct or indirect user of the budget assets, with the other user of the budget assets, who is the organizational part of the budget user. The business of, in this way defined user of the budget assets, has been subjected to normative regulatory rules, which refer to business companies, not on the budget assets' users.

In which extremes goes the business of such represented user of the budget assets, we will perform through information that the accounting system has been set up as

the system of economic accounting, while the financial statements do not deliver to authorized state body, because there is no legal ground for their creation, etc.

Budget paradox

The procedure of budget paradox was researched on sample of the other users of the budget assets within one direct user of the budget assets.

The budget system of financial resources' approval was organized by two-step model. This model implies that the assets approve to the direct budget user, and his internal body, competent for funding activities, assigns these assets to narrower internal organizational unit.

The second step is connected to the procedure when narrower internal organizational unit approves the assets to the other user of the budget assets. This procedure is closed to the tasks that have been set to the other user of the budget assets, along with defined amount of financial resources, which have been approved for that purpose.

The elements of financial resources budgeting to the other users of the budget assets rests upon empirical methods, while a normative which regulates this process has not had its legal source for decade behind.

Researching we came to data that budgeting method conducts in accordance to the methodology for determination of products' and services' value, created by the bodies of the budget assets' user, by which determine prices of components necessary for implementation of specific tasks and, in such way, results the amount which transfers to the sub-account of the other user of the budget assets.

This budget paradox reflects also to a number of employees in the direct user of the budget assets, because the employees of the other users of the budget assets do not fall into the total employees' number of the direct user of the budget assets.

The methodology for determination of products/services' value for needs of the direct user of the budget assets enables two price determination procedures, as following⁶:

1. Comparing the prices with identical products/services' prices at the market, but the fixed price reduces for the amount of belonging fiscal revenues, and
2. According to planned calculations of the other user of the budget assets.

6 Đorđević, D. (2006): Mikroekonomija-savremen pristup, University Business Academy, Novi Sad, p. 118.

On the occasion of fixing price by calculation apply: normative of materials and time costs for specific product or service, the costs of investment maintenance (the most to 2% of fixed capital cost value), the amount of other material expenditures, amortization, salary costs, as well as, in case of need, the amount of 6% to gross salaries for habitation needs.⁷

Characteristic for price fixing is a fact that the costs of business-information activity cannot belong to the price of product/service, except the services of vacation and recreation where the costs can be calculated in amount of 3 per mills of the total price.

The salary costs which include in the price of the product/service, determine according to net salary, increased for belonging taxes and contributions, in accordance with the region's average, increased for the amount of anticipated growth for the year in which prices fix.

Such fixed prices cannot be changed during the year, with exception of possibility to be changed, if comes to the price change of materials, services and other calculated costs over 5%. This value increase transfers the direct user of the budget assets to the other user of the budget assets.

Negotiations within the other users of the budget assets

The other users of the budget assets within the direct, i.e. the indirect user of the budget assets, sign a contract with the direct/indirect user of the budget assets on goods delivery or services provision.

This kind of integral agreement, by which set rights and obligations of the contractual parties, includes obligatorily: subject of the contract, quantities, prices of products and services, quality and method of quality determination, delivery terms and mode, methods of reception and payment, quality warranties, way of complaints settlement, sanctions for non-fulfillment of contractual obligations and spare parts supply. The sanctions for non-fulfillment of contractual obligations set in an absolute monetary amount or in per mills of contracted business value for each day of delay.

What is characteristic for this kind of contract is that every litigation settles by common consent, and if impossible, the litigation is settled by order-issuing authority of the direct, i.e. the indirect users of the budget assets, whose decision is definite. This contract is anomalous, while it negotiates within one business entity, with regard that the direct user of the budget assets in this business does not have an obligation to apply the Public Procurements Law⁸, which does not observe the other users of the budget assets, too.

7 Milojević, I. (2007): *Osnove budžetskog računovodstva*, University Braća Karić, Belgrade, p. 124.

8 Official Gazette of RS, No. 116/2008.

Giving warranties for quality is also a characteristic of this kind of integral agreement, which, in accordance to the Public Debt Law⁹, cannot issue the other users of the budget assets. Therefore, such contracts represent real rarity, which can be seen in legal system of the modern state, and which has not been yet noticed in the budget system of some state.

Accounting system of the other users of the budget assets

Organization of budget users' accounting system is basically arranged normatively by the Decree on Budget Accounting¹⁰ and the Decree on applying the International Public Sector Accounting Standards¹¹.

In our research, the organization of the other users of the budget assets' accounting system has different concept. These users keep books by double-entry book keeping system, and by the account classification for business companies, cooperatives, other legal entities and entrepreneurs.

From previously mentioned, we can see that the accounting system is incompatible with the accounting system of the direct and the indirect users of the budget assets. Legal regulatory rules which regulate the organization of business enterprises' accounting system¹², in its first paragraph, defines that its decrees do not refer to the budgets and the budget assets' users.

Such incompatible accounting system does not give a possibility for assets being *de jure* in state ownership to present *de facto* in accounting sense and in the budget's annual balance sheet. In this way, a part of the budget assets gets out of the consolidated budget¹³ and gives a wrong picture of consolidation, because with that, internal incomes and expenditures show as external.

At the end of business year the other user of the budget assets makes annual balance sheet and deliver it, by the end of February, to an order-issuing authority of the direct user of the budget assets, who approves it. From previously mentioned can be seen that such represented user of the budget assets:

- Does business in business, not budget year,
- Makes annual balance sheet and delivers it to the direct user of the budget assets,
- His annual balance sheet is not included in the consolidated budget, and either is not delivered to the Serbian Business Register Agency.

9 Official Gazette of RS, No. 61/2005, 107/2009.

10 Official Gazette of RS, No. 125/2003, 12/2006.

11 Official Gazette of RS, No. 49/2010.

12 Accounting and Audit Law, Official Gazette of RS, No. 46/2006, 111/2009.

13 Consolidated budget is the budget after exclusion of mutual transfers between different entities at certain authority level, in order to avoid double counting.

Determination and organization of profit with the other users of the budget assets conducts on a cash basis, i.e. their acknowledgement practices only after collection of realized incomes. Peculiarity of this kind of organization is that in incomes are not included next values:

- Set surplus of resources,
- Of parts and material being replaced in resources repair,
- *Materials being free of charge conceded for implementation of certain works and services, as well as value of services provided for free by the direct user of the budget assets.*

The replaced parts and materials in reparation the other users of the budget assets sell and, in that way realized income, pay on account of the direct user of the budget assets or gives away parts and materials free of charge.

Conclusion

Establishing the organizational structure of budget system requires complex and overall research in which would, the current set status, adjust to required future status.

The budget system of the Republic of Serbia has not been arranged by that principle, but, by partial organization of individual systems, without overall research process of the current system, sets up a new budget system.

Within one direct user of the budget assets, we have determined by our research, the existence of the other users of the budget assets, who in their *de facto* condition, are the users of the budget assets, but *de jure* they exist completely excluded from the budget system, tangentially using the budget structure.

This manifestation effects to the structure of consolidated budget: in accounting sense does not exclude mutual budget transfers, but, at the same time, in budget sense does not apply the budget regulatory rules during the budget implementation, which certainly does not contribute to setting up of budget discipline and fiscal responsibility.

More complex arrangement of budget process and incompatibility of accounting reporting, effects directly to the system of decision making, as for legislative, as well as for top executive government bodies.

It is necessary to include, in accounting sense, these users of the budget assets into a compatible budget classifiable scope, and in business sense, in the budget procedures. Thereby would achieve a completeness principle in both segment of reporting, which would contribute to strengthening of position for decision making by management.

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UTICAJ ORGANIZACIONIH PROPUSTA NA RELEVANTNOST KONSOLIDOVANOG BUDŽETA

Ivan Milojević¹⁴, Milan Mihajlović¹⁵, Marko Cvijanović¹⁶

Rezime

Finansijski koncept konsolidovanog računa trezora podrazumeva objedinjavanje elementarnih činilaca poslovnog sistema budžetskih korisnika kao i drugih korisnika javnih sredstava. U ovako uspostavljenom sistemu relevantnost organizacione strukture uslovljava sistemski pristup zadovoljavanja zahteva potpunosti. Normativna neusaglašenost sa faktičkim stanjem organizacije budžetskog sistema uslovljava nepotpuno finansijsko obuhvatanje budžetskih pozicija i neusklađenost faktičkog sa knjigovodstvenim stanjem.

Ključne reči: *organizaciona struktura, budžetski sistem, konsolidacija*

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