

ABOUT STATE FINANCIAL CONTROL

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nodar_silagadze@yahoo.com***Abstract**

State financial control body of Georgia has a distinctive centuries-long history. State financial control institute was established in the Democratic Republic of Georgia (1918-21) as early as in 1918 and it existed until Soviet occupation of Georgia in 1921. For 70 years the state financial control body was the part of the Soviet structure and it was not until the collapse of the Soviet Union that it started to function again in post-Soviet Georgia. This article covers some of the issues concerning the experience of establishment and operation of the state financial control body in the Democratic Republic of Georgia (1918-1921) and in post-Soviet Georgia from the 1990's to date. According to the conclusions made, legal base of the financial control institutes succeeded and still succeeds to meet international challenges, and, in general, their institutional functioning is an efficient factor which significantly encourages economic progress of the country.

Keywords: *Democratic Republic of Georgia, Post-Soviet Georgia, State Controller, Chamber of State Control, State Audit*

JEL Classification: *F30, F38, F39*

I. INTRODUCTION

International experience has shown that effective control of financial resources by an independent state control body encourages purposeful expenditure of resources and furthers economic development of the country. The functioning of such institutes has a long history:

– In 1314 the position of general controller of state treasury was introduced in England, and in 1319 Chamber of Accounts was founded in France. (Шегурова, В.П., Желтова, М.Ф., Ораева, Н.П.: 2013.);

– A renowned mercantilist J. Colbert worked as a general controller of state funds from 1665 (Silagadze, A. 1996, 2000, 2001, 2010; Силагадзе, А., 2010; Silagadze, A. and Atanelishvili, T.: 2004, 2007, 2010), etc.

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Georgian financial control institute has a long history, too. (Atanelishvili, 2006; Silagadze, A., 2010). At this time, we will limit ourselves to examining only one century of its history – from the first quarter of the 19th century up to present.

Following the collapse of the Soviet Union in the early 1990s' Georgia restored its independence and started to struggle on its way to building of market economy. That stage of economic transformation appeared to be very difficult for the country. (Atanelishvili, T., 2011, 2013, 2016; Zubiashvili and Silagadze, L., 2016; Basilia, T., Silagadze, A., Chikvaidze, T., 2001).

Georgia did not have any experience in transiting from socialism to capitalism; the size of the economy decreased dramatically; hyperinflation was beyond control; separatist movement became stronger – armed conflicts gave way to hostilities (at present up to 20 % of the territory of Georgia is occupied); old systems collapsed, and there was neither time nor finances and experience to build new ones; implementation of institutional reforms – creation of new contemporary institutions became an imperative task on the country's way to market economy. (Silagadze, A., 2010; Silagadze, N. 2011).

Despite chaotic situation on the first stage of building market economy, effective steps were taken to control expenditure of finances even though the finances were low. Georgia already had a hard experience because the country had acted independently decades earlier and even for centuries. (Silagadze, A., 2011-2014, 2016; Silagadze, A., Zubiashvili, T., 2015, Silagadze, L., 2016).

In this article we will analyze issues of establishment and evolution of the financial control body on

different stages of formation of independent Georgia. The issue of building of economic institutional bodies holds an important place in the history of economy and economic thought. (Kharitonashvili, J. 1997; Silagadze, A.: 2006-2009, 2016; Силагадзе, А.: 1991, 2010; Силагадзе, А., Атанелишвили, Т., 2010). Different aspects of the challenge have been discussed by certain scientists in their works (see References).

II. INITIAL STAGE

Different countries had and still have different attitudes towards establishment, status and functions of state financial control body. After declaration of independence of Georgia in 1918, the issue of founding a state financial control institute which would have a special authority became a subject of heated discussions. The initiators (G. Zhuruli, I. Lortkipanidze, N. Eliava, B. Varazashvili) believed the aim of the institute to be the monitoring of revenues and expenditures of state budget both in general and in public organizations. The participants of the discussions were very well aware of the international experience that in some European countries the controlling body was subordinated to the government but Georgian model preferred to hold it accountable to the highest legislative body. It meant that it was the parliament's duty to elect the state controller which in no case could be the part of the government. (Atanelishvili, T. 2006, 2011, 2013.).

The duties of the state controller were much discussed in the legislative body, too. Some thought that like that of Russia, Georgian State Control Institute should have executed actual control instead of acting for prevention purposes (B. Varazishvili...); others believed that in spite of the shortcomings in the Russian control system, Russian experience could have been used for some time (I. Lortkipanidze, etc.).

Following discussions, an institute of state controller was established in the Democratic Republic of Georgia (1918) (Atanelishvili, T. 2006, 2011, 2013.):

- The institute was not a part of the government;
- State controller was elected by the National Board;
- Deputy state controller was appointed by the National Board upon nomination by the state controller;
- State controller appointed and dismissed other employees of the state control body;
- The mandate of the state controller involved the following:
 - a. Preliminary control of spending of budget amounts;
 - b. Examination and control of actual expenditures, and
 - c. Control of budgeting;

- State control body was obliged to submit annual report on its activities to the legislative authority for consideration.

Professor Philippe Gogichaishvili, a renowned economist and public figure, one of the founders of Ivane Javakhishvili State University, was elected as first state controller by the Georgian legislative body.

All state-funded establishments and state-owned enterprises became subordinate to state financial control though legislative body itself remained beyond the state control. We believe that it would have become subordinate to state control too because it was financed by state budget and the purposefulness of its expenditures needed to be examined.

The control system was put into operation: statutory documents – instructions were adopted which determined rules for response to violations identified after inspection, including, for responsible persons, whose cases, in certain occasions, were communicated to law enforcement bodies for further study, etc. Also, according to the rule prescribed, inspection documents were kept for 5-10 years (or more in certain cases).

Archive fund contains large variety of documents witnessing fruitful work of the state control body in the Democratic Republic of Georgia (1918-1921) and confirming high quality of the works done and avoidance of mispending of considerable budgetary amounts in public institutions as well as in railway system, etc. (Atanelishvili, T. 2006, 2011, 2013.).

The necessity of establishment of a vital body – financial control authority was supported by the 1921 Constitution of the Democratic Republic of Georgia (<http://constcommission.parliament.ge/1921> 25.09.2016). In accordance with the Constitution, state control involved audit of (Chapter 8. Article 9.1):

- a) Proper execution of state budget;
- b) All state revenues and expenditures;
- c) Reports and accounts of the Government and other institutions, and
- d) Finances of local self-governments.

In accordance with Article 92 of Chapter 8 of the same Constitution, state controller was elected by the Parliament. The state controller was not a member of the Cabinet of Ministers but he enjoyed the authority of a minister and was accountable solely to the Parliament. The state controller submitted reports on an annual basis to the Parliament.

Unfortunately, this experience was not destined to last long; the state controller institute stopped functioning after Soviet occupation of Georgia in 1921. From that period on until the early 1990's Georgian control bodies became part of the control authorities of former SSR of Georgia.

III. POST-SOVIET STAGE

After the collapse of the Soviet Union and restoration of state independence of Georgia, Soviet public control system stopped functioning in Georgia.

In 1992 Chamber of Control of the Republic of Georgia was established as a successor of the State Controller Institute of the Democratic Republic of Georgia of 1918-1921 [file:///C:/Users/admin/Downloads/const_1921.pdf].

Professor Avtandil Silagadze, Doctor of Economic Sciences, was the first chairman of the Chamber of Control of independent Georgia. (Silagadze, A., (Edit.), Atanelishvili, T., Goshadze, G. (Edit.), Demetrashvili, T., Zurabishvili, V. (Edit.)-2005).

In terms of lack of relevant legislative-statutory base, newly-established Chamber of Control had to work hard as the country was struggling through severe conflicts, hyperinflation, poverty, lack of experience in building of market economy, dramatic reduction of the size of economy, etc. Despite all the difficulties, the Chamber of Control did important works from the very beginning, gaining good business standing and saving millions for the state budget. (Silagadze, N., 2011; Silagadze, A., Atanelishvili, T.: 2010, 2011, 2014; Silagadze, L., 2015, 2016; Silagadze, A., Tokmazishvili, M., Atanelishvili, T., 2014; Silagadze, A., Tokmazishvili, M., 2008; Силагадзе, А.: 2010, 2013, 2016; Chikviladze, M., 2015).

Aftermath, significant steps were taken to create relevant legal base for the Chamber of Control considering Georgian and international experiences. Based on the developed relevant proposals, the Parliament of Georgia adopted a law on the Chamber of Control of Georgia (1993; 1997) (<https://matsne.gov.ge/ka/document/view/658>).

Based on the laws adopted, the Chamber of Control of Georgia, as a successor in some part, retained a number of functions of the state control office of the Democratic Republic of Georgia (1918-1921) except for one function – control over state budgeting. In addition, its mandate involved control of purposeful expenditure of finances by legislative and judicial bodies, etc. Moreover, in accordance with the Chapter 8 of the Law (1997), the Chamber of Control was granted the authority to coordinate activities of other organs of state financial-economic control (Articles 66 and 67).

In accordance with the 1995 Constitution of Georgia (<http://www.parliament.ge/ge/kanonmdebloba/constitution-of-georgia-68>), the Chamber of Control is the highest audit institution in the country. In accordance with Chapter 6 “State Finances and Control”:

- The Parliament shall control expenditure of state finances through the Audit Office (Article 92);
- The Audit Office of Georgia shall supervise the use and expenditure of state funds and of other material values. It shall also be authorized to examine activity of other state bodies of fiscal and economic control, submit proposals on improving tax legislation to the Parliament (Article 97);
- The State Audit office shall be accountable to the Parliament of Georgia. The President of the State Audit Office shall be elected for a term of five years by the Parliament of Georgia upon the submission of the President of Georgia. (Article 97);
- The State Audit office shall submit a report to the Parliament regarding Government expenditure twice a year while submitting the preliminary and final reports on the fulfilment of the Budget, and it shall submit a report on its activity once a year. (Article 97).

Functions of the Chamber of Control considerably changed after new laws were adopted in 2009 [http://mof.ge/show_law.aspx?id=255]. In particular, if under the former legislation the Chamber of Control was a controller authority, after introduction of changes, its mandate involved auditing of public sector and expert services; its competence covered all public establishments which used public values and resources including higher legislative, executive and judicial establishments; its auditing mandate included financial audit, compliance audit and efficiency audit.

The state control system of Georgia was modified once again. Under the Law of Georgia on State Audit Service (22.06.2012.) (http://sao.ge/files/kanonmdebloba/saxelmcifo-auditis-samsaxuris-shesaxeb-saqartvelos-kanoni_GEO.pdf), State Audit Service of Georgia is a successor of the Chamber of Control of Georgia and is authorized to:

- carry out examination and issue opinions regarding legislative and other normative draft acts which regulate financial and economic sectors;
- monitor financial activities of political unions of citizens;
- carry out unscheduled financial and/or compliance audit based on an application of a temporary investigation committee, parliamentary minority and/or a fraction of the Parliament of Georgia which is not part of the parliamentary majority, etc.

Drastic interference of the government in business creates unstable background and hinders long-term economic development of the country. (Tvalchrelidze, A., Silagadze, A., Keshelashvili, G., Gegia, D., 2011). Unfortunately, in 2012 the ruling elite tried to use the State Audit Service for political purposes which resulted in multimillion-Lari sanctions imposed on political opponents during pre-election campaign.

IV. CONCLUSION

State financial control body of Georgia has a centuries-long history. State financial control institute was established in the Democratic Republic of Georgia (1918-21) as early as in 1918 and it existed until 1921. 70 years later it started to function again in post-Soviet Georgia. The activity of the state financial control body is an efficient factor which significantly encourages economic progress of the country. In general, legal base of the State Audit Service of Georgia meets international standards.

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