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BUDGET FINANCING OF THE DEFENSE SYSTEM AND OPPORTUNITIES FOR IMPROVEMENT

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***Abstract:** Today, defense structures in the defense system of the Republic of Serbia face the need to operate according to economic principles in conditions of limited financial resources in order to realize priority tasks and preserve vitality, which refutes the old notion that defense is too important from a political, sociological and human point of view, to function economically. Management of financial resources was reduced to the distribution of available financial resources, with no interrelationships between tasks and financial plans. Also, the problem of translating strategic goals into financial plans that can be linked to budget funds was identified. This problem has been partially overcome by introducing program budgeting instead of line budgeting. Program budgeting implies that on the basis of certain plans, programs are made on the implementation of certain tasks that are set before the army, and then these programs are allocated funds, and budgeting is performed. In addition to all these improvements, budget financing is still unregulated because there is no financial-accounting system that will monitor the implementation of plans and programs*

in a modern way through budgeting and execution. In order to solve this problem, the introduction of the financial-accounting system is currently underway.

Keywords: *Defense system; budgeting; financial-accounting system;*

INTRODUCTION

In the previous period, there were no plans for the realization of funds, but the funds were spent in a line, to be spent before the end of the calendar year. Financial planning, mechanisms for the preparation of financial plans and rules for their execution, until recently, did not provide enough information on whether the defined goals were successfully implemented in practice. Therefore, it was very important to improve the links between financial plans and strategies, in order to provide appropriate mechanisms for monitoring the success of their implementation and consideration of future needs. The introduction of a functional program dimension into the existing budget classification was one of these mechanisms.

In order to ensure continuous growth of the level of quality of defense capabilities, increase the efficiency of defense tasks, rational use of available resources, ensure adaptability and flexibility of the defense process and harmonize the development of defense system components with the overall development of the state, the Ministry of Defense and the Republic of Serbian Army introduced a planning system, programming, budgeting and execution (PPBI), as one of the models of program budgeting and as a new system of management of defense resources and ultimately financing of programs and projects of defense system development.

However, the introduction of the planning, programming, budgeting and execution system (PPBI) is only the first step towards improving the budget financing system in the Ministry of Defense and the Republic of Serbian Army. In addition to all these improvements, budget financing is still unregulated because there is no financial-accounting system that will monitor the implementation of plans and programs in a modern way through budgeting and execution. The management structures of the defense system, as an integral part of society and the problems in it, are faced on the one hand, the problem of transferring obligations from year to year, increasing debts to suppliers, court costs for late payments, fines and interest for late payments, and on the other hand, limited and insufficiently available financial resources, which inevitably

required innovations and changes in the way of managing financial and other defense resources.

The introduction of a financial and accounting program for the entire defense system would ensure that the financial and accounting records on the property of the Ministry of Defense are kept in a sophisticated, faster and unique way, without errors inherent in human manual work. Problems should be solved at the source of their occurrence and not eliminate the consequences. The main source of problems in the budgeting of the defense system is in the material and financial bodies of the IV level (independent battalion, division, squadron). The introduction of a new financial and accounting system starting from these lowest levels of the organization will contribute to the fact that the commanders of these formations (management) can receive information on a daily basis about the value of the assets at their disposal.

Currently, there is a program for material accounting (POMAK) in the defense system, which is outdated because it was created in the Yugoslav People's army (JNA) in the early 90's of the 20th century. This program monitors the condition and movement of movables by value and quantity within the material operations of the unit but is not related to financial operations to combine in one program the financial assets of the unit (financial assets, cash and securities) with the value of tangible movables and together in one program they are stated as assets of the unit according to the accounts of economic classification and in monetary (value) amount. In addition, in accordance with the current regulations in the defense system, the process of financial and material operations functions in an outdated way that urgently needs to be changed through changes in regulations and through the modernization of financial and accounting systems.

When movables are sent from one unit to another, the operator creates a material-accounting document in the electronic computer in the status of zero. This document is then translated into the status of one, the press signs it, submits it to the ordering party for signature and to the registry for filing. It is printed in several copies. Then, a document in the status of two is created, which means that the stock reservation has been made, and the status of one and two together with the movables is sent to the recipient of the movables. The recipient must sign that he has received movables and enter the ID number. Such material-accounting document is considered illiquid until the recipient receives a material sheet for admission in status one and status three as proof that the recipient is in charge of movables.

This way of functioning of material accounting is inadmissible and leads to great inefficiency in business. A large number of uncertified material sheets are being created at the level of organizational units and at the level of the entire defense system. A large number of uncertified material sheets means that there are many movables whose status has not been resolved and which are not indebted. Which means that the commanders in the units do not know what they have at their disposal, and even less do they know the value of the property entrusted to them.

With the introduction of new financial and accounting software, the budget operations of the defense system will gain a new quality through raising the level of digitalization and process automation.

In addition, it is a big problem that public procurements whose realization is necessary for the units and institutions of the defense system to function normally, are not realized according to the planned dynamics, which has a direct negative impact on the realization of the financial plan and budget financing of the defense system. The proposal of the procurement plan is prepared by the beneficiary of financial resources of the IV level body, then it is submitted for unification at higher levels, which after the unification submit these proposals to the Directorate for Procurement and Sales of the Ministry of Defense. Here, a unique procurement plan is developed for the entire defense system, according to the number from the procurement plan, economic classification accounts, deadlines for procurement and all users. However, the procurement plan is not included in the financial and accounting program, so there is no warning that some units have not initiated public procurement, or that it is not implemented as planned.

Such financial indiscipline in the defense system leads to inefficiencies in defense budgeting. Every year, the units violate the dynamics of the realization of public procurements and the financial plan, so that everything is realized and spent at the end of the year in November and December. However, then at the end of the year, it often happens that the treasury of the National Bank of Republic of Serbia is illiquid because it was not even planned that the defense system spends so much at the end of the year. As a result, liabilities were transferred to the next year, the growth of debts to suppliers, the growth of the costs of court judgments for late payments, penalties and interest for late payments of due obligations, the occurrence and recording of open items.

1. EXPOSITION SECTION

In this way, through digitalization, modernization and automation of the financial-accounting program in the defense system, it would be ensured that (PPBI) planning, programming, budgeting and execution make sense. Budget financing of the defense system would be improved because the entire cycle would be closed, from the development of plans for the defense system, through programs for the realization of goals defined in the plans to legal and efficient budgeting and execution. At the lowest levels in the units and institutions of the Ministry of Defense and the Republic of Serbian Army, financial discipline would increase because the new financial and accounting program that will be installed at the financial service bodies would oblige commanders to implement public procurement, financial plan and other obligations in accordance with defined dynamics. Budget financing of the defense system would be efficient because there would be no payment of interest and default interest, delays in obligations to suppliers, recording of open items, would ensure that the defense system is economical and that the funds allocated for defense are used to the maximum.

It is necessary to change the regulations that regulate material and financial operations in accordance with the new changes and current opportunities. It is necessary to raise awareness among members of the defense system about the need for economic thinking, cost reduction and savings wherever possible. All organizations must think economically whether they are privately or socially owned. Modern trends are moving towards the automation of business processes, the elimination of manual (human work), where possible, and the introduction of robotics, digitalization and automation. All this is done to avoid mistakes in work and to increase productivity. There is no such organization that has unlimited resources (human, material, financial, energy resources) to be able to afford non-economic behavior. The defense system of the Republic of Republic of Serbia must be operational, functional and its budget operations must be based on strict bases of economic behavior.

As there is a need in other large organizations for the introduction of more modern accounting information systems, this need also exists in the defense system. This requires a modern and modern accounting information system that provides answers to modern requirements of financial and material operations and which would be installed in the accounting center of the budget and finance sector of the Ministry of Defense, as the main holder of financial function, calculation of salaries, taxes and

payments treasury of the National Bank of Republic of Serbia. Observing the structure of tasks that the financial and accounting information system must fulfill, in order for the defense system to function without downtime, it is clear that only by introducing the most modern information tools can quickly get information about the desired project and perform timely and rational implementation of the above tasks. However, today's reality is such that the contradiction of the accounting financial-information system to provide timely, reliable and complete information to the command bodies is becoming more and more pronounced.

In other words, the current organization of the accounting financial information system has numerous shortcomings. The accounting and financial information system that is currently installed is not an integrated system, and it does not cover all areas. This means that there are numerous components that develop completely independently and do not fit into a single system. Today, we have the accounting center of the sector for budget and finance of the Ministry of Defense (hereinafter RC SBiF MO), which represents the executive body of the financial service and performs tasks related to the entire defense system. Thus, for example, we can say that for financial and material operations and financial accounting (operational records, statistics, calculation and payment of salaries and benefits, personnel records) it is easily possible to establish the principle of uniqueness. In other words, information on each member of the Ministry of Defense and the Republic of Serbian Army can be collected, arranged, updated daily in the body for calculation and payment of salaries, as well as in the body for personnel records. It is necessary that these two bodies have access to the same database, which will be provided by a single information system.

Financial operations in the Ministry of Defense and the Republic of Serbian Army are performed in combination: Decentralized through organizational units of the financial service in units and institutions at different levels of organization of material and financial operations (hereinafter: Beneficiaries) and centralized through the information subsystem in RC SBiF MO¹.

¹Miodrag Radivojević, "Application of new accounting information software in the defense system", in: Prof. Dr. Maja Andjelković (ed.), Seventh International Conference - Application of new technologies in management and economics ANTIM 2020, Union University - "Nikola Tesla" , Belgrade, 2020, p. 601-602.

In the organizational units of the users of funds to which the funds for direct spending have been approved by the decision of the Ministry of Defense, documentation is prepared and submitted for realization in the RC SBiF MO and in some cases, cash payments. Payment orders for non-cash payments with invoices, contracts, etc., documents justifying the use of cash, cash reports and temporary receipts are sent to the RC SBiF MO which enters data and performs payment transactions electronically, through the payment information system (budget execution) for the Treasury of the Ministry of Finance (hereinafter: ISIB). Through the information subsystem of RC SBiF MO, the annual financing plan is kept centrally, salaries and other cash incomes of employees and engaged persons are calculated, financial accounting is kept for the needs of all organizational units of the Ministry of Defense and the Republic of Serbian Army.

Business (payment and revenue) RC SBiF MO performs through the Treasury Directorate of the Ministry of Finance with suppliers and customers where they control and check debt-creditor relations, other legal entities and individuals, including other state institutions and organizations in cooperation with organizational units of the Ministry of Defense and Republic of Serbian Army. Requests for non-standard reports and notifications are often received, and changes in laws and regulations are often made to change the way business is conducted.

Units and institutions of the Ministry of Defense and the Republic of Serbian Army submit in paper form orders for payment and other documentation to the RC SBiF MO. Documentation in paper form flows from the entire defense system, so we have a case that some units of the Ministry of Defense and the Republic of Serbian Army are far from Belgrade (where the RC SBiF MO is located), so the documentation travels for several days. In case of mass processing of salaries and benefits (there are special processing for advance payment of salary and final calculation of salary) data entry into the salary system takes 3-5 working days because it is done manually, data processing takes 2-3 working days, processing and review of control sheets, control retro difference, calculation, trial payrolls, payrolls, salaries, fees, gross payrolls and reports, preparation and submission of individual tax returns, files for posting to banks and creditors takes 4 working days. So, one process of processing salaries and allowances takes about 10 working days (in case of error or technical problems the activity is extended). Also, units and institutions of the Ministry of Defense and the Republic of Serbian Army submit in paper form orders for payment and other documentation and for other payments to the RC SBiF MO. After receiving these payment orders, they are registered, controlled and

forwarded to the payment system where the data are entered into the information system (hereinafter IS) where they are verified, and then separated-sorted for payment depending on the defining elements, time and date of payment. An electronic payment order is formed and uploaded to ISIB (for salaries and benefits, electronic data are sent to the Treasury Department of the Ministry of Finance) and after payment, the treasury report on the executed transaction is posted and archived.

It can be concluded that the procurement of new accounting information software for the defense system is much needed. This would make the existing business processes more efficient, with the aim of replacing the business with accounting documents and reports in paper form to the greatest extent by automating business processes. It is necessary to introduce electronic data exchange and electronic document management. The development of the accounting information system should take place in a direction that will ensure the establishment of a single information system, which is why it will no longer be necessary to manually compare the situation between the salary and allowances department, payment department and accounting department within RC SBiF MO. It is necessary to ensure that the units and institutions of the Ministry of Defense and the Republic of Serbian Army submit the documentation for control to the RC SBiF MO in electronic form and not in paper form. This will reduce the time required to process, control and forward the data to the Treasury Department of the Ministry of Finance where the payment is made. In this way, it will be ensured that the control of documentation is easier to implement, and it is necessary to ensure that the software itself reports errors and illogicalities that would otherwise have to be detected manually by the person. Also, in this way, the entry and calculation of salaries, allowances and other incomes would be automated.

Daily and automatic insight into the state of realization of the financial plan in RC SBiF MO would be provided. Also, the users of funds could have at their level a daily insight into the degree of realization of the financial plan for their plan codes. Any overrun of the approved financial plan would be automatically impossible because the software would logically recognize it as an impossible event and there would be records of it. The software would recognize debtors and automatically send them reminders for outstanding debts. It would provide automatic linking between departments within the RC SBiF MO and ensure that certain forms that are now being created manually are automatically generated and printed. It would be ensured that the users of funds have daily data on open items in financial accounting and have up-to-date data on the

condition and movement of movables and their values. In addition, the Department for calculation of salaries and allowances would automatically generate data on persons, their personal data (unique personal identification number, current account, level of education, coefficient for calculation of salary and other data) on the basis of which the software would automatically calculate salaries and fees. When making certain payments, there is a need in accordance with the Law to calculate and pay value added tax and other taxes, in this case it would no longer be done manually but automatically and the possibility of an error would be zero.

By applying the new accounting software in the defense system, a large part of the obligations would be transferred to the financial and legal service of the beneficiaries (units and institutions of the Ministry of Defense and the Republic of Serbian Army), which would give importance to these services and would require institutions of the Ministry of Defense and the Republic of Serbian Army must be very professional and follow the regulations. The presence of a person from the IT service would also be required to maintain the accounting information system. In this way, resources would be managed more efficiently and provide management with timely and valid information necessary for successful resource management and timely decision making. At the same time, it would be possible to monitor the value of business changes in financial accounting and material accounting, according to the appropriate accounts of economic classification (procurement, disposal, receipt, sending, issuing, re-categorization and renaming). Posting business changes in the internal and general ledger would be realized on the basis of electronic documents prepared by users of funds and electronically submitted to the RC SBiF MO for realization. The new accounting information system would be intended to automate the business processes of the financial service of the Ministry of Defense and the Republic of Serbian Army in peacetime and wartime, and to establish a single record of the state of funds, use and payment of funds. The accounting information system should automate the business processes of the financial service and connect material and financial operations in the Ministry of Defense and the Republic of Serbian Army. The full application of modern electronic business is necessary in order to reduce staff engagement and significant savings in administrative consumables, as well as more efficient business operations.

Within the framework of accession negotiations with the EU, it is necessary to harmonize the operations of budget users of the Republic of Republic of Serbia in accordance with international accounting standards and EU principles. Therefore, the

new accounting information system must be developed and conceived modularly, in order to be able to effectively monitor the necessary adjustments with subsequently imposed obligations. Material and financial operations in the Ministry of Defense and the Republic of Serbian Army are conducted according to a unique information system that has been purposefully developed. Reporting is done according to dedicated software and the owner of this software is the Ministry of Defense. However, the existing information system was developed in the 90s of the last century, and later maintained and upgraded in accordance with the functional requirements related to material and financial operations. The platform and tools in which the existing information system was developed are “technologically outdated”, and the limits of the possibility of further development and application of modern IT solutions have been reached. Dozens of software companies that offer ready-made accounting and bookkeeping programs or advertise that they can create a bookkeeping information system tailored to a specific client can be easily found on the Internet. However, despite the large offer of business software, primarily financial and accounting in the domestic software market and in the region (Montenegro, Croatia and Bosnia and Herzegovina), there is no offer of a ready-made software solution that would meet the functional requirements in the defense system.

It is important to emphasize the fact that ready-made business software covers all aspects of business (financial accounting, commodity accounting, payment transactions, payroll, calculation of travel and other expenses, interest calculation, personnel records and supplier records).

Accounting information system in the Ministry of Defense and the Republic of Serbian Army, according to its structure and organization, number of participants and business processes of all levels of competence, volume of debt and nature and number of business changes, dislocation of beneficiaries throughout the country, business changes between beneficiaries is a unique solution in the Republic of Republic of Serbia. This means, among other things, that it is not possible to use relevant comparative data with other users of public funds, nor is it possible to directly use the experiences of potential business software producers. In terms of the size of the system and the number of business changes, the largest system at the level of bodies and organizations of the Republic of Republic of Serbia is on average always smaller than the system that needs to be installed in the Ministry of Defense due to the number and specific business changes. In addition, the specificity of the Ministry of Defense is that all systems,

including the accounting information system, are put in the function of providing adequate information in real time in order to take decisions and steps on which the fate of the entire system will depend in full capacity.

CONCLUSION

The development of the modern world and the armies of modern countries shows that information and information technologies are increasingly important for the command system and that the success of command depends on timeliness and their validity. Of course, in such development trends, opportunities should be sought for the information system of the Ministry of Defense of the Republic of Serbia to be so organizationally set up and technically and technologically capable of enabling all functions of the defense system to take place. Among other conditions, the scope and type of information used by the command bodies in the decision-making process is very important for command. It should be added that modern conditions impose requirements for ensuring timeliness, security and credibility, security and speed of obtaining and using information. Most often, the information security of the command system is realized by the introduction of command information systems and automated information systems.

Since things are like this, the concept of information warfare has already been introduced in the modern world. Namely, there are no more wars with the engagement of bulky armed forces, poorly mobile and well-buried, but it is about fast-moving, modernly armed and richly provided with all the necessary information about the enemy in real time. The strikes take place suddenly, at high speed and in unexpected places. This leads us to the conclusion that the information system of the Ministry of Defense must be conceived and set up so that its application in the digital exchange of information becomes an inevitable part in the collection, processing and distribution of information and a new method of work of officers. It is necessary to improve the plans for the development of information systems from which other subsystems would be developed according to the levels of command for branches, services, units and institutions. It is necessary to use the experience gained so far by experts from the defense system.

In addition to the above aspects in the development of information systems, special attention should be paid to the development of organizational and formation structure and on that basis the development of staffing, because the introduction of a new modern information system based on outdated principles of organization and technological obsolescence would lead to low-cost technologies.

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