Budget - Performance Tool in Public Sector

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Abstract: Due to the specific public institutions to operate within unproductive area, financial planning is primarily to determine the need for financial resources they need in the future. This is done by issuing revenue and expenditure budgets. The public budget is an important management tool for programming and control, which in financial expression, provide sizing objectives, costs, actions can be funded from revenue expected to be achieved, but also evaluate the results and their economic efficiency. Budgeting is not only preparing financial document, but the stage of determining the link between mobilizing funds and goals and objectives requiring by the management team extensive and comprehensive analysis of what was and what going to happen.

Key-Words: Public budget, Revenue, Expenditure, Budget deficit, Strategic planning, Performance, Public management
1 Introduction
To make budget is to be forward looking management, namely to control budgetary provisions. By budgeting is determined affecting resources and responsibilities each activity center. Budget is forecast figure of earmarked resources and insurance responsibilities to achieve the objectives of the institution in terms of efficiency and effectiveness [7].

Efficiency is getting the maximum possible results with a given level of resources or a smaller one. It is measured as a ratio between inputs and outputs, which was later completed with the final performance increase while maintaining the same level of inputs. But public managers using the following formula: constant performance in terms of decreasing resources attracted. The concept of economic efficiency in general there are two ways: performance, as an extraordinary results of activity, and maximum effects of an activity in relation to resources allocated and consumed. Moreover, efficacy consists in achieving the objectives defined by public managers. It can be measured by results achieved against objectives, by impact of achieving objectives has on public services beneficiaries [2].

Economic criteria, social and managerial base that should be efficiency, effectiveness, performance, reality is reflected, unfortunately, a single overriding concept - inexpensive - saving all resources regardless of consequences. In these circumstances, a public establishment is forced to provide for survival. Budgetary policy must therefore determine the size, destination, the optimal structure of expenditure, set goals and establish and clarify the methods and tools to be used, with minimum financial effort, in terms of maximum efficiency [33].

Revenue and expenditure budget is an instrument of public financial management institutions, planning the necessary funds. It reflects the formation, administration and use of funds. In this way provides the information necessary substantiation decisions about economic and financial management of the institution based on maximum efficiency and financial balance. Financial balance is based on correlations between receipts and payments, funding sources and their allocation of revenue and expenditure.

2 Classic and modern building public budget
Classical methods of foundation budget, although different methods, all from the same premise, that revenue or expenditure budget for next year can predict with regard to their level of performance in an earlier period, which is usually the year preceding the current one which is based on known execution data about revenue and expenditure.

Modern methods seek substantiation of revenue and expenditure budgets starting from goals and programs to be achieved. The budget is divided into sub-budgets on activities, following that for each sub-budget take place a foundation of revenue and expenditure by type of revenue and expenditure. By adding the sub-budgets, plus revenue and expenses of general activities of the institution, carry out general budget.

It is apparent therefore that the difference between modern and classical methods is in content. Modern methods provides design philosophy about revenue and expenditure budget of an institution for the establishment of objectives to be achieved, possibly over several years, and having regard to the establishment of indicators of efficiency, while traditional methods are providing resources, tools to substantiate revenue and expenditure from program budgets [32].

2.1 Classical methods
Traditional methods of assessment of revenue and expenditures has some limitations due to insufficient volume of information and the impossibility of forecasting and quantifying the effects of factors that will influence the real economy and financial of a public institution in the future.

Automated method is easiest, which do not require a large volume of work. Ignorance of actual achievements of the current year, determines the assessment next year draft budget based on the revenues and expenses of previous year ended. Difficulty, even impossibility, to maintain the same economic, social, legislative and policy over a period of three years (previous year - year ended, year - ongoing and next year - which is developing the draft budget) is disadvantage to this method to present a real budget. Only by way of exception, in a near-zero inflation, this automated method can be applied [22].

Method increase (or decrease) consists in determining the volume and structure of the draft budget by calculating average annual rate of increase (or decrease) of budget revenues and expenditures from analysis of budget execution results from previous years (at least the past five consecutive years). By extrapolation of past trends in the future, considered the reference, are
incorporated in the draft budget and influences of negative economic phenomena occurred in the years formed the basis of calculation (inflation, unemployment). Method characterized by automatism implies the existence of stable or slightly growing economies [12].

**Direct assessment method**, the most used, sets the most realistic needs and possibilities of purchasing of public resources by performing calculations for each source of revenue and expenditure for each category. The calculations take into account certain achievements in the months already elapsed and forecasts for the coming months of this year and what factors will make its mark on the macroeconomic context in the following year. Sizing budgetary indicators will reflect changes in key macroeconomic aggregates: economic growth, consumer price index, unemployment rate, foreign exchange currency. How real economic opportunities to support fixed revenue, public expenditure variables are low, the method can not size the rigorous budgetary indicators. Occurs the disadvantage frequent budget adjustments throughout the execution in the sense adjustment expenditure to revenue level. An estimate of public expenditure should not assume their automatically growth, but their optimal sizing, so it is possible to sustain and support [14].

**Incremental budgeting** is the traditional budgeting method in which the emphasis is on budget execution "correct" as planned on items (salaries, supplies, postal services, etc.), without evaluating the results, impact costs in terms objectives. For this reason, the incremental budget seeks inputs (spending "proper" money) not outcomes; there is no a necessary, documented as such between inputs (costs) and achieve goals; information contained in the budget refers only to costs, not the achievements, so that managers have not at hand the necessary information for effective decision making (asymmetry of information is encouraged). This disadvantage makes it stiff; allocation of expenditure between budget items is strictly without allowing the manager to return, except possibly the initial allocation. This leads to inefficiency because amounts unspent to a specific article decrease the budget for that article for the following year; there is no incentive for saving, but rather is encouraged waste of resources, even if "correct" in legally. The key feature is the orientation to the past with the previous year based, in which incremental changes are made. Has the advantage that it is easy to achieve and perform well in the short term (usually one year) and where there are highly complex activities. Instead, the method makes no reference to notions of efficiency, effectiveness, does not operate on larger time horizons and show the nature and not the purpose of expenditures [20].

The main shortcomings of conventional methods for sizing budgetary indicators are found in insufficient volume of used information, impossibility of forecasting factors with direct influence on the real economy, and do not take into account the efficiency of financial resources allocated [14]. Classical methods of assessment of revenue and expenditures aimed at quantifying the financial efforts necessary to achieve certain objectives, without value judgments on the usefulness, appropriateness and effectiveness of these objectives. For these reasons, many states have abandoned traditional methods of evaluation of public expenditure in favor of modern methods. In international practice, two main methods were structured, namely:

**I. US-style methods**: "Planned Programmed Budgeting System" (PPBS), "Management by Objectives" (MBO) and "Zero Base Budgeting" (ZBB), and

**II. Methods of French inspiration**: The programming of public outlays "La Rationalisation des Choix Budgetaires" (RCB) [14].

Based on these methods, other developed or developing countries have developed their own methods to streamline the budget options adapted to the socio - economic specific to each state.

**2.2 Modern methods**

Modern methods are based on cost-benefit analysis (or cost-effectiveness), thus having a probability much higher in practice than classical methods. Cost-benefit analysis involves the efficient allocation of scarce resources by measuring the costs and gains would evolve as a result of alternative directions for action. Among several projects, the selection criterion is to maximize utility, opting for those projects that maximize results with a certain level of costs, or leading to the same effect with minimum cost.

Recent reforms aimed at re-entry programme **budgeting** to encourage accountability of managers toward outputs and not just inputs. Success depends on establishing performance indicators and their analysis in decision to continue funding programs and reallocate funds to other priorities. Benefits programme budgeting concerns that allow long-term budgetary planning, the foundation of decisions on objectives and not just "correctness" execution of previous budget.
"Planned Programmed Budgeting System" (PPBS) - a method of sizing the expenditure which was originally applied initially in military spending (1961) and then extended to the federal government (1965). Objective was that by collecting a large amount of information and processing scientifically, to define rational criteria of public management funds to ensure the allocation of budgetary appropriations by the returns (benefits) offered different categories expenditure. The method consists in identifying long-term objectives, quantifying costs and benefits of different programs can be funded from the budget and establish a ranking of the indicators of their effectiveness [30]. It allows the identification of "vertical options" in the same ministry, but does not allow the "horizontal options" formulation, that underpin the same ministry, but does not allow the allocation of budgetary appropriations between ministries. This implies a common criterion of effectiveness for all ministries, which is difficult to find and implement. The method was designed as a tool for allocating resources among programs, but after six years of implementation, due to discouraging results, it was abandoned. Although not led to expected results, this method ensures the use of analytical methods, the use of means according to the purposes and provide studies, forecasts and benchmarking to establish and implement budgetary programs. Instead, as budget decision is based technocratic rather than political criteria, the method has been criticized in terms of risk of strengthening the technocratic power and reducing policy-makers choice, the extent that accepting the scientific criteria, is calling for alternative ranked first. Also, the method has the disadvantage of being unable to clearly define targets, which give rise to confusion between objectives and means of achieving them and the difficulty of accurately calculating the direct costs and especially indirect (including generated by externalities) [12]. Budgetary programs is associated with new public management and involves the shift from detailed regulation of how public money is spent on the initiative and responsibility on managers to achieve the targets; it links all the parties to whole and connects present at the future.

"Management by Objectives" method (MBO) – a consequence of attempts to improve and adapt the method PPBS, resulting from the requirements of time (1970-1975), the method was inspired by the management policy pursued by major U.S. private companies (General Motors) and subsequently adopted by the Federal Ministries. It involves identifying the aims, targets for each area of activity. Unlike PPBS, to MBO method, selection of targets is not the user decides, and allow the "horizontal options" formulation. The method was conceived in the context of overall planning in five years, to allow coordination of objectives between ministries [4].

"Zero Base Budgeting" method (ZBB) - is practiced in the U.S. since 1980 in order to prevent excessive growth of spending each year. The method consists of choosing combinations of programs to minimize costs of achieving a particular goal, under conditions imposed by the level of resources [9]. Unlike incremental budget model that starts from the previous budget, at ZBB method previous budget can not be a foundation for future budget, the latter needs to be justified in terms of certain programs and estimating costs for these programs; basically, no financing is not considered justified because it was already started, but must always be reviewed in light current developments and needs. In its modern form, the method has been developed by Peter A. Pyhrr, a staff control manager at Texas Instruments in Dallas, starting from "zero base" which means the lowest cost that can be achieved target [21]. Thus, costs are reviewed periodically (annually), from the smallest decision unit (office), in terms of hierarchy to the highest. It is supposed that each assumes that there is no budget available for the current year and develop alternatives for each funded program. For each program determines the minimum level of effort, that "the zero base", and assessing the consequences of reducing spending this minimum. Using ZBB is based on identifying the present value of alternative programs and their hierarchy in relation to the criterion of net profit and benefit-cost ratio. Any project is eligible or if the net benefit is positive (Benefit – Cost > 0), or if the ratio advantage-cost is > 1 (Benefit / Cost > 1). The primary credit holder takes over the budget figures corresponding to the expenditure lower decision units for the previous year and examine each program, in part, the usefulness and effectiveness. If a program is observed that the yield is very low, then we are at level 0, which means a cancellation of budget allocation for that program. If the yield program is relatively low, compared to the amounts spent we stand next to a low level, which means continued funding, but with lower resources. When we are in the normal (expected return), then allocations remain unchanged and at high level, increase funding for the program. The same process will be conducted and the lower hierarchical level to basic, choosing which projects should be funded from existing resources. After being shown and
assessed both costs and corresponding benefits it can proceed further update net benefits. Future net benefits are reduced where there is a positive real interest rates in the economy, which makes a monetary unit gained in the future by way of profit to account for less than a monetary unit gained in the present as benefit [24]. Obviously the method is based on the ability of managers to plan their budgetary policy, to choose between alternatives development and on the allocation of resources. Conceptually, ZBB method is the most important model of budgeting, because it is the only way to stimulate public institutions to be effective (not to wasted public money), and effective (to meet the needs of citizens). Method failure was due to the complexity of the phenomenon and the time factor and hurry with which it was introduced and implemented; it is difficult to identify and assess the overall results can be obtained at a certain level of public spending [27]. In fact, the method has never been satisfactorily implemented; the main problem concerns the workload in compiling documentation to justify the budget and practical problems posed by the discontinuity in funding programs. Moreover, in many cases led to increased costs due to the large number of employees assigned to develop supporting documentation, without the need for justification to lead effectively and eliminating redundant costs. Additional workload created so determined resistance from employees for the method.

**Streamlining budget options (RCB)** - the method is a collaborative effort French specialists adaptation and improvement of American PPBS method [31]. Given limited resources, RCB method is to identify and study aims to compare alternative solutions, decision analysis based on cost - benefits and permanent control of spending resources. It is a systemic analysis that, by successive iterations, recasts objectives and means used to achieve them, allowing a decision maker to choose a preferential action of several possible alternatives. Ability of adaptability and reformulation options that provide a self-regulating system is very original element of the method. Holder program is free to managing the funds, so to achieve goals. Selection of the objectives is made based on criteria established by decider, according to priority and the hierarchy of objectives [19]. Most important is to identify all solutions which enabling to achieve the selected objective. Most often, one and the same objective can be achieved in several ways, for which reason it requires comparing alternatives and it is necessary to determine the total cost of achieving the programs offered in different versions based on decision based on cost-benefits, cost-effectiveness or multi-criterial analysis. Determining budget options based on economic criteria has the advantage that it allows overall cost of operations, whatever funding sources are, which means shift to budget financing to public expenses covered only from multiple sources. Another advantage of the method refers to the information provided about the cost of a certain chapter of budgeted expenditure, whose elements are spread out over several budgetary appropriations [11].

### 3 Public budget review in the light of the changes

Since the early '80s, many Member States of the Organization for Economic Cooperation and Development (OECD) were involved in the budgetary reform process to create a stronger link between government objectives and necessary resources, both in the planning process and in the reporting of budget execution. The new wave in addressing budgetary reforms began in the mid 90s and included most European Union member states at that time, and new candidates to join the European Union with economies in transition. Performance-based management, results-oriented budgeting and medium-term public expenditure framework are the basic concepts of these reforms.

Budgets in Romania requires a shift to performance management which involves the use of performance indicators to assess actual progress compared with previously set targets. Budget programming is very important to define objectives and only such an approach allows a consistent assessment of how public money is spent, that is rational and transparent. To eliminate subjectivity and arbitrariness in the allocation of budgetary resources, budget management must assess correctly "the 3 E's" – economy, effectiveness and efficiency of resource use:

- **economy** – minimizing the cost of resources to achieve expected results while maintaining quality outcomes;
- **eficacitate** – degree of fulfillment of objectives and effect relationship between projected and actual results;
- **eficientă** – obtain the maximum possible results with a given level of resources or lower one [10].

Can not speak of efficiency without effectiveness, because it's important to realize better what you have proposed - effective - than to create something better - efficiency [5]. Unfortunately, the Romanian public sector, does not apply to any of the criteria
based on performance management. Reducing the tolerable limit spending on public sector creates serious consequences.

In Romania, the assessment of the revenue and expenditures is done as a combined method, mixed, which means - in terms of methodology - a direct assessment applicable by comparing revenue and expenditure figures suggest that, with the previous year. Thus, figures for revenues and expenses resulting from direct evaluation are provided in the draft budgets joined and compared to the previous financial year. Combined approach can be titled Planning, Programming, Budgeting and Evaluation System which aims to define more rational criteria for the management of public funds for the purposes of allocation of budgetary appropriations based on efficiency or net benefits posed by different categories expenditure. The method allows identification of "vertical options" in the same ministry, taking into account the specific decision criteria developed, criteria that differ from one ministry to another, in relation to the nature of public spending [8].

Strategic planning in budget programming requires at least setting the target for public sector in Romania to move, because otherwise, "when you do not know where you want to go all roads lead there" [Carroll Lewis]. Effective strategy means, first, what you do (which you are quantitative and qualitative objectives), and then how you do (as fast, at what cost). So we see that, above all, must know where you going, then to establish how fast you can get there and how you can progress. And when it comes to determining a strategy, an applied value has SMART method of targeting, derived from the method MBO [4]. According to the theory of budget management, project objectives should be SMART, ie: Specific (concrete, detailed, well-defined), Measureable (numbers, quantity, comparable), Achievable (feasible, possible, necessary resources and potential barriers), Realistic (realistically be achieved taking into account the resources) and Time-bound (estimated time correctly and timely) [4]. The central issue of the entire budget management is according to the sizing requirements of financial resources to ensure their opportunity. Correlation between "what it is like" with "what can be" is made of budgetary management in terms of "how to do" so that, finally, the objectives are met [8].

The budget ia a planning taken at a time, based on information available at that time and the estimated completion of future actions. But we know very well that the reality may not be identical to what we planned when we have major deviations from budgeted perspective (both negative and positive) is important for budgetary system is not rigid and have sufficient flexibility that ensure adaptation to risks and opportunities. During budget execution is particularly important to monitor its results and corrective actions. No planning system can not be successful without an adequate and effective control. The budget is closely connected with the control. There is not enough a well prepared budget, placed in a shelf and left there. It is important to continuously compare a fixed interval (monthly, quarterly) deviations between actual performance and budgeted performance. Currently, control is associated a much broader sense, it is regarded as a management function, rather than simply checking operation. This step is very important throughout the process, it allows management to identify if the business is performing at expected level, and if this does not happen it will identify the causes (eg, revenues do not reach the planned level, certain costs exceed the projected or, contrary, identify opportunities such as: certain costs could be avoided or outsourced to lower values or unexpected demands arise for certain public services). All this information will be key decisions.

Unfortunately the global economic crisis has deepened macroeconomic imbalances. How Romanian state have such a large share in the economy, the impact of unreformed public policies at the time will be much enhanced. It required deep reform of how budgets are constructed. While public revenues are variable, and public spending have become almost fixed, and both are unpredictable, the budget can become a genuine instrument of anti-crisis. A public institution should have a budget for three to five years, not three to five budgets in a year, to allow the current operation is in constant liaison with the medium and long term development.

Starting from this idea of economic stability, desirable in any entity, we wanted to track the progress of our research budget volatility on a comparative period of four years, to see better development budgets in Romania and to interpret their dynamic trends. Thus, we observed that in our country, a public institution is usually an initial approved budget, which is then subjected to a process of adjustment. The number of budget amendment could reach three to four rectifications per year and the year ending with the annual budget execution. Corrections budget solution is allowed to provide some flexibility budget forecasting. Study on data from the "Annual Report Analysis and Forecasting" prepared by the Academic Society of
Romania is apparent that the size variation of budget deficits is large, especially in 2006. Also, analysis of data 2008 from the same statistical report, it appears that the frequency of budget amendments and some adjustments still occur in the first quarter. All the statistical data from the same report, analyzing 2009 data we noticed that the projects and forecasts made are more distant from reality.

Following analysis of these indicators we found that we can talk about the lack of a coherent strategy and a low mechanism for budget programming.

### Table 1: Budgetary volatility in Romania [28]

<table>
<thead>
<tr>
<th>Year</th>
<th>Originally projected deficit</th>
<th>Maximum deficit after correction</th>
<th>Minimum deficit after correction</th>
<th>Deficit in the final execution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>-0.50%</td>
<td>-2.50%</td>
<td>-0.90%</td>
<td>-1.70%</td>
</tr>
<tr>
<td>2007</td>
<td>-2.70%</td>
<td>-2.80%</td>
<td>-2.40%</td>
<td>-2.40%</td>
</tr>
<tr>
<td>2008</td>
<td>-2.75%</td>
<td>-2.30%</td>
<td>-2.30%</td>
<td>-4.50%</td>
</tr>
<tr>
<td>2009</td>
<td>-5.10%</td>
<td>-7.30%</td>
<td>-6.00%</td>
<td>-7.26%</td>
</tr>
</tbody>
</table>

Although the 2008 program budget initially approved anticipated a deficit of consolidated budget of 2.75% of gross domestic product, it was decreased to 2.3% of GDP in order to harmonize the overall mix of macroeconomic policies and latest international developments. Thus, compliance with conditionality of the Maastricht Treaty, in particular the general consolidated budget deficit below 3% of gross domestic product, is the main coordinate of foundation of the budget construction in Romania. 2010 budget deficit is projected at 5.9% of GDP (see Table 2) in accordance with its reduction target over the medium term. Reducing the budget deficit in a time when global economy is in recession is a great challenge. In this respect there is unanimity that have strengthened control over public expenditure, especially current and staff. Deficit over the next two years should be maintained with any price less than 4% of gross domestic product, otherwise there is danger that the state would absorb much of the resources should go to the private sector. It is necessary to pass the gradual introduction of a programming mechanism type Medium-Term Expenditure Framework (MTEF), to avoid further slippages and improving the quality of public expenditure. Medium-Term Expenditure Framework will be part of the fiscal strategy-budget for 2011 - 2013, along with the macroeconomic framework underlying fiscal and budgetary policies, fiscal policy framework with the budgetary forecasts and fiscal policy-budget. Medium-term budgetary framework through which to introduce spending limits for both total public expenditure and the budgets of the primary credit holders is the main tool for ensuring budgetary discipline. MTEF should be a results-oriented budget and performance, integrated, prioritized, over a period of four years, which will include plans for allocation of budgetary resources for the next budget year and two years later, the expected results for the current budget year and actual results for the previous two years. [29]. MTEF is a resource management tool which will enhance budgetary sustainability by ensuring that implementation costs of activities to achieve targets in the current and future resource packages are possible [34].

### Table 2: Revenues, expenditure and general consolidated budget deficit [13]

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>31,3</td>
<td>31,3</td>
<td>31,4</td>
<td>31,5</td>
</tr>
<tr>
<td>Expenditure</td>
<td>37,3</td>
<td>35,4</td>
<td>34,3</td>
<td>34,4</td>
</tr>
<tr>
<td>Deficit</td>
<td>-5.9</td>
<td>-4.1</td>
<td>-2.9</td>
<td>-2.9</td>
</tr>
</tbody>
</table>

The economic crisis and the need to reduce the worrying budget deficit are an excellent opportunity to finally move to planning medium and long term sustainable. MTEF provides solutions in this respect: public budgets are projected in the budget ceilings known on a period of four years. Rather...
than try to implement all activities in a single year, they are phased in period of four years. Performance-based budgeting facilitate the transfer of address like "shopping list" by the results-based budgeting. We must not forget that it is important that the public institutions to focus on what needs to be done. Should measure progress only in terms of performance, and according to budgetary organizations worldwide practice, performance measurement is generally directed to either the target (output) or by performance indicators (outcome). Performance-based budgeting allows the allocation of resources based on efficiency and effectiveness of programs measured by indicators. Generally, performance is assessed that the capacity/ability of governments or public institutions to procure resources in an economic manner and use these resources in an effective manner to obtain the desired result. Only through performance budgeting determine critical areas and set targets, monitor performance and provide remedies.

In addition, performance and the execution of public budgets must be transparent to the public because of the crisis. As public information, there are quite a few data on budget implementation of various public entities compared the original budgets, or complete data about budget revisions and their justification, analysis of revenue and expenditure changes. The International Public Sector Accounting Standards Board (IPSASB) requires disclosure of the budget public entity's financial statements (International Public Sector Accounting Standard 24, "Presentation of Budget Information in Financial Statements"): any public sector entities that prepares and presents financial statements under the accrual basis of accounting should compare publicly the initial budget values with actual budget values derived from the final budget execution by including in the financial statements of such information. This means increasing transparency of the budget process and public accountability.

References:
[16] Parliament of Romania, Law no. 500 of 11 July 2002 of Public Finances, with


