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**The Impact of External Public  
Audit on the Budget Deficit**

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**Abstract:** Objectives: Public imbalances can cause extensive problems both on public finances and economy. Regardless of the constitution and destination of funds it is absolutely necessary to verify their correct accounting, collection type and expense in accordance with applicable regulations, and if due attention is paid to obtain an optimal balance between resources and results. Therefore it is useful to study the role of public audit in the formation and use of public funds to indicate its impact on the budget balance. Prior Work: This paper presents the evolution of synthetic budgetary indicators during 2010 - 2013 and the impact that the external public audit had on the budget deficit. Approach: In order to highlight the importance and necessity of public audit activity it has been analyzed its influence in the formation and use of public funds and the extent of implementation of the recommendations made in the audit reports. Results: In the study conducted we have set out several conclusions regarding definite reality according to which financial resources materialize a large part of GDP, so that advocates for public performance of the audit. Implications: The need for public audit can be viewed through the prism of the three classes of economic and financial interests, namely: the interests of public entities, third party interests of consumers of public goods and services and state interests. Value: This paper highlights the importance and the impact of public external audit activity on public financial funds and invites the interested readers on the topic to get involved by providing feedback in order to improve this activity in Romania.

**Keywords:** public audit; consolidated general budget; public revenue; public expenses; deficit

**JEL classification:** M42; H72

## 1. Introduction

For the general needs of the societies it is necessary to establish a monetary fund available to public authorities. The funds are based on the value of the transfer of the power of buying from various individuals and companies to the state and local authorities. From these funds transfers of power purchasing are made towards various individuals and legal beneficiaries. Therefore, money resource flows take place both ways - to and from public funds.

*Money relations arising between the state and individuals on one hand and businesses on the other hand, in the distribution process of gross domestic product and national income, regarding formation, distribution and use of funds necessary to meet the economic needs of the state are the economic content of finances. (Dragoescu, 2006)*

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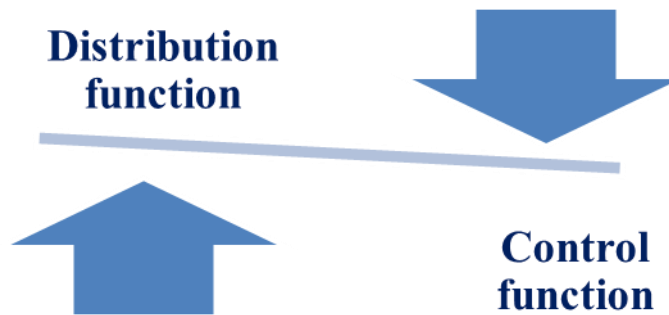
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To each structural component of the system of public finances in Romania, it corresponds usually more financial funds. Each of these has its own rules of formation and distribution, specific links with other funds and a specific reason to exist. (Ungureanu & collective, 2007)

Understanding the functions through which public finances fulfill their social mission is the starting point in determining the basic object of the audit activity. The vast majority of experts recognize two basic functions of public finance namely distribution function and control function.



**Figure 1. The functions of public finances**

Distribution function – knows two distinct, but interrelated organic fazes: formation (mobilization) of funds and distribution (allocation) of funds.

Formation of funds is a prerequisite for meeting the needed funds that are advertised by the fulfilment of functions and tasks of the state. This is achieved through the use of the second side of the distribution function of finances that is the fund distribution side formed in the constitution of funds. Allocation of financial resources is sizing the volume of public expenditure by purpose, namely: education, culture, health, social security and social protection, public order, national defense, etc.

Distribution itself preceded by an inventory of existing social needs during the period of reference, their quantification in monetary terms and their ranking by activity and their importance to each other.

Control function is necessary because the constituted funds of public financial resources available to state belong to the whole society. By achieving control function *“finances not only mean shooting facts at a time, but also mean an active intervention in the conduct of economic and financial processes.”* (Talpos, 1995)

Control function although it is closely related to distribution function, it targets, in addition to providing necessary financial resources to satisfy social needs and directing resources taking into account the priorities set by the authorities, as well as the use of financial resources with maximum efficiency and social effectiveness.

The fact that the public financial resources fund materializes a large part of PIB, is an argument that advocates for organizing a rigorous control upon the way of formation, distribution and use of public financial resources fund, on keeping integrity and good management of the property, on the accurate dimensioning and timely collection of receivables states.

## 2. Synthetic Budgetary Indicators

Public budget is the document that includes not only the collection of monetary resources, but also the distribution and use of them, by public spending.

*“Manifestation of processes and specific relations of mobilization and use of public funds and the existing common needs of the community members being determinant, it shapes the economic concept of the notion of public budget, which occurs under these conditions as a set of financial relationships by which the distribution of the gross domestic product is achieved (mobilization and allocation of financial resources), through public authority to meet the collective needs.”* (Mosteanu, 1997)

According to the principle of the budgetary balance, the budget must be balanced, that is equilibrated: public expenditures must be covered by public revenues. A deviation from this principle is that the budget deficiency is regarded by classical doctrine as a source of danger that may result in the decay of the state. In a simple way the budgetary deficiency is the amount by which budget expenditures are higher than budget revenues.

### 2.1. Analysis of State Budget Revenues in 2010-2013

Financial resources are fully funds needed for the achievement of economic and social objectives in a period of time (Vacarel & collective, 2002). The main categories of public financial resources, in terms of their economic content are: (Comanicu, 2003)

- levies binding: taxes, fees, contributions;
- cash resources;
- resources from public loans;
- financing coinage coverage.

Depending on the regularity of their collection to the budget, public financial resources form two categories, namely: current resources or ordinary and extraordinary resources, incidental or random. (Moldovan & Herciu, 2003) In line with the budgetary system in Romania, public financial resources are structured by criteria, and their evolution during the period 2010 - 2013 is presented in Table no.1.

**Table 1. The evolution of budget revenues in 2010-2013**

Budget Indicators	Million/lei				% GDP			
	2010	2011	2012	2013	2010	2011	2012	2013
GDP	511.581	547.829	585.200	625.617				
Total revenue	186.598,5	181.566,9	193.148,2	200.045,7	33	33,1	33	32
Current revenue	158.474,7	173.541,1	184.030,7	190.649,1	31	31,7	31,4	30,5
Tax revenue	93.060,1	104.687	114.044,6	119.190,7	18,2	19,1	19,5	19
Tax income	10.115,1	10.309,1	10.854,5	10.925,7	2	1,9	1,9	1,7
Income tax	17.956,8	19.076,4	20.956,7	22.735,9	3,5	3,5	3,6	3,6
Taxes on property	3.801,5	3.976,4	4.060,4	4.403,2	0,7	0,7	0,7	0,7
VAT	39.245	47.917,4	51.516	51.827	8,9	9,2	8,8	8,3
Excise	17.378,9	19.104,8	20.260,4	21.106	3,4	3,5	3,5	3,4
Customs duty	574	673,7	707,3	620	0,1	0,1	0,1	0,1
Insurance contributions	45.697,2	50.637,3	51.658,3	54.378,9	8,9	9,2	8,8	8,7
Non-tax revenues	19.717,4	18.216,9	18.327,8	17.160,5	3,9	3,3	3,1	2,7

Income from capital	682,8	766	652,7	649,7	0,1	0,1	0,1	0,1
Donations	4.054,1	765,6	442,8	200,6	0,8	0,1	0,1	0
EU accounts payments and prefinanced	5.394,1	6.108,8	7.979,1	8.911,5	1,1	1,1	1,4	1,4
Financial operations	14,3				0			
Amounts cashed single budget	-21,6	385	42,9	-365,3	0	0,1	0	-0,1

Source: Elaborated by author based on data provided by the Ministry of Public Finance  
<http://discutii.mfinante.ro/static/10/Mfp/buget/executii>

Budget revenues show an increasing trend from year to year, primarily due to the TVA increase in 2010 from 19% to 24%, and later due to improved revenue collection. Evolution of the general consolidated budget revenues for the period 2010 – 2013, by chart is as follows:

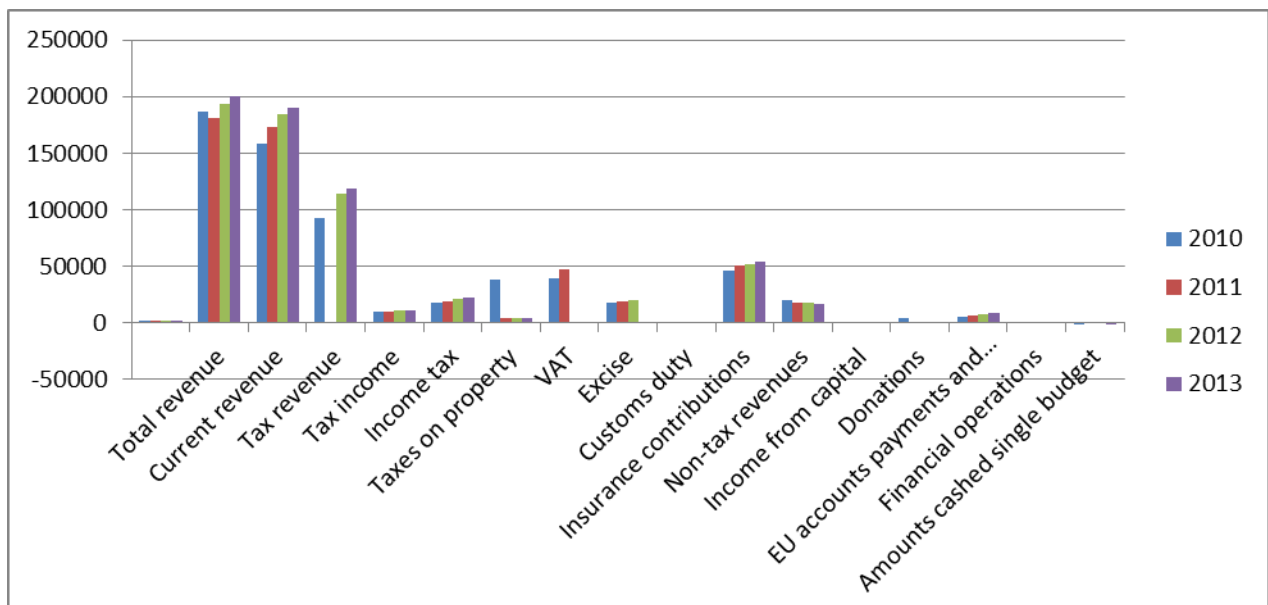


Figure 2. General consolidated budget revenues for the period 2010 – 2013

Source: Elaborated by author based on data provided by the Ministry of Public Finance

For the years 2010, 2011, 2012 and 2013 the consolidated general budget revenues are on the rise and represent about 33 % of GDP.

## 2.2. Analysis of Budgetary Spending in the Period 2010 – 2013

Actual use of public funds requires their spending to attain the goals contained in the government programs on social work, economic and otherwise, are reflected in public spending. As public spending illustrates how the state funds are directed towards specific targets, they are analyzed both in terms of structure and in terms of dynamics, based on various criteria (economic, operational, administrative, political, financial etc.). All these constitute the starting point and the exercise of public audit activity.

In conducting the audit of public funds use it is envisaged the economic classification of expenditures by the two grouping criteria: first, that the expenses are divided into current expenditures (operating) and capital expenditure (for investments), and second, that shares the expenditure in public services expenses or administrative and transfer expenses (redistribution). In the category of current expenses are included personal expenses, material costs, service costs, interest on loans contracted grants and subsidies. They represent the final consumption of gross domestic product. *Capital expenditures* are based on the needs of development and modernization of the institution and consider both ongoing investment which continue in the forecasting year and planned investments in accordance with the development strategy of the concerned government institution. Capital expenditures are reflected in the purchase of durable goods, destined for both the sphere of material production and immaterial sphere. They represent an advancement of gross domestic product. *Functional classification, according to 2014 state budget law* groups the expenses according to their destination to evaluate the allocation of public funding to activities or goals that define public needs: public authorities and external actions, other general public services, transactions on the public debt and loans, transfers with general character between different levels of government; payments made in previous years and recovered in the current year; defense; public order and national security; education; health; culture; recreation and religion; social insurance and assistance; housing, public services and development; environmental protection, general economic actions, commercial and labor; fuel and energy; transport; other economic activities. (Law 356/2013)

Calculation of state budget envisages the revenues they can collect and expenditures that must be made. The budget process includes consecutive stages of approval, execution, control and reporting of the budget that ends with the approval of the annual account of its implementation. (Law 263/2006)

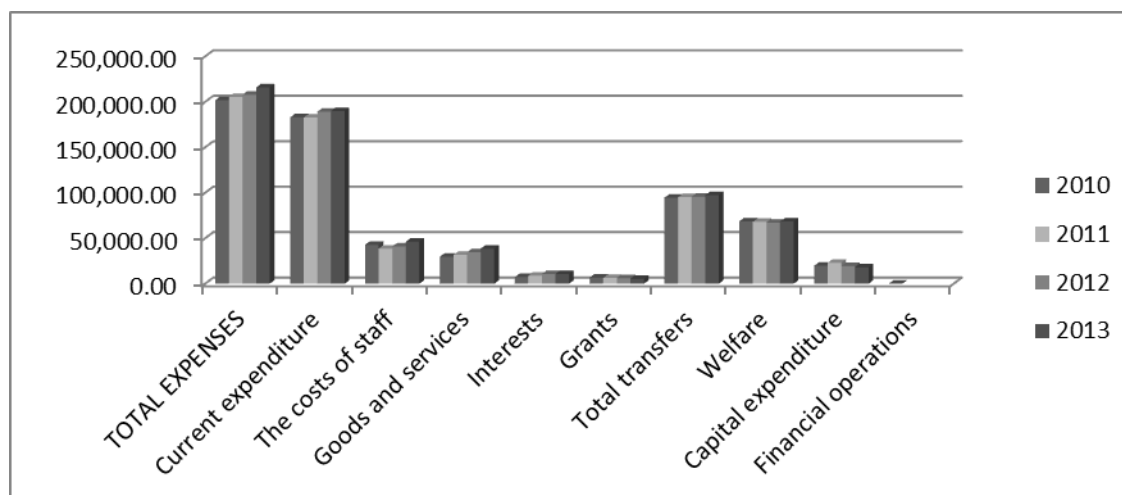
Budgetary expenditures evaluation in the period 2010 - 2013 is as follows:

**Table 2. Budgetary expenditures evaluation in the period 2010 – 2013**

Expenditure indicators	Milion lei				% GDP			
	2010	2011	2012	2013	2010	2011	2012	2013
<b>GDP</b>	511.581	547.829	585.200	625.617				
<b>TOTAL EXPENSES</b>	201903.63	205403.6	207922.1	215816.9	39.5	37.5	35.5	34.5
<b>Current expenditure</b>	182985.3	182835.4	189274.3	189963.4	35.8	33.4	32.3	31.8
<b>The costs of staff</b>	42806.5	38496.3	40798.8	46298.6	8.4	7	7	7.4
<b>Goods and services</b>	29801.2	31770.8	34443.9	38580	5.8	5.8	5.9	6.2
Interests	7274	8882.9	10710.8	10756.2	1.4	1.6	1.8	1.7
Grants	6734.6	6406.6	6121.7	5150.1	1.3	1.2	1	0.8
Total transfers	94574.9	95171.3	95585	97309.4	18.5	17.4	16.3	15.6
<b>Welfare</b>	68601.9	68007.5	67048.5	68378.0	13.4	12.4	11.5	10.9
<b>Capital expenditure</b>	19638.9	23055.9	19304.9	17855.2	3.8	4.2	3.3	2.9
<b>Financial operations</b>	193.4	-	-	-	0.000378	-	-	-

Source: Elaborated by author based on data provided by the Ministry of Public Finance  
<http://discutii.mfinante.ro/static/10/Mfp/buget/executii>.

Alike budget revenue also the budget expenditure registered a nominal increase without being directed towards productive activities. Staff costs presented in 2011 a nominal decrease significantly compared to 2010, from 8.4% of GDP, reaching 7% of GDP, while in 2012 and 2013 due to budget salaries recovery, staff costs registered an increase in nominal terms, but remained at 7% of GDP in 2012 and increased to 7.4% of GDP in 2013. To better distinguish the general consolidated budget expenditures for the years 2010 - 2013 and their evolution, by chart is presented:



**Figure 3. General consolidated budgetary expenditure for the period 2010 - 2013**

*Source: Elaborated by author based on data provided by the Ministry of Public Finance*

Consolidated general budgetary expenditures in 2011, 2012, 2013 presents significant nominal increase compared to 2010.

### **3. The External Public Audit Impact on General Consolidated Budget**

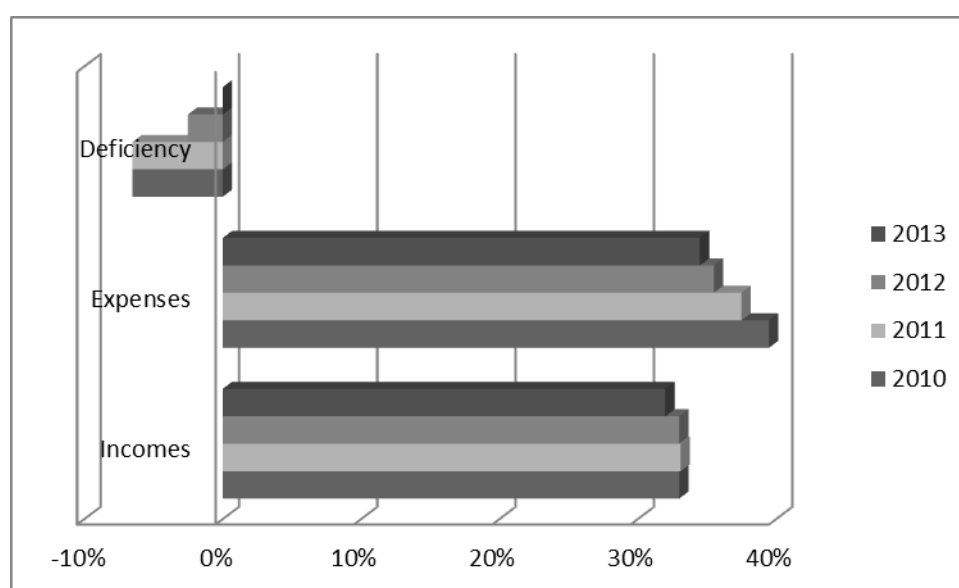
Consolidated general budget is a complete array of resources and expenditures, reflected in the income and expenditure of the component budgets. Budgetary execution is based on a set of principles and rules governing the collection of budget revenues and financing expenses approved by component budgets of the consolidated general budget. In this context, the mission of public external audit exercised by the Court of Auditors in Romania is to obtain reasonable assurance that this rules and principles and also the other incident legal provisions or those specific to each area are met and to provide Parliament and deliberative bodies of territorial- administrative units an opinion on this. Thus, in the following we will analyze the synthetic indicators of the consolidated budget through the external public audit findings made by the Court of Accounts. Statistical data on the development of synthetic budgetary indicators during 2010 - 2013 and the development budget deficiency and its share in GDP is as follows.

**Table 3. Evolution of synthetic budgetary indicators during 2010 - 2013**

INDICATORS	% GDP			
	2010	2011	2012	2013
Incomes	33%	33,1%	33%	32%
Expenses	39,5%	37,5%	35,5%	34,5%
Deficiency	6,51%	6,51%	2,52%	2,52%

Source: <http://www.mfinante.ro/execbug.html?pagina=domeni>

Because of the accelerate increase of spending compared with public revenues, Romania's budget ends with increasingly deficit.

**Figure 4. Evolution of synthetic budgetary indicators during 2010 – 2013**

Source: Elaborated by author based on data provided by the Ministry of Public Finance

As shown in the chart above spending have a tendency of decrease in the share of their GDP, and revenues remain relatively constant. If before 2010 budget deficiency had an increase, it has stagnated in 2010-2011 and later to record a significant decrease reaching threshold below 3% of GDP. Following verification actions realized by the Court during 2010 – 2013 there were identified breaches of legal regulations, observing misconduct that led either not setting, not seeking and non-collection of some budgetary revenues or at the occurrence of damage. All these have an impact on the budget deficiency, meaning that if budgets were reunited with estimated amounts as damages and income sized and properly collected, it can be said that the budget deficiency would have declined about 1 %.

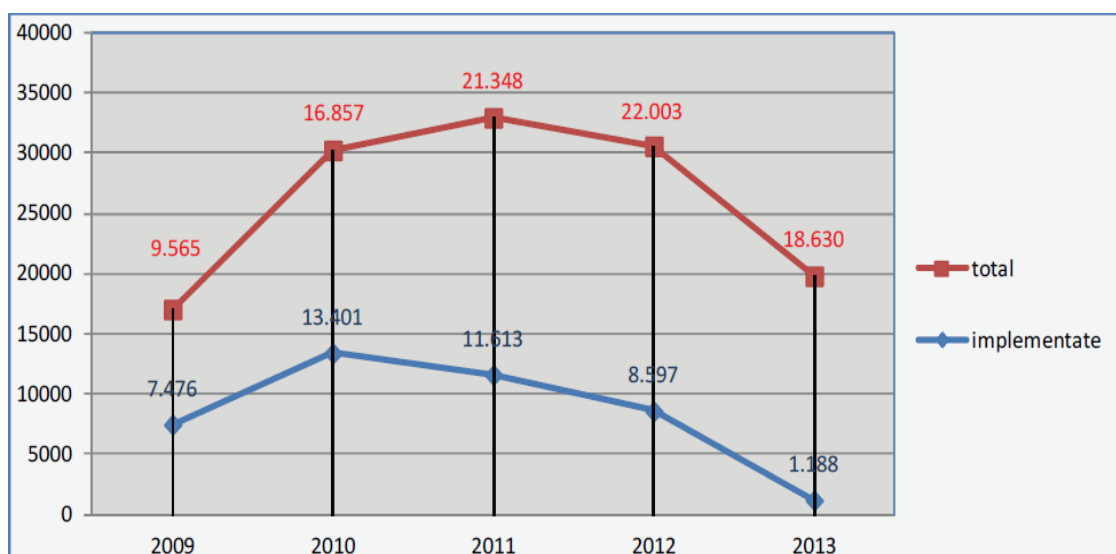
**Table 4. The external public audit impact on the budget deficit**

Year	Number of verification actions	Recorded prejudices	Founded damages	Additional revenues	Total revenues	Deficit	Impact damage and additional revenues on the deficit	Weight (%)
2010 (for 2009)	3,085.00	727.20	1,748.40	156,624.90	193,025.40	-36,400.50	-33,924.90	0.93%
2011 (for 2010)	2,449.00	736.89	1,779.43	168,598.45	201,903.63	-33,305.18	-30,788.86	0.92%
2012 (for 2011)	2,317.00	1,173.00	1,913.20	181,566.90	205,403.60	-23,836.70	-20,750.50	0.87%
2013 (for 2012)	2,641.00	1,608.10	2,297.20	193,148.20	207,922.10	-14,773.90	-10,868.60	0.73%

Source: Elaborated by the author based on data provided by the Ministry of Public Finances and Public Reports of the Court of Accounts for 2010-2013

Although the number of verification actions has decreased in the years 2011, 2012, 2013 compared to 2009, both the loss value and the additional revenue have an upward trend. Damage observed in 2013 were higher by about 45 % to damage found in 2010 and additional revenues increased by approximately 76 % in 2013 compared to 2010.

But after checking the implementation of the measures taken due note aspects of verification missions carried out in 2013, most of them are not implemented by the managers of inspected entities because either they are in the process of resolving disputes, or due within the next period and will be verified during the year 2014. Implementation process proved cumbersome, compliance level entities being reduced, their inertia being evident.



**Figure 5. The degree of implementation of the measures taken during the period 2009 - 2013**

Source: [http://www.curteadeconturi.ro/sites/ccr/RO/Publicatii/Documente % 20publice/2014 /](http://www.curteadeconturi.ro/sites/ccr/RO/Publicatii/Documente%20publice/2014/)



We can conclude that public external audit missions play an important role in the formation and use of public funds by fulfilling the responsibility to provide objective reports on their use and management in accordance with the principles of legality, regularity, economy, efficiency and effectiveness, but the degree of implementation of ordered measures is obviously difficult, in 2013 from 18 630 ordered measures just 1,188 were implemented.

#### **4. Conclusions**

From the research carried out we can draw the following conclusions.

The public audit's results form the basis of assessing the quality of public finances and financial management, and also through the recommendations and measures taken, how to measure progress over time in this area on constant current. In our opinion, the basic object of public audit activity is the formation and use of public funds. Definite reality, according to which public resources materialize a large part of GDP is a basic reason for advocating the pursuit of public audit public upon financial resources, preserving the integrity and sound management of public funds.

From the research we have concluded that the public audit realized over the general budget has a real impact on the budget deficiency.

External public audit reports showed overall insufficient concern on the part of public entities to ensure the accuracy of data in the financial statements and upon the financial management governed by a good economic and financial administration. This confirms that the state public funds and assets are managed in a regime in which the performance of their use is not a priority criterion. Implementation process proved cumbersome, the compliance level of entities being reduced, and their inertia is obvious.

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