
POSSIBILITIES FOR IMPROVING THE EFFICIENCY OF PUBLIC SPENDING IN ROMANIA

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Abstract:

The economical efficiency of public expenditure is a current issue, especially in economic and financial Romanian context. At the State's level in Romania, the reform of public spending that focuses primarily on supporting the economical convergence and improving the capacity to absorb EU funds, through restructuring budgetary expenditures, has started.

I have identified in this paper four measures which may contribute to the improvement of the public spending efficiency. These measures regard decentralization, public acquisitions, the state control function, the budgeting procedure.

Keywords: *efficiency, public sector, decentralization, program based budget, performance based budget*

1. Introduction

The economical efficiency of public expenditure is a current issue, especially in economic and financial Romanian context. Regarding public expenditures, the efficiency analysis of allocating public funds is used to a level sufficient only to identify projects that bring net benefits, without taking into account the possibility of maximizing these benefits and prioritizing projects based on cost-benefit ratio, under a limited budget.

Approaches involving efficiency and effectiveness regard, most often, the work from the private sector, unlike the public sector which emphasizes more on the coverage of applications and less on how the resources are being used.

The public sector was considered a long time, as a non-market one, this circumstance has excluded competition and had adverse effects over the quality of goods and public services and over the management of resources used in this sector.

The continuous growing level of the public needs and also the repeatedly difficulties in covering them, sometimes insurmountable, prompted for essential changes both in the way of providing public goods and services and in funding the organizations and institutions that provide them.

A first step in implementing the change – of following the efficiency in the public sector – consisted in the state giving up the monopoly that it had over the

activities in this sector. Allowing that the private operators become providers of public goods and services opened the door to competition, of the public sector performance.

The analysis of an organization's performance involves establishing a relationship between results, means and objectives, namely it is necessary to approach it in terms of effectiveness and efficiency.

The State's role is to ensure the welfare of its citizens. This emphasizes the need to take into account in a more systematic manner the redistributive effects of the public services, in order to highlight how the various public services programs may influence the achievement of economic and social policy, they can contribute to the strengthening of the economical growth and to the alleviation of the social disparities.

The issue of the fairness-efficiency ratio and of the cost – benefits ratio arises strongly when talking about the State's involvement in the economy through the public spending programs because the consequences are deep and long over the material resources and over the quality of the human factor.

The efficiency concerns the allocation of resources for obtaining the highest national income. Equity refers to the need of not discriminating (sexual, ethnic or otherwise) between individuals that are equals in terms of material or it refers to reducing the economical disparities among individuals. The benefits in the public sector must be carefully analyzed, since there are not present only material benefits, but mainly social benefits that aim at the society as a whole, and also externalities caused by the implementation of a project. These externalities have been studied in the international literature by **RA Mustgrave**, **J. Cullis** and **Ph.Jones**. The cost-benefit analysis, applied in the public sector especially as a cost-effectiveness analysis, which gives a broader sense on the benefits than the economic one, that applies also in the absence of a monetary assessment of the advantages, was studied by **JE Stiglitz**, **Carl Walsh**, a recent work by **Anthony Boardman**, **David Greenberg**, **Aidan Vining**, **David Weimer** –**The cost-benefits analysis: concepts and practices**. The problem of the effectiveness of the public spending and of public sector in general has been studied by many authors in international movement works: **Adam Smidt** in his work "Handbook of Public Finance" in 2005, **Connoly S.** and **A. Munro**, and also in topical studies published by OECD including: **Gonard F.**, **Joumard I.**, **Price R.** – "Public Spending Efficiency : Institutional Indicators in Primary and Secondary Education", OECD, ECO/WKP, 3/2007; **Joumard I.**, **Price R.**, **Kongrud M.**, **Nam Y.S.** – "Enhancing the Cost Effectiveness of Public Spending : Experience in OECD Countries", OECD Economic Studies No. 37/2003/2; **Lundsgaard J.** – "Competition and Efficiency in Publicly Funded Services", OECD Economic Studies No.35/2002/2

From the Romanian specialist literature we cannot not mention the following works: **Văcărel, Iulian** –"Public Finance"; **Matei, Ani** – "Economical analysis of the public decisions"; **Moșteanu, Tatiana** – "Prețuri, Echilibrul Concurențial și Bunăstare Socială"; **Profitoiu A.** – "Economics of the public sector".

At the State's level in Romania, the reform of public spending that focuses primarily on supporting the economical convergence and improving the capacity to absorb EU funds, through restructuring budgetary expenditures, has started. In the

next chapters I have identified four measures which may contribute to the improvement of the public spending efficiency. These measures regard decentralization, public acquisitions, the state control function, the budgeting procedure.

2. Efficiency of the public spending by decentralization process

The opinion according to which providing certain public services by the local authorities is more efficient and in the citizen's advantage its generally accepted globally, hence the need for decentralization. Decentralization is a key component of the public administration reform in Romania.

The decentralization presumes the removal from under the competence of the central power and authority of certain public services of local interest or from special activity domains and transferred into some local public administrations task. The transfer of the competences is done at the same time with ensuring the necessary resources for their exertion. Exerting the competences is done only after giving the necessary financial resources. The competences exerted by the local public administrations are: exclusive competences, shared competences and delegated competences.

Those authorities enjoy a certain independence from the central government, having its heritage, independent organization and are free to act independently. Decentralization may be administrative, fiscal or political, depending on the competences transferred.

Recognized in the literature are several criteria that should form the basis of the decentralization, namely:

1. The overall efficiency of a society resource allocation for a responsible administration. The public services provided by the public government must meet the needs and preferences of the citizens that are in fact taxpayers to the local budget and the state budget. The responsibility for custody must also be accompanied by entrusting resources to enable efficient provision of the public services;
2. The equity of the services - equitable provision of public services to citizens, regardless of where they live;
3. Preserving the macro economical stability and promoting economical growth.

Experts argue that decentralization leads to better public services, poverty reduction and to macroeconomic stability, but may involve also negative repercussions such as regional imbalances, which would challenge the principle of fairness, if the central authority does not intervene appropriately in the process of redistributing the resources, or another undesirable situation which may arise is the significant increase of local taxes in areas which benefit of local autonomy in tax matters (Moldovan, I., 2002).

Through decentralization it is hoped to achieve the principles that any public government should fulfill, namely: trust, transparency, responsibility, efficiency and effectiveness. Decentralization also implies the possibility recognized by the central government to the local collectivities for adopting acts or decisions in some areas at territorial level, without prior consulting with the center or without asking for approval.

The decentralization works on the principle according to which local leaders know what it is in the best interest for the community that they are part of and which they represent and they can manage with more efficiency the resources that have been allocated to them for this purpose, this leads to strengthening the power and the role of the public local government in managing public services. Thus, it is natural that the quality of public services provided to the community would see a growth and this is because they are provided by the nearest authority concerned. Another reason inciting efficiency and quality of services provided by local government is the fact that local public leaders are closer to the voters, they have a closer relationship, which gives them more responsibility in to meet the government program, because otherwise they are likely to cause riots, discontents and thus lacking the capital in a future election mandate.

The principles on which decentralization process is conducted in Romania, according to the Framework Law no. 339/2004 are:

- *The principle of subsidiary* - this principle requires that the responsibility to be assigned to the public government level that is closest to the citizens, who can manage it effectively and in addition, can achieve it under efficient and effective conditions, ensuring the achievement of some major economies in providing the service ;
- *The principle of ensuring adequate resources to the transferable skills;*
- *Equality of citizens* before the local government authorities;
- *The principle of ensuring a stable decentralization process*, predictable, based on objective criteria and rules that do not constrain the work of the local government authorities or limit the local financial autonomy;
- *Ensuring the quality of public services that are offered to citizens* by the public authorities, regardless of their place of residence.
- *The principle of budgetary constraint*, which prohibits the use by the central government authorities of special transfers or grants to cover the final deficits of local budgets.

The decentralization process has some advantages, but can also generate significant drawbacks if it is not properly implemented. Thus, among the **benefits of decentralization** we include (Pendiuc, T., Boncea, M., pag. 6):

- Backgrounding for the first time the local budgets according to the procedures and to the degree of independence offered by the local public finance law;
- Establishing the local taxes in an appropriate manner. Taxes acquired character of "contributions", them being returned to the taxpayer as various public services provided by the local government;
- It creates the possibility that the local government authorities organize their own tax services and provides the ability to exercise fully and effectively all the components and the decentralized responsibilities regarding the establishment, the collection, the control and the monitorization of the local taxes;

- Matching financial resources with patrimonial elements of the local communities and also with the need to restructure and improve the management and quality of the public services offered to the population;
- Linking local policies with regional development and sectorial policies, particularly in areas like education, welfare, culture.

The local governments are more aware of the realities of the managed communities, are closer to the problems of these communities and are better able to fulfill the needs of the community.

On the other hand, the **disadvantages arising from the decentralization process** at the local government level, which should be remedied, are:

- The lack of predictability of revenues;
- Changes in certain categories of expenses that are in the responsibility of the local governments without providing the related resources (the social protection issue, the investments in education);
- The high degree of dependence towards the annual state budget laws;
- The inability to control certain local taxes of great significance for the local budget, including the disaggregated rates of income tax;
- Although it funds certain activities, the local public authorities have no jurisdiction over the appointment and release of the leaders of those institutions;

Still, decentralization is necessary in order to achieve:

a. a better governance through the fact that the decentralization process leads to strengthening the democracy through public participation and political pluralism. Citizen participation (either through participation in local decision making, either by monitoring the delivery of public services) leads implicitly to increasing the responsibility of the public administration;

b. economical benefits that involve improving the resource allocation system and the efficiency of managing them, through the light of the principle of subsidiarity, meaning through the transfer of responsibilities at the administrative level which is appropriate in ensuring the best performance. In addition, a decentralized system is beneficial because it can attract at local level more resources.

Decentralization advocates the fact that the money should be spent there, where it is produced, on programs voted by the local communities. The control over spending public money is another additional requirement related to the decentralization and can only be made where we have the effects, the one who makes the expense, but also the beneficiary, in a centralized administration, the responsibility is uncustomised. Attracting projects, their relevance to the community and their local prosecution would be much easier if the local authorities were directly responsible.

3. Improving the public procurement system

The procurement procedures are regulated by Ordinance 34/2006, which has undergone several changes in order to overcome some shortcomings. To increase transparency in public procurements, the contracted authorities shall, as from January 1, 2007, publish notices of intent, participation and award in the Electronic System for

Public Acquisitions (SEAP). However, even so there are gates through which they can circumvent the law, causing important "leakage" of money from the public system into the private one, without achieving the ultimate goal in terms of efficiency, which creates a waste of public money.

The principles underlying the procurement law are:

- the principle of the efficient usage of public funds;
- the principle of equal opportunities, ensuring access of contractors, without any discrimination, to tender;
- the principle of full transparency of the procedures applied, to eliminate any suspicion of favoritism or corruption in the procurement process.

GEO 34/2006 regulates the procedures for awarding public procurement contract and the contract of concession of public works and services, and also the ways of solving the disputes. **The types of public procurements in Romania**, according to GEO 34/2006 are (GOV nr.34/2006):

1. The contract of work is that public contract which covers:

- a) the execution of works related to one of the activities listed in Annex. 1 of Ordinance 34/2006 or the implementation of a building;
- b) both the design and the execution of works related to one of the activities listed in Annex. 1 or both the design and the implementation of a construction;
- c) either achieving through any means a construction that meets the requirements specified by the contracting authority.

2. The supply contract is that public contract, different than the contract work, which provides one or more products through purchase, including in rates, rental or lease, with or without option to buy.

3. The services contract is that public contract, other than the works or supply contract, which covers the provision of one or more services. The procurement contract, which covers the supply of products and services, is considered:

- a) a supply contract, if the estimated value of the products is higher than the estimated value of the services provided in the contract;
- b) a service contract, if the estimated value of the services is higher than the estimated value of the products under contract.

The procedures for awarding the public procurement contract are:

a) open auction is the procedure in which any interested economic operator has the right to submit offers;

b) restricted auction, is the procedure in which any economic operator has the right to submit his application, following that only the selected candidates will be entitled to submit a tender;

c) the competitive dialogue, is the procedure in which any economic operator has the right to submit his application and through which the contracting authority conducts a dialogue with the candidates admitted in order to identify one or more suitable solutions that meet its needs, following that, based on the solution / solutions, the selected candidates should develop the final offer;

d) the negotiation, meaning the procedure by which the contracting authority

conducts consultations with the selected candidates and negotiates contract terms, including the price, with one or more of them. The negotiation can be:

- Negotiation with prior publication of a notice;
- Negotiation without prior publication of a notice;

e) the request for proposals is the simplified procedure through which the contracting authority seeks offers from many economical operators.

It is preferable that the award of public contracts to be made through open auction in order to ensure transparency of the process, but unfortunately, in reality the procedures deviate from the law through ways and practices that do nothing but create a waste of public money. The law stipulates that "the contracting authority is obliged to award the tender, usually through procedures of open or restricted auction" and that "the contracting authority doesn't have the right to divide the tender into several distinct contracts with a lower value or to use calculation methods that lead to an underestimation of the estimated contract value of public procurement in order to avoid implementing the provisions that this emergency ordinance stipulate in order to bind the contracting authority in relation to certain thresholds values ", in reality we are faced with numerous divisions of work that give " birth " to contracts of lesser value so that one can legally be avoid the open auction, and can thus proceed to direct purchases.

Although Gov. 34/2006 advocates limiting direct purchases for the auction, and limits direct purchase contracts at a value of less than 5000 EUR per product, service or work, GEO 19/2009 instead, increases this limit to 15 000 EUR, which will of course lead to a more accessible procedure. Thus, the contracting authority shall have the right to **directly purchase products, services or works**, to the extent that **the acquisition value is equal to or less than the equivalent in lei of 15,000 euros**.

Furthermore, under Ordinance no. 19/2009, the contracting authority shall have the right to apply **the tendering procedure** only if the estimated value, without VAT, of the public procurement contract is equal to or less than the equivalent in lei of the following thresholds (GOV 19/2009):

- for the supply contract - 100,000 euros (previously this threshold was set to 75,000 euro);
- for the services contract - 100,000 euros (previously this threshold was set to 75,000 euro);
- for the works contract - 750,000 euro (previously this threshold was set to 500,000 euro).

These limits are very high for this tender procedure. The tender procedure consists until December 31, 2006 in the collection of at least three bids, their comparison and the choosing of the offer with the lowest price. It was very easy to favor one bidder approved through collecting bids that were disadvantaged in relation to the one preferred by the contracting authority. From January 1, 2007 the procedure has started to become more efficient through the publishment of mandatory notices in the electronic program ESPP, thereby ensuring a greater transparency in the procedure for awarding public contracts.

Methods of circumventing the law regarding public procurement

- The annual procurement data may be subjective because it is made by the head of the public authority, so he decides what the destination of the public money is.
- The value of the procurement contract can be deliberately undervalued to avoid publication of the notice.
- The available amounts are divided in several chapters to avoid open auctions, which are considered the most transparent.
- To award the contract to the approved bidders, in the specifications notebook are laid down certain conditions or technical requirements that only that bidder satisfies them, thus removing competition.
- Irregularities occur even in the case of the open tendering. For example a company, in agreement with the contracting authority can come with very low prices as to eliminate the competition and afterwards the contract value is increased through additional measures so that the final value becomes greater than the offers of the competitors.
- The procedure of evaluating offers is sometimes presented elusive.
- Unrealized works are being paid.

Also, by GEO no. 19/2009 it is ensured that the deadlines for reviewing the bids by the contracting authorities do not exceed 20 days, this part is retained also in GEO 72/2009. Another new element of the GEO no. 72/2009 it's the regulation according to which it is determined that if an auction is challenged in court, a stamp tax is mandatory, which is between 400 and 2200 lei, eliminating thus the stamp tax in amount of 2% from the estimated value of the contract that the individual or the juridical person making the appeal regulated by Ordinance 19/2009 had to pay. This provision may have a double effect: a positive one, which is discouraging those who wanted to boycott the auction of bad will, but also a negative one, meaning a person who was disadvantaged during the auction because of this fee that can rise to significant values and may constitute a considerable financial effort for the person concerned, can give up the denunciation of the deed in court, the more so as it is not specified whether or not it will be reimbursed.

The ordinances 34/2006 on public procurement provisions do not apply in every field; there are exceptions like "awarding the sectorial contracts where the relevant activity for which they are intended is directly exposed to competition in a market to which access is restricted." In order to not give rise to some possible evasions it is stated that "finding that one particular relevant activity is or is not directly exposed to the competition is established by the European Commission through a notification / request made in this sense by the contracting authority concerned, which will include all the necessary information for adopting a relevant decision about the existing situation". This procedure is presented in GD 827 from August 2009.

I propose that in order to reduce the waste of public money and that the procurement law to achieve their desire **the followings**:

- **to proceed to the reduction of the ceiling for the direct purchases**. The amount of 15 000 euros is a considerable amount, given that many works are divided precisely to meet this limit and to avoid the bidding procedure. Or if the ceiling is still maintained, the intent of direct purchase should be published in the ESPP, for a better transparency.

- **the conclusion of additional acts to the original contract closed between the contracting authorities and the tenderers should not be accepted**, these acts often raise the initial value of the contract several times, and finally it arises the situation in which the tenderer chosen is not the most convenient, on the contrary, it's the opposite. These additional acts often hide diversions of public resources. There should be set a maximum limit of variation of the initial value of the contract that consists in the inflation rate from that sector plus a margin of 5%. If the tenderer fails to fit in the forecast made he will bear the losses aroused by his managerial inaptitude, the contract has a strong character, and its terms must be well thought out and written.

- **calling to the dumping in public auctions**, a practice that distorts the competition, must be discouraged and **should be considered a crime** and treated as such. Also, any form of agreement between firms that can distort free market competition should be considered a criminal offense, in order to discourage them. For example, the competitors who decide not to bid or to offer a lower price can obtain subcontracts or supply contracts from the tenderer which is designed to win as to share the profit resulted from the high price obtained illegally through the auction. The bidders may be required to declare whether they intend to use subcontractors, which could be a way to divide the profit between the tenderers who secretly consult between themselves. The bidding offer should contain a warning regarding the penalties for phishing auctions.

- **avoid unnecessary restrictions** that may reduce the number of bidders.

- **avoid the application of large financial guarantees** from the bidders as a condition for bidding because this can prevent the small authorized bidders from entering into the bidding process. Also, **excessive conditions for qualification regarding the size of the turnover should not be imposed** as this favors large companies. For large investments, publicly financed, due to the excessive qualification conditions on the size of the turnover, on the financial standing and on the value of the similar works that were executed, the access to the auction is practically allowed only to the foreign firms, or to the Romanian firms with foreign capital majority, thus producing an obvious discrimination against Romanian contractors. After winning the contracts, these companies subcontract for most of the works the Romanian companies, under completely opaque conditions at much lower levels, thus making unfair profits. Thereby the principle of the effective use of the public funds is severely affected.

- **Eliminating the corruption of the representatives of the contracting authorities** which obviously accept false declarations of some contractors who claim

to fully implement works with their own forces, that do not reject offers from the contractors who practice dumping.

- **Requirements that clearly promote a particular contractor should not be introduced in the specifications**, thus entering into a monopoly situation and avoiding the form of acquisition through competition.

- **The procedure of evaluating the offers and selecting them** should be presented clearly and should be fair, without unduly favoring any bidder.

4. Exerting the control function of the public finances with role in streamlining the public expenditure

The control function of the public finances has an important role and it's manifested in the creation, the distribution and the use of public money process. In order to investigate the influence that the control function can have over the efficiency of the public spending, we will head our analysis towards the direction of its action in the area of using the public resources.

The control function is used to ensure compliance with laws and to increase the economical efficiency through a better management of the public money.

The need for controlling the public finances is even more acute as in the current stage there are still members of the society who have an attitude of indifference over the public wealth, who break the labor discipline and the rules of social coexistence. This stems from the fact that the financial resources funds constituted at the disposal of the state belong to the whole society, and they materialize a large part of GDP.

The control over the economic activity and side (effort - effect) of the other social activities is a mediated control of money.

The financial control is an expression of the public finances control function. The latter function refers to how the funds in the economy were set up, to their distribution to the beneficiaries and to the efficiency with which the state-owned economical units and public institutions use the resources which they have at their disposal, whether owned or borrowed.

The control function is interested in:

- ensuring the necessary financial resources to meet the public needs;
- directing the resources taking into account the priorities established by the competent bodies;
- the usage of the state's financial resources with maximum economical, social efficiency and other ties;
- harmonizing the society's immediate interests with the interests of perspective to sizing the financial resources available to the State, in their orientation to various destinations.

The state's control often means wasting public property, prevents making illegal charges, inappropriate or ineffective, and contributes to fixing the damage brought to the public wealth, to establishing order and discipline in managing money and other public values. Not in all cases the state's control favorites taking actions that add values to the heritage.

In the context of closing the transition process and achieving the functioning market economy status, it is necessary to change the concept of the financial control of the state and the institutional strengthening in terms of its organization, extend and coverage in the economy.

The new concept of state financial control in the public sector should contribute to ensuring some healthy management systems and administration of public assets and to increasing the efficacy, economics and efficiency of resource usage and improving the quality of the financial management.

The institution that has the exclusive role of controlling the public authorities, the state owned companies or that receiving state funds in any form is the Court of Auditors. So this authority has an important role in using the public funds, and can help through its actions to increase their effectiveness. The DGFP inspectors and the Financial Guard also have tasks in this area, but not exclusive role as they carry out financial and / or tax controls at any organization in Romania, regardless of ownership or the financial resources used.

In terms of categories of entities that are within the jurisdiction of verification of the Court of Auditors, in the control and audit actions carried out its included:

- a) the state and the territorial-administrative units, as legal persons under public law, with their public services and institutions, autonomous or non;
- b) The National Bank of Romania;
- c) autonomous regimes;
- d) the commercial companies from which the state, the territorial-administrative units, the public institutions or the autonomous regimes own, alone or together, all or more than half of the social capital;
- e) the autonomous bodies of social insurances or otherwise, that manage assets, securities or funds in a legally binding regime, given that this thing is stipulated by law or by their statutes;
- f) other persons (legal, regardless of ownership and individuals) who:
 - benefit from government guarantees for loans, from grants or other forms of financial support from the state, from the administrative-territorial units, from other public institutions;
 - manages under a concession or lease contract, public or private property of the State or of the administrative-territorial units;
 - manages and / or uses public funds, the controls being made only about the legality of the administration and / or the usage of funds.

The court has expanded its scope of activity through the new law that governs its activity, appeared in October 24, 2008 in the Official Gazette, Law 217/2008, for modifying and amending the Law no. 94/1992 on the organization and functioning of the Court of Auditors. The institution's activity is the control, the financial audit and the performance audit. The external public audit work, consisting of the financial and the performance audit, is essential to ensure accountability regarding the proper management of the public money. The responsibility for using in conditions of legality and effectiveness of the public funds is assigned to officers, but the external public

audit is the whose role is to assess the financial management of the public institutions and issue recommendations that aim at a better use of public funds, and also to see if the financial resources of the public sector were used according to the destination determined by budgetary laws and under efficient conditions.

The control activity means, according to the law, "the work through which it is searched and checked the way that the law is respected regarding the creation, the management and the use of the public funds". Controls no longer complete themselves with the familiar administration discharges. The public auditors prepare certified documents at the end of the verification of the activities developed by the public authorities and, where appropriate, they refer the courts or the criminal investigation bodies, to determine the culprits and recover the damages.

The financial audit, new placed on the list of the activities of the Court of Auditors, is "the activity which monitors whether the financial statements are complete, true and consistent with the laws and regulations". This check is completed with the formulation of an opinion of the auditors regarding the account of implementation. **The activity of financial audit aims mainly:**

- Accuracy and real data in the financial statements,
- Determining the legality of the state's revenue collection, of the territorial administrative units, of the state social insurance and of the public institutions funded wholly or partly from one's own revenues,
- The authorization and the legality of the changes brought to the original provisions of the public budgets,
- Providing from the budget or from special funds some investment grants and allowances and using them according to their initial destinations,
- Contracting the loans, the repayment of the rates at due terms and the payment of the corresponding interest rates,
- The management of material and financial means and ensuring the integrity of the heritage.

The financial audit report prepared at the end of the verification includes the findings of the public auditors and their opinions. If irregularities are detected, in the end there is a stage of "conciliation" between the representatives of the Board of Auditors who carried out the control and those of the entity verified. If even after this stage of conciliation there shall not be issued a certificate of compliance because of some violations found, measures of recovering the damage are being taken and, as appropriate, the competent criminal court or body is notified.

The **performance audit** is an independent assessment of the way in which an entity, program, activity or operation works efficiently and effectively while respecting the economics (see the Operating rules of the Court of Auditors). The public auditors gather information about the public servants audited, this information is called in the law 'audit evidence' and at the end of the procedure they write a performance audit report. This may also contain recommendations of the auditors if there have been found effective solutions to resolve the failures found. The auditors then have a conciliation meeting with the leaders of the verified authority in which they need to

agree over the report. If they do not reach an agreement on the findings, each view is mentioned separately and if the entity checked comes with arguments, the audit report may be modified. After 10 days there is a new meeting, which sets the final form of the report (Boicu Mihai, 2009, http://www.financiarul.com/articol_21894/curtea-de-conturi-renunta-la-controale-in-favoarea-auditului.html).

The performance audit objectives may be summarized as follows:

- examine and evaluate how the entities that use public funds meet in their activity the principles of the economics, efficiency and effectiveness;
- providing independent and impartial information and recommendations to the Parliament resulted from the audit of the entities that have used public funds;
- supporting the audited through recommendations on ways and means of improving the performance of spending public money.

It can be observed that the performance audit has an important role in evaluating how the public money was spent, by delivering valuable opinions that can streamline the work of the authority or institution audited in the future. The performance audit assesses if "it has been worked correctly" and if "it has been realized what it was supposed to" in other words it analyses the reaching of the "3E ": the economy, the efficiency and the effectiveness. The economy refers to minimizing the cost of the resources, the efficiency regards maximizing the results and the effectiveness relates to reaching the goals.

The performance audit activity is a particularly complex one because it not only implies a simple relationship between inputs, outputs and objectives, but it must also take into account the "side effects". Examining the side effects is a complex process because of both their diversity and the fact that they do not regard strictly the objectives of the managerial policy.

Usually, during the performance audit, the auditors conduct a quality assessment of the management quality, which examines how the entities use the funds allocated. However, the auditors that conduct the performance audit take in consideration the findings and recommendations of the financial audits, as these may indicate that there may exist poor performances in managing the funds. The auditors, based on their professional reasoning may determine whether („Auditul Performanței. Ghid"- București, 2003, pag 19-21):

- the entity considers obtaining results and achieving measurable objectives, which allow achieving the intended purpose;
- the entity shall systematically plan, on a short and long term the way in which it will achieve its goals;
- the entity continuously measures its performance, this assumes: monitoring and quantifying the inputs, the processes (procedures and activities), the results (products or services) and the impact (outcomes);
- the plans of the entity are implemented in practice;
- the entity monitors and evaluates the performance (the auditors will see if the management regularly monitors the performance and analyzes the reasons

which led to the deviations recorded in the process of realizing the tasks and the planned targets and how the programs are being implemented);

- the entity identifies ways to improve the performance, sets priorities and develops a plan for their implementation.

The auditors must always be prepared to motivate, explain and justify their actions; they must be objective and maintain independence from the government, the political parties or other organizations.

The performance audit has an enhanced application as the program-based budgeting has spread to practice. But it is a complex task that requires well-trained professional staff, with a high-pitched, that is not opened to corruption. **Corruption is a "disease"** of our society that brings many losses through misappropriation of the public money through deviating its destination, and has a dual action over it, both in terms of some corrupt public managers and also through corruption in the light of the public audit. The results of such audits are very useful for preventing the reckless use of public money.

Under the current law, the Court of Auditors focuses its activity more on the audit, unlike the previous period before October 2008 when it was strictly responsible for the financial control. **But the shift from control to audit, although it is a positive development it should be done gradually**, because so far there is no political culture of protecting the public resources in Romania, and the replacement of the sanctions with recommendations might not give the expected results, and produce no effective use of the public financial resources.

The performance audit is a form of external public audit headed for results, but it should be considered **the development of the audit work of performance ex ante, not only ex post**, the emphasis should be put on the preventive side of these activities because in this way it could prevent the waste of public funds, the negligence of the leaders of the public entities when making public spending. It is also necessary that **the financial audit work to combine itself with the audit of performance one for the same mission as the conclusions drawn may be more sustained**, more relevant and interrelated. I do not think that it is effective that the two activities develop separately, perhaps even by different auditors, thereby the information loses its power.

5. Expanding the practice of budget-based programs

The public budget is an important tool for allocating the limited public financial resources to different destinations which represent in essence the society's priorities.

The budget may be viewed from several perspectives, namely (Rosenberg, P. – "Program Budgeting. Modernizing Financial Management for Hungarian Local Governments", training manual, pag.5-6):

- *The budget as plan* that contains the objectives set to be achieved through making certain expenditures, it helps to achieve analysis by comparing with the previous level of some budget indicators, and also to develop forecasts.
- *The budget as contract* "signed" between the organs of the central authority on one side and the authorizing officers on the other side, in order to ensure their stable financing.

- *The budget as managerial tool* that helps achieving efficiency in the use of the public money, when it is well prepared.
- *The budget as an instrument of financial control* over the spending made in line with its own available revenues or transferred from the central budget.
- *The budget as a communication tool*, because through it its citizens are informed about the disposable incomes and their destinations.
- *The budget as a guide for developing the activity* of the institution that formed it, because the budget contains not only resources and expenditure, but also the targeted objectives, the activities that are going to take place, the beneficiaries and the intended results.
- *The budget as democratic tool*, because it is a mean of controlling the population over the public money.

The budget is a complex tool of great importance in meeting the state functions; therefore his foundation is essential in ensuring the efficiency of public spending. Over time we have witnessed an evolution of the concept of budgeting in the public institutions and state bodies, regarding the foundation and budgeting so as to reflect not only the destination of the resources but also how they will be used, and the expected effects. In this regard we have seen both in Romania and in most countries of the world (USA, countries in Africa, France, Hungary, etc.) the transition from a budget of means to a budget program, a budget-oriented towards performance.

The budget of means or the "line item budget" as seen in the foreign literature, shows how many resources were allocated for each type of public expenditure, and for its subcategories (staff costs, costs of goods and services, capital expenditure). This type of budget keeps records between the resources and the costs covered, without providing information regarding the effectiveness of the spending undertaken, the results expected and the effects that will occur. To obtain such information, the costs presented in the budget of means must be reorganized in the form of programs that will run. This is relatively easy to prepare and is useful in the overall analysis.

The program-based budget, as an instrument of the public financial management is developed according to the objectives proposed in terms of broadening the reference horizon to a greater number of years. This way of achievement offers a different approach of preparing the review and of the budget presentation. Rather than focusing on what to buy, the structured budget based on programs identifies the expected results. Thus, provides a bridge between incomes, expenditure on the first hand and results on the second. The budget presented in the programs is a very effective management tool in setting priorities and making decisions for allocating the public resources in the future, according to the results obtained by the authorizing officers.

The program is an action or a coherent set of actions taken by a chief officer, designed to achieve a goal or a set of defined objectives and for which indicators are established by the program that assess the results that are going to be obtained, within the approved funding.

From this perspective, the structured program budget details the spending of a direction on programs or activities, and not on categories of expenditure. Through this method the aims and objectives of each program and activity are declared. The program based budget is built from the bottom to the top, meaning that each authorizing officer shall draw up programs for the targeted investments which should contain the elements below, these programs are then transmitted to the higher authorizing officer that centralizes them and includes them in the budget, and then they are submitted to the Finance Ministry, where program based budgets are centralized at national level.

Each program must contain the following information in order to be as basis for budgeting:

- The objectives of the program and how they reflect the priorities set at national level.

The costs of the program, the necessary resources (inputs) and the necessary funding.

The way the goals will be achieved, the activities that will be conducted with reference to the calendar time.

- The results that are going to be obtained (outputs).
- The immediate effects and the long term ones (outcomes).
- The indicators that measure performance.

In Romania, as in many other countries, a long time it has been used the budget of means, which is structured in two parts: incomes and expenditures, with the breakdown of the expenditure on security features, areas, chapters, articles and paragraphs. This method of budget formulation, but in digital form is outdated, especially in a democratic society which should ensure the transparency and the effective use of the public money (Mitu, N.E., Nanu, R.M., Mitu, I.E., http://www.tribunaeconomica.ro/index.php?id_tip_categorie=1&id_categ=9&id_revista=2189&id_nr_revista=66&mode=revista&mod=arhiva).

If we were to achieve a comparison between the budget programs and the budget of means, it can be concluded that in the budget of means case the objective of the credit officers is to attract more money, advocating the need for expenditure, and to spend that money by any means, because if they fail to spend those money by the end of the budgetary year the respective sums will be canceled, and thus the next year's budget will be reduced to the post of incomes (Văcărel, I., 2002, pag.67-68.). In the case of the program based budget the authorizing officers will aim to obtain a favorable ratio between the expected results of the program and its financing, meaning a higher efficiency so that that program is included in the budget and receives funding.

To ensure an appropriate management of the revenue and expenditure budget it is necessary to extend the procedure of elaborating budgets for each program. In this regard, according to the Law on local public finances, the main credit authorizing officers of the local budgets will initiate actions for implementing budgetary financing, based on programs that will be made by the local public institutions and services, in the purpose of financing certain actions, objectives, projects "founding, sizing and the cost

allocation of the local budgets by officers, on destinations, respectively on actions, activities, programs, projects, objectives, its made in accordance with the powers conferred to the local government authorities, with priorities set by them, for their operation and in the interest of the local collectivities" (Law 273/2006 on local public finances). The program budgeting has a multi-annual nature, meaning it is developed over a period of 3-5 years in order to ensure the continued funding actions.

The program based budget presents a number of advantages over the budget of means, namely:

- it provides a better transparency of the budget, of the precise destinations of the public resources;
- it is focused on the community needs, on the estimated results of the investment presented in the program;
- it contributes directly to a rational use of the levies from the taxpayers because after the cost-benefit analysis that accompanies the program the best decisions about the investment that is going to be financed are made, which is the one who provides a better work / effects report in comparison to other alternatives;
- it contributes indirectly to reducing the tax burden through more rational use of public money;
- it ensure an effective administration, consistent, coordinated, and sustainable of the state's resources;
- it ensures financial stability for the programs taken because of the multi-annual character of such budget.

In literature it appears a new concept, the one of ***budgetary of performance***.

In Romania, this concept is considered synonymous with the budget program one; not existing any differences between the concepts. It is true that both types of budgets involve the definition and calculation of some performance indicators, but still a difference can be shaped.

The program based budget focuses on the results of the program and on the benefits gained by people following its implementation. In contrast, the performance budgeting refers, in its opinion, to the public management skill to allocate resources wisely and efficiently in order to obtain the best results. In my opinion, I consider that between the program based budget and the performance budget it exists a relationship from part to whole, the performance budgeting can be obtained only by elaborating the program based budgeting. So, thru the program budget are described the activities, the targets and the results indicators of an investment and the performance budget is a step higher, and it refers to the way that the state authorities know how to use the limited public resources as to fund the best programs offered by the credit authorizing officers, so as to obtain a maximum efficiency of use of public money.

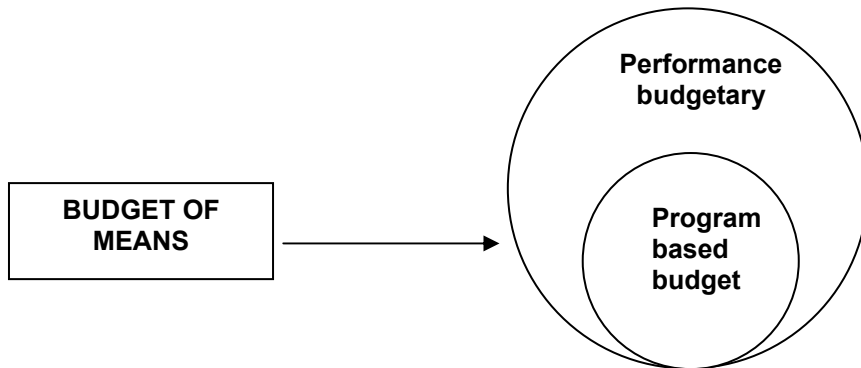


Figure 1: The evolution of the budgetary concept

The performance budget allows viewing the activities, programs, organizations to which funds were allocated, but also the results expected of them. The performance budget comes to improve the efficiency and effectiveness of the public spending, creating a direct link between the public funds allocated to a program and the results of this program, using performance indicators. Prerequisites for such a budget to be applied are (Robinson, M., Last, D., 2009, pag. 3-5):

- the objectives and the expected results of the programs to be realized in the form of performance indicators. These performance indicators must meet certain conditions such as: be useful, meaning they have to contain information, they must head to outcomes, to the targeted effects, to be accessible to users, flexible, to be economic, they should be able to highlight the cost-benefit ratio; they must ensure the comparison of the decisions in time and space, they must be relevant to the institution, they must be sure and clear, justified and verifiable.
- to adopt a form of presenting the budget that facilitates the collection and use of information necessary for making the funding decisions and this form is elaborating the program based budget, which classifies the expenses on programs with similar objectives, and thus is easier to compare the costs and the benefits involved in these programs and a better financing decision can be made than in the case of elaborating the budget of means. The budget of means (line item budget) should be developed only as a data summary document and its preparation should be made based on the information from the program based budget. So, the program budget is a key element in achieving the performance budgeting, each credit officer must base their programs on elaborating the program based budget, and the performance indicators should be attached to the budget and approved with it.

Even if the performance budgeting theoretically proves to be a very appropriate way for a more efficient public spending, in practice it may prove itself ineffective especially in countries with a corrupt bureaucracy, with lack of interest for

the public sector performance. Therefore, an essential condition that must be met in order for a method or another to give positive results is the interest of the human element involved in the process. May or may not matter so much the method itself, as the public manager's awareness in achieving things rationally, their desire to realize their mission, that of increasing the social welfare, and not of some interest groups.

6. Conclusions

We can conclude that all these processes have a great influence over the efficiency of public spending, and in this paper I've proposed some ways to improve these activities.

Decentralization advocates the fact that the money should be spent there, where it is produced, on programs voted by the local communities. The control over spending public money is another additional requirement related to the decentralization and can only be made where we have the effects, the one who makes the expense, but also the beneficiary, in a centralized administration, the responsibility is uncustomised. Attracting projects, their relevance to the community and their local prosecution would be much easier if the local authorities were directly responsible.

Public procurement system has an important role in assuring the efficiency of public expenses. Eliminating the corruption of the representatives of the contracting authorities which obviously accept false declarations of some contractors who claim to fully implement works with their own forces, that do not reject offers from the contractors who practice dumping must be done.

The control function of the public finances has an important role and it's manifested in the creation, the distribution and the use of public money process. The control function is used to ensure compliance with laws and to increase the economical efficiency through a better management of the public money.

The budget is a complex tool of great importance in meeting the state functions; therefore his foundation is essential in ensuring the efficiency of public spending. Over time we have witnessed an evolution of the concept of budgeting in the public institutions and state bodies, regarding the foundation and budgeting so as to reflect not only the destination of the resources but also how they will be used, and the expected effects. In this regard we have seen both in Romania and in most countries of the world (USA, countries in Africa, France, Hungary, etc.) the transition from a budget of means to a budget program, a budget-oriented towards performance.

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