

# ASPECTS REGARDING THE BUDGETING PROCESS WITHIN PUBLIC INSTITUTION

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## **Abstract:**

*Public institutions' accountancy is oriented to satisfy the demands imposed by rules, principles, conventions with the purpose of getting regular, correct and accurate financial statements. The concept of public sector is very closely related to the concept of public expenses generated by the accomplishment of the state's role as public authority and as economic actor. From this perspective, the paper deals with a series of aspects concerning the elaboration and execution of income and expenses budget within public institutions, respectively a parallel between patrimonial and budgetary, the methodology of budget elaboration and execution concerning mainly the concept of budget, concerning the budgets' elaboration, the stages of budgetary execution and the description of the role and purpose of budgetary classification in Romania.*

**Key words:** budget, expenses, incomes, classification, execution.

**JEL classification:** G31, G38

## **1. Patrimonial versus budgetary within public institutions**

The public institutions' accountancy provides information to the credit officers regarding the income and expenses budget execution, the patrimony as well as for the establishment of the annual general account of state budget execution, annual execution account of the state social security budget, of special funds, as well as the annual execution accounts of local budgets.

With respect to the legal provisions regarding the public finances (Law no.500/2002), there can be found in the accountancy of public institutions:

- budget accounts for revenue collection and payment costs legislation and for the establishment of the budget outturn (budgetary surplus or deficit);
- general accounts to reflect the institution's assets, debts and capitals, the expenses and revenue for the year, whether the revenue has been collected and expenses paid to generate the economic result (patrimonial surplus/deficit).

In accrual accounting, the expenses reflect the amount of goods and services used by the institution within one financial exercise, whether they have been paid or not during that period. According to the accrual accounting “the results of the transactions and of other events are recognized only when transactions and events occur (and not when the cash or its equivalent is received or paid) and they are recorded in the accounting records and posted on the financial statements of that particular periods”.

Another way to look at the public institution's expenses is through the budgetary expenses, because the way they are done relies on a budget. The budgetary expenses are defined as the expenses approved and made (paid) from the state budget, the local budgets, the public institutions' budgets and local interest public services and from the

budgets of the activities integrally financed from extra-budgetary revenues, within the limit and with the destinations stipulated in those budgets. They are used to finance the functions of public administration, programmes, actions, objectives and priority tasks according to the purposes stipulated in laws and other regulations, and they will be employed and used in strict correlation to the expected degree of budget revenue collection (Tatiana Mosteanu, 2006: 56, 57).

Similarly to expenses, the revenues are outlined in accounting according to the accrual accountancy principle. According to the accrual accounting “the results of the transactions and of other events are recognized when transactions and events occur (and not when the cash or its equivalent is received or paid) and they are recorded in the accounting records and posted on the financial statements of that particular periods” (Alberta Gisberto Chitu et al., 2005: 424).

This way of reflecting incomes into accountancy allows users of accounting information to know the revenues that have been received and the institution’s debts that are to be received. As in the case of the public institution’s expenses, we can also find the budgetary income indicator in public accountancy. The budgetary incomes are cash resources which are due to: the state budget, the state social security budget, the special funds budget, the institutions’ budgets etc., on the basis of certain legal provisions, consisting of fees, taxes, contributions and other collected payments. Any uncollected income and any due expense, liquidated and authorized within the budgetary provisions, and unpaid until the 31<sup>st</sup> of December will be received or paid, as appropriate, into the budget account for the following year. The budgetary credits not used before the end of the year are cancelled (Tatiana Mosteanu & Atilla Gyorgy, 2005: 143).

The budgetary income and expenses accounting is done with some special accounts opened on the structure of budget classification. These accounts provide the recording of received revenues and paid expenses, on the sub-divisions of budget classification, according to the approved budget and it gives the necessary information for the accomplishment of the execution account. Considering the theme of the paper, the aspects regarding the accountancy of budget revenues, budget expenses and of the budgetary exercise result shall be analyzed in the following chapters.

The result of the financial exercise for public institutions is annually determined by closing the accounts of real expenses and the sources account of which these have been done, namely of the accounts of due expenses and of the accounts of accomplished revenues. This result, calculated at the end of the year is a patrimonial result, which also includes, besides the received debts and the paid debts, ascertained rights and unpaid obligations within the budgetary exercise and it may appear as patrimonial surplus or deficit (Alberta Gisberto Chitu et al, 2005:80).

In market economies, budgets are decisional tools used to set up and allocate the state’s financial resources in order to achieve certain policies pursued by public authorities. Designed as a document approved by law, the public budget is an essential element of both economic and socio-political frameworks of the modern society. The budgeting process seeks for the legal basis of budgetary expenditures, their opportunity, proper sizing and the possibility to cover them from budgetary resources (Imola Drigă, 2003:95).

The budget’s execution reflects a series of operations regarding the collection of revenues and the payment of budgetary expenses. The result of the budgetary execution can be found as budgetary surplus or deficit. The budgetary surplus is part of the incomes which exceed expenses in a budgetary exercise. The budgetary deficit reflects part of expenses which exceed incomes in a budgetary exercise.

There is a difference between the patrimonial surplus/deficit and the budgetary surplus/deficit determined by the indicators based on which each of them is calculated.

If the patrimonial surplus/deficit is not interested whether the incomes have been cashed or the expenses have been paid, the budgetary surplus/deficit is determined as a difference between the received incomes and the paid expenses, until the end of the budgetary exercise (Alberta Gisberto Chitu et al., 2005: 80).

With the final surpluses which are determined after the closure of the execution account, the deficits from the previous years are being diminished. The budgetary surpluses of public institutions financed from own incomes and subventions are equalized with the budget they are being financed from. The annual surpluses followed from the public institutions' budget execution financed entirely from own incomes are carried forward to the next year.

## **2. The elaboration and execution of income and expenses budget**

The budget is a document through which, each year, incomes and expenses are stipulated and approved or, according to the case, only the expenses are, depending on the institution's financing system. The budgetary process is formed by consecutive budget's elaboration, approval, execution and control stages, which end up with approving its general execution account.

Therefore, the public financial resources are managed by means of the budget, which has outlined three main approaches in the process of elaborating and further functioning, namely:

- a) The judicial approach, according to it, the budget is a document where the state's possible incomes and expenses are written, for a determined period of time, generally of one year. According to the Law of public finances, it requires the preliminary approval of the legislative power, since this implies the elaboration of the budget law for each year by the Parliament. Being based on a law, the budget has a compulsory character for the budgetary exercise it refers to.
- b) The economic approach, from this point of view, the budget reflects economic relations, determined in money, which appear in the process of determining the national gross product for fulfilling the state's duties and tasks, in accordance with the objectives of the economic, social or other policy, promoted for a particular period of time.
- c) The financial approach, the budget is a financial plan at the macroeconomic level which makes the short-term forecasting, because it estimates the public incomes and expenses for one year; the medium-term forecasting, by elaborating the program-budgets, generally for the public investment field (Alberta Gisberto Chitu et al., 2005: 38).

The public financial resources are made of and administrated through a unitary budget systems formed of: the state budget; the state social security budget; the special funds' budgets; the state's treasury budget; the budgets of other public institutions with independent character; the public institutions' budgets financed integrally or partially from one of the above mentioned budgets; the budget of the funds which come from external credits concluded or guaranteed by the state and whose refunding, interests and other costs are ensured from public funds; the budget of external non-refundable funds.

The elaboration of annual budgets is made on the following elements: the prognoses of macroeconomic and social indicators for the budgetary year for which the budget statements for the next three years is being elaborated; the fiscal and budgetary policies; the stipulations of financing, agreements and other international conventions with the international organisms and financial institutions, signed or ratified memoranda; the departmental policies and strategies of the priorities established in the forms of budget statements, presented by the main credit officers; the proposals of

detailed expenses of the main credit officers; the programmes drawn up by the main credit officers with the purpose of financing certain activities; the proposals of divided sums of some state budget incomes as well as of achievable transfers for the local public administrations; the financing possibilities of the budgetary deficit (Tatiana Mosteanu & Attila Gyorgy, 2005:91, 92).

At the Ministry of Public Finances, the main credit officers shall submit the proposals for the budget statement and the annexes to it, for the following budgetary year by keeping within the limit of expenses. These shall be accompanied by detailed documentation and substantiations.

The Ministry of Public Finances prepares the budgetary bills and the budget statements, which are submitted to the Government. After their acquisition by government, they shall be submitted for approval to the Parliament by parts, chapters, subchapters, titles, articles and paragraphs and by chief credit officers, for the budgetary year, as well as the credits for multiannual activities (Alberta Gisberto Chitu et al., 2005: 42).

In the elaboration of the budget the personnel costs shall be established taking into account the resizing to the strictly necessary of the personnel financed from the budget, in accordance to the programmes and attributions that each institution has to accomplish. The amounts of expenses on salaries are based on the salaries from December of the current year and will be recalculated according to the policy established by Government in this field. The expenses concerning the social contributions shall be determined in the amounts and conditions stipulated by the legislation. The sizing of expenses proposed for the payment of travels, transfers etc. the limitation of proposals shall be taken into consideration according to their necessity and opportunity. The expenses on goods and services are determined based on own calculations and on the legislative acts specific to each area of activity as well as based on expense regulations. It will be taken into account the necessity, opportunity and efficiency of each expense, ensuring normal running conditions for the public institution.

The state budget execution begins after its passing by the Parliament and it represents the process which aims at achieving the revenues and making the expenses at the level stipulated by the annual budgetary laws. (Tribuna Economica, Ioan Gheorghe Tara, nr.11/11.03.2008: 57). This is the most important stage, as it involves the actual accomplishment of approved forecasting. The whole responsibility regarding the accomplishment of parliamentary authorization of the budgetary execution rests with the government which, through the specialized institutions, ensures the accomplishment of revenues and expenses, having to prove the ability to manage both the revenues collection process and the process of efficiently using the budgetary allocations. Moreover, with the budget execution, the efficient accomplishment of expenses of budgetary allocations within the established limits and conditions shall be pursued, as well as the avoidance of fund defalcation from their legal budgetary destination, the prevention of waste and abuse.

The accomplishment of revenues is an obligation, while, the execution of budgetary expenses represents a right, until the approved level. The execution of budgetary revenues is a different process from the execution of budgetary expenses. The cash execution of budget is a number of operations which refer to the collection, maintenance and delivery of financial resources for the accomplishment of public expenses (Tatiana Mosteanu, 2005:298). The following principles stand at the basis of cash execution: the delimitation of powers of the people who use the financial resources from the powers of those who produce their collection; the safe deposit unit, according to which each budget's revenues are entirely concentrated into the account, from where

financial resources to make expenses are being released, payment from the received budgetary revenues being forbidden.

In order to ensure the execution of expense payment, the system of credit officers has been established. The officer is a person who has the right to divide the budgetary credits. At a central level, there are chief officers, second officers and tertiary officers. Chief Officers are ministers for all expenses when they fall into the responsibility of their ministries and within the limit of the approved credits. The second officers are the secretaries of state or general managers inside the ministries, central units and their duty is to divide the budgetary credits on direct doers. The tertiary officers are for example the rectors, the health service managers, the cultural institutions' managers etc. There are only chief and tertiary officers for the local budgets. The officers are responsible for the state budget execution in their field. The cash execution of budget represents the actual collection of revenues and the payments in and from the state budget account. This operation is done either by means of the banking system, either by The Public Treasury, or by both (Alberta Gisberto Chitu et al., 2005: 59).

The Public Treasury can be regarded as "a bank of the Public Finances" and through it the cash execution of budget is made but it also has the role to stimulate and maintain the available funds of all credit officers, and also the revenues of the economic agents who wish to keep their money here. The end of the budget execution is the stage following revenues collection and the making of expenses for a budgetary year and it consists of fulfilling a complete report on how revenues and expenses have been made for the ended budgetary year. Characteristic of this stage is drawing up of the closure account of budgetary execution, which allows determining the results of the budgetary execution, namely the relation between incomes and expenses. The budgetary execution closure account is composed of all the accomplished revenues and made expenses and it reflects the budgetary execution result which can be a budgetary deficit or surplus.

The budgetary execution has the following stages:

- the distribution of budgetary incomes and expenses on trimesters is made according to the incomes' legal collection terms and to the period in which the accomplishment of expenses is necessary. At the distribution on trimesters, the activity's development rhythm is had in view along the year and the characteristic of the respective activity;
- the cash execution budget is mostly done through the state's Treasury and through banking institutions;
- the accomplishment of budgetary incomes represents the incomes' total collection and on the established terms;
- the accomplishment of budgetary expenses (expenses' execution) is done within the limit approved in budget (which is the maximum limit) and only for the approved destination.

Respecting these two restrictions, the accomplishment of any public expense supposes the following stages:

- the taking on of expenses, which means taking on a future payment obligation in accordance to the fulfillment of tasks incumbent to the officer. Practically, it means taking on the obligation to make a payment in the future for the goods and services bought by the public institutions. It must have a legal basis and it is made by signing a contract, accepting an offer, sending an order etc.

- the liquidation, which supposes determining the deed based on some documents to make certain operations previously begun, as well as establishing the amount that has to be paid.
- the ordering consists of issuing the payment order in favour of the rightful; the payment order has to wear the approval of preventive control because the state's money are affected;
- the payment, which represents the end of the obligation towards institutions or companies.

The moments of taking on, liquidating and ordering are made by the credit officers and the payment moment is made by the public administrators or the accountants which pay the treasury (Tatiana Mosteanu & Attila Gyorgy, 2005: 130-138).

By involving more people or responsibility factors in exercising the preventive financial control, as well as by pursuing, inventorying and reporting the liabilities, a real responsibility increase is made unto the public funds' spending (Tribuna Economica, nr. 11/ 11.03.2008, The relation between the preventive financial control and the budgetary execution, dr. Ioan Gheorghe Tara, p.57).

### **3. The budgetary classification**

From legal needs and the organization manner of accounting information, incomes and expenses have to be included in the budget according to a unitary scheme in a particular order and based on certain precisely determined criteria. This unitary scheme which establishes a unique order of incomes according to the source's origin and the expenses' nature, according to precisely determined criteria, administrative, economic, functional, financial etc. is called a budgetary classification.

The budgetary classification is the consequence of the operation principle of budgetary specialization and it represents a technical instrument of systematization, pursue and control of accomplishing the incomes and making the expenses.

The budgetary classification is the grouping, in a compulsory order and according to precisely determined unitary criteria, of incomes and expenses included in the institutions' and public services' budgets and the budgets of the activities financed from extra-budgetary incomes. These are used both in the elaboration and approval stages of the respective budgets, and in their execution, being useful for recording incomes in budgets according to their nature and provenance and the expenses as compared to the objective or the action to which these expenses are being destined.

The budgetary classification groups the incomes according to their nature and provenance and the expenses according to their nature and destination, which makes possible:

- the exact knowing of state's incomes and expenses;
- the comparison in time of the budget's evolution, which allows the dynamic analysis of the state's incomes and expenses;
- the control exercise over the entire process of budgetary execution and the ensuring of financial discipline;
- the organization of budgetary accounting, facilitating the data registration and acquisition.

The elaboration of budgetary classification takes into account three grouping criteria namely:

- the administrative or departmental criterion, according to which the state's incomes and expenses are grouped according to the institutions that collect or

accomplish them. This criterion is generally doubled by other criteria which are based on the nature of each element.

- the economic criterion, according to which the types of expenses and incomes are presented separately as current operations and capital operations.
- the functional criterion, which groups expenses according to the interests had in view by the state, according to its tasks and objectives.

The structure of budgetary classification includes chapters and subchapters for incomes and parts, chapters, subchapters, titles, articles and paragraphs for expenses (Cosmina Pitulice & Mariana Glavan, 2007: 244). The budgetary classification divides incomes into current incomes (ordinary) and capital incomes (extraordinary).

The current incomes are the incomes which are collected on a regular basis, representing a permanent source of money resources. According to the way they are perceived they can be:

- fiscal incomes, which represent the greatest part of budgetary incomes and which take the shape of direct taxes (on profit, on salaries etc.) and indirect taxes (the valued added tax, excises etc.).
- non-fiscal incomes as the takings collected during the primary distribution stage of the national gross product. They are related to the state's quality of owner and organizer of the entire budgetary activity. This category includes: collected payments from the autonomous administrations, collected payments of the public institutions, taxes for certificates and inventions, consular taxes, fines, money from using the confiscated goods, etc.

Capital incomes are sources which the state uses if the current incomes are insufficient. Into this category there are: the elimination of foreign interests, sums that come from the usage of goods that belong to the state etc.

In the budgetary classification, expenses are classified according to the functional and economic criterion. The functional criterion takes into consideration the separation of expenses on areas of activity where the state has major implications: general public services; defense, public order and national security; social-cultural expenses: education, health, culture, religion, social assistance, allowances, pensions, aids and compensations; economic activities which include expenses concerning the commercial companies of national interest from industry, agriculture and forestry, transport and telecommunication; other actions; transfers; offered loans: payments on interests and other expenses; loan reimbursements; back-up funds; surplus/deficit (Law no. 500/2002).

The economic classification divides expenses according to their nature in the following categories:

- current expenses (ordinary) which are constantly made in any public institution (costs with the personnel, material expenses, the services etc.);
- capital expenses (extraordinary) are the ones made during certain periods and they basically concern the institution's investments, those of the autonomous administrations and of the commercial companies with integral or majority state capital.

Besides these two big categories of expenses, the economic classification includes a particular title regarding the financial operations, respectively various loans for financial recovery or the financing of certain objectives approved through bilateral conventions or inter-governmental agreements.

The classification criteria of the state budget's incomes are an important codification mechanism of the financial-accounting information. The classification of public incomes and expenses is very important for the activity of the state's treasury because the indicators' classification regarding the public finances shows basic elements for codifying the accounts from the treasury's accounting system. Moreover, it is necessary for it to ensure the funds' outlining in a way which would allow the pursuing of incomes according to their nature and provenance and of expenses according to the destination established through budgets.

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