

Budgeting in Romania

by

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Preface

This review of the Romanian budget system was carried out as part of the Budget Project of the Working Party of Senior Budget Officials (SBO). The Budget Project aims to initiate and foster regional networks of Senior Budget Officials outside the OECD area. This review served as a basis for the examination of the Romanian budget system at the first meeting of the network of Senior Budget Officials of Central and Eastern Europe, held on 10-11 November 2004 in The Hague.

A mission comprising Mr. Michael Ruffner, Mr. Joachim Wehner, and Mr. Matthias Witt visited Romania in May 2004. During the mission, the team met with a wide variety of Romanian authorities in the Ministry of Public Finance, National Prognosis Commission, Ministry of Health, Ministry of Justice, Chamber of Control, Parliament, and Economic and Social Council, as well as other bodies.

The OECD would like to thank the Romanian team for putting together a comprehensive and informative programme. All participants were open and forthcoming for the team. In particular, the team would like to thank: Mr. Gheorghe Gherghina, Secretary of State, Ministry of Public Finance; Mr. Viorel Stefan, President, Budget and Finance Commission, Senate; Mr. Mircea Panaite, President, National Prognosis Commission; Mr. Patru Rotaru, Counsellor of Accounts, Court of Accounts; and Ms. Mariana Punguta, Ministry of Finance. We would also like to thank Ms. Elena Georgescu for her invaluable help in co-ordinating the mission.

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The views expressed in this report are those of the OECD Secretariat and should not be attributed to any organisations or individuals consulted for this review.

1. Introduction

The budget system in Romania is undergoing fundamental changes affecting all facets of the budget process. There is in many areas a good foundation on which to seek further and continuous improvements to the

budget system. However, Romania needs to be sensitive to those processes that are core to good budgeting during this time of change. Much of the legislation that governs the budget process was passed within the last five years and has been modified several times since then. Thus, government employees are still grappling with the implementation of fundamental changes to the budget process and in many respects it is too early to tell whether these changes are a success or fully implemented. Moreover, unrealistic expectations and external pressures should not lead to undue haste in the reform process. It is therefore realistic to assume that practice will lag behind policy for some time, and to allow for a gradual narrowing of the gap between formal frameworks and actual practice.

It is fair to say that European Union accession is the number one goal of the government and all reforms are focussed on achieving that goal. It has meant an impressive number of procedural and structural changes over the past few years. Great strides have been made in making the budget more transparent especially with regard to off-budget activities and quasi-governmental enterprises. This has been aided by an ambitious privatisation effort and other market disciplining reforms. Nevertheless, more effort in these areas, as discussed later, is needed.

Table 1. General consolidated budget totals, 1998-2007 (percentage of GDP)

	Actual					Estimates				
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Expenditures	34.5	34.7	35.2	33.4	32.1	33.1	33.1	32.2	32.3	32.7
Revenues	31.5	32.8	31.2	30.1	29.6	30.4	30.1	29.2	29.3	29.7
Deficit	-3.0	-1.9	-4.0	-3.2	-2.5	-2.7	-3.0	-3.0	-3.0	-3.0

Note: The general consolidated budget is made up of the State budget, local budgets, the State social security budget, the health insurance special fund, the unemployment fund, external loans for project funding, and the budget for privatisation activities. It excludes expenditures and revenues of some activities funded from revenue collected and managed by certain credit holders, revenue and expenditures of public institutions fully funded from own revenue, and external non-reimbursable assistance.

Source: Ministry of Public Finance, Romania.

Fiscal policy, like other government priorities, is largely driven by the goal of EU accession and oversight by the International Monetary Fund (IMF) and other multilateral institutions. This means that the government's "goal" is a deficit of 3% of GDP and other constraints that mimic the Maastricht Treaty requirements, and that macroeconomic policy is discussed and approved by the IMF. The government programme does not include, however, specific deficit targets beyond the deficit limit. The 3% limit aids the other main economic goal of lowering the inflation rate to single digits down from a high

of almost 60% in 1998. General government spending accounted for 33% of GDP in 2004. The national debt of 29% of GDP in 2003, while rising modestly, was relatively low compared to other countries. The vast majority of this debt is payable to international creditors. Overall, fiscal aggregates have been relatively stable over the past few years and are envisaged to remain so over the medium term.

The Romanian budget and treasury system closely resembles other continental systems, notably France and Italy with whom the Romanians are culturally linked. It is characterised by a three-level system of *ordinateurs* or credit holders which plan for, receive and spend funds from the budget. The main credit holder or first *ordonateur* typically is the ministry whose manager is the main credit holder. The other two levels are represented by secondary hierarchic institutions whose managers are, case by case, second-order or tertiary credit holders. For example, in the health system funding for hospitals flows from the main credit holder, the President of the “Health House”, then flows down eventually to the tertiary credit holder which is the individual hospital.

2. The budget formulation process

2.1. Setting overall priorities

The current government is a minority government which lacks only a few votes necessary for a majority and depends on a small ethnic party to support it in parliamentary voting. This coalition has been sustained since 2000 and has proven reliable. New elections were held later in 2004. Because there is a broad consensus that EU accession is a priority, the government has fairly liberal authority to craft laws and procedures aimed at meeting accession criteria. As such the government programme for overall expenditure policy is limited to higher order goals including the 3% deficit limit. This government programme was set in 2000 and has remained in force since. However, while the government programme has remained constant, the government has broader powers to make changes as required by the drive for accession to the EU.

2.2. Development of macroeconomic estimates

The first step in the budget process is the release of the first of two official macroeconomic projections. The projections are the product of the National Prognosis Commission which was founded in 1990 but has been reorganised several times since then. In 1993 it was spun off from the Ministry of Development and Prognosis and gained commission status reporting directly to the prime minister. While it is technically independent and has always been a separate legal entity even when attached to a ministry, it is still a government body. The Commission is formally responsible for the main macroeconomic projections including GDP, sectoral demand, inflation,

Box 1. **Stages in the budget formulation process**

31 March	National Prognosis Commission provides preliminary macroeconomic forecasts.
1 May	Ministry of Public Finance (MPF) submits proposed spending frames to the government for main political discussions.
15 May	Government approves the ceilings set for main credit holders as well as fiscal and budgetary policy objectives for the following three years.
1 June	MPF sends main credit holders a framework letter and key macroeconomic assumptions, the methodology for drafting the budget, and the expenditure ceilings approved by government.
15 June	Modification and approval to ceilings based on macroeconomic assumptions.
15 July	Main credit holders submit budget proposals with three out-year estimates to MPF.
1 August	Conclusion of discussions on departmental budget submissions.
30 September	Preparation and submission to government of final draft budget.
15 October	Submission of draft budget to parliament.
By 28 December	Final approval of budget by parliament.

Source: Law on Public Finance, Romania.

unemployment, wage growth, import/export and exchange rates. The forward projections mirror the medium-term framework with projections for the coming budget year and the following three years. The Commission produces the forward estimates at the same level of detail as the coming year estimates; however, these details are not made public. The Commission simply provides higher-level estimates for public review. Indicators and data are generally available to the public through reports and budget documents and on the Commission's Internet site. The Commission does not make available full details of its model, but the methodology is discussed with Romanian academics as well as with the IMF.

The Commission sends a preliminary analysis to the Ministry of Public Finance (MPF) in March for informal discussions. The Commission includes an

analysis from the MPF of governmental consumption and taxation for the coming years. The MPF does not however have a macroeconomic unit and does not have the ability to challenge the Prognosis Commission's estimates. The Commission finalises its estimates on the basis of the MPF discussions and produces the first of two formal forecasts in April. The Commission also informally consults with the Central Bank, although the inflation targets are identical between the government and the Central Bank. Regardless of the past organisational structure, the timeline has been the same. The forecast is officially approved by the Cabinet (and implicitly approved by parliament in the budget). The Prognosis Commission also is the main organisation charged with monitoring whether the economic targets in the government programme are achieved.

Macroeconomic assumptions have proven to be a source of problems for some countries and the OECD places great emphasis on the generation of reliable and pragmatic assumptions. For example, overly optimistic assumptions create room for spending growth while pessimistic assumptions allow for additional revenues to be collected and hidden. While the estimates are produced in Romania by a government entity and therefore are potentially vulnerable to manipulation, they are in fact constrained by non-governmental forces. First they are developed and reviewed in collaboration with others including academia and the private sector. Second, they are discussed with the social partners (trade unions, private sector groups) of government, although there is no longer a formal requirement for consultation. Finally, the estimates are constrained by international groups. Under the drive for accession to the EU as well as conditionalities from groups like the IMF, the Prognosis Commission develops the estimates in conjunction with these outside groups and must have them approved. It appears that the forecasts have been accurate, with actual outcome close to forecast. Recently the results proved modestly conservative and economic growth was a little better than forecast, allowing a dip in the deficit below the stated goal of 3%. The head of the Commission proudly stated that the IMF even changed their estimates to match the Commission's forecast.

2.3. The annual budget

Following many problems in developing a budget on time, the new Law on Public Finance sets out a stringent but longer than previous timetable for budget development. The annual budget process begins in earnest on 1 May with the submission by the Minister of Public Finance to the government of the goals of tax and spending plans for the coming year and for three forward years. There is no reconciliation or formal relationship between year 2 of the previous year's medium-term expenditure framework (MTEF) and the development of the current year's budget. Thus the point of departure for the

Box 2. The comprehensiveness of the budget

The structure of the Romanian budget is undergoing large and important changes. Special and other extra-budget funds historically were commonplace, but starting in 2001 many of these funds were either abolished or moved on-budget. The Health and Social Security Funds are not included in the unified budget but are presented at the same time as the budget in other documents. The health budget is approved as an appendix to the annual State budget while the social security fund and unemployment budget are approved by the annual State social security law.¹ Some spending financed by external loans and development aid is not presented in the main State budget and those loans by international financial institutions and the EU are held to a higher standard of execution and review than normal spending. Revenues and expenditures of certain public institutions² that are self-funded are also not included in the State budget. In terms of types of spending, most spending is considered discretionary and subject to annual appropriations.

1. Beyond the scope of this review is the relationship between the State budget and State-owned enterprises. Other reviews have been critical of this aspect of the budget and recommend further consolidating the budget and making the linkages more explicit. This aspect will be discussed in the section on contingent liabilities.
2. For example, the National Regulatory Authority for the Natural Gas Sector is fully self-funded from fees; however, penalties are submitted to the national treasury. The agency's budget is not subject to MPF review and it is accountable directly to the government. The fee basis is a governmental decision based on advice from the authority and the government approves the budget. The agency is subject to audits by the State audit institution, but the audits are optional since they are under the materiality threshold. In practice, such audits are very infrequent.

development of the current year plan seems to be more incremental than related to the MTEF. This first submission to the government includes proposed ceilings for each first credit holder (government ministries). The ceilings are discussed by the Cabinet and then approved with any changes that are deemed necessary. For the most part there are few changes to the ceilings. The ceilings are expressed in nominal terms and are not automatically changed if there are differences in projected inflation.

After the ceilings are agreed to and transmitted to the primary credit holders, they develop their budget proposals based on annual instruction guidelines prepared by the MPF. This process takes about one month from mid-June to mid-July. This appears to be a good top-down budget process, with the MPF more or less staying out of the budget decisions of the individual ministries. The MPF is only concerned with upper level ceilings and ministries can propose funding levels for individual programmes. They operate under

the general principle that increases in funding must be fully offset by cuts elsewhere in their budget.

What has not happened to date, although it is improving, is that primary credit holders respect the original limit and fund spending increases. It is normal in countries to have gamesmanship in the requests from spending ministries to the MPF on the upcoming budget proposal. Often, ministries submit requests above their guidance with no offsets proposed and in Romania this gamesmanship seems particularly acute. The MPF noted that if one were to total all the initial requests by the ministries, the deficit in spending would be 22% of GDP. While this result might be slightly exaggerated and it was noted that some ministries came very close to their guidance level, it still indicates that initial guidance is not respected. There are many possible explanations for this phenomenon but the large differences between guidance instructions and requests do not seem to hinder the timing of the budget process. It is an open question though whether the opportunity cost of debating the differences could be reduced and the time spent discussing other issues. It also points to a deficiency and opportunity in the medium-term expenditure process which is discussed in Box 3.

Box 3. The medium-term expenditure framework (MTEF)

The government programme announces the intention to hold deficits to 3% of GDP. However, there is no path or hard target which includes a sequestration or other rectifying mechanism. The operational vehicle for the goal is the medium-term expenditure framework (MTEF). The current MTEF plans for the coming budget year with estimates for the three following years. The MTEF is detailed and explicit with spending paths that look like real projections rather than mechanical increments. The framework is comprehensive and mirrors the detail of each programme's budget. The report is presented to parliament for information but is not voted on or binding. Parliament has welcomed the presentation of the MTEF and believes that it adds valuable information for its work.

The following year, there is no column for reconciliation between the projections and the deviation from actual spending and macroeconomic assumptions. Moreover, the ministries developing their budgets do not seem to use the previous year estimates as a guide for their budget submissions leading to the large requests for additional spending. However, the MTEF, like many features of the budget process, was being fully implemented in 2003. Ministries did have experience using a framework for investments prior to 2003, but time and experience with the full MTEF may improve its use.

Despite the seemingly large difference between ceiling and proposed budget, the formal negotiations between the MPF and the spending ministries proceed quickly. Major decisions between the Minister of Finance and the government are completed in two weeks. Staff indicated however that low-level negotiations and discussions take place throughout the development of the ceilings and the spending ministries' budgets. Therefore, the decisions during the two weeks are funnelled down to fewer, more sensitive items. In principle the MPF makes all but the most political decisions. Some, but not many, decisions at this time get submitted to the government for a resolution.

For the next several weeks, the MPF prepares the final draft of the budget and the budget bills. While the MPF drafts the laws, the Ministry of Justice has a legislative office which reviews all legislation including the budget bills for technical, but not substantive problems. This draft is submitted to the government for final approval by 15 October. The budget is reported to parliament along with the report on the macroeconomic review for the budgetary year and the forecast for the following three years, as well as other support documents. This report contains a summary of the macroeconomic policies on which the draft budget was elaborated.

2.4. Consultation with the Economic and Social Council

The role of the Economic and Social Council (CES) is an interesting feature of the Romanian system. Created in 1997, the Council is a tri-partite sounding board for government policies. Twenty-one members representing government, employer associations and trade unions analyse new government policy and make recommendations on those policies to government as well as parliament. The Council's mandate is quite wide and it has legislative authority to review policies concerning economic restructuring, privatisation, competition policy, labour relations and wage policy, social protection, health, education as well as fiscal and monetary policies. The latter category gives the Council the authority to review the draft budget. The CES starts its review early on during the formulation of individual ministry budgets and continues through until the State budget is presented to parliament. The majority of the work on the State budget is performed through a budget and finance committee of the CES. The work of the Council members is supported by a secretariat of 30 people. In addition, there is often staff employed by the trade union or employer association that sponsors the Council member.

CES recommendations must either be unanimous or voted on by a three-quarter majority with corresponding weight attached to each voting threshold (in other words unanimous votes are taken quite seriously). The three-quarter threshold (of those present) means that two parties to the board cannot impose their will – for example, two groups must be joined by members of the

third group or (and more likely) one of the groups is not fully present at the time of voting. If a supermajority cannot be formed, individual members can write views on the policies reviewed. The recommendations are not binding on the government and if they are not acted on, the CES sends the recommendations to parliament.

This system is interesting because it provides the government a useful sounding board for policies prior to action. In some parliamentary systems, the government gets into trouble for specific policies because they are controversial, developed in a political vacuum or simply not well constructed. The CES provides a first feasibility check as well as a formal forum to gauge social partner reaction. However, this is a limited check. The Council is starved of resources with only 30 staff members for the wide range of review responsibilities. The three-quarter and unanimous voting rules are quite difficult to achieve and, because government representatives can effectively veto recommendations by voting together, implicitly government has to allow itself to be criticised. On top of the limits, even when they do pass all the hurdles, only 20% of the Council's recommendations are ultimately adopted. Attempts to increase the Council's own budget, for instance, have not been successful. Also for many of the more controversial policies of the government that come before the CES, many already have the force of law because of the government ordinance function. Thus while it is an interesting and useful feature of the system, its role in the process should not be overstated.

2.5. Programme budgeting

The 2002 Law on Public Finance requires that all primary credit holders provide a report on programmes as an annex to the budget. This is an extension of programme budget pilot testing which had been in effect since 2000. In 2000 there were initial experiments with programme budgeting in eight ministries, and by 2002 such pilot activities were extended to all ministries. In 2004, each ministry had several programmes. Particularly important ones relate to health, education and defence. Given the high level of detail that generally characterises the Romanian legal framework for budgeting, it is striking that there are three short sections in the Law on Public Finance on programme budgeting requirements and that to date only primary credit holders are required to report on performance. MPF staff indicated that secondary and tertiary credit holders would start developing measures over the next several years.

For the most part the development of objectives and reporting against the targets seemed to be a secondary or afterthought activity for most involved. Spending ministries appeared to have limited knowledge of the requirements and necessary steps involved in programme budgeting. Programme budgeting does not seem to be a serious requirement as there are little incentives or

Box 4. Fiscal decentralisation in Romania

Local government has a two-tier structure with the county level consisting of 41 *judete* (counties) and the municipality of Bucharest, and the lower tier made up of a large number of towns and communes. Decentralisation transferred expenditure functions to the local level, for example in the areas of public health and education. Local budget expenditures are estimated to total 6.8% of GDP in 2004. Since 2000, local authorities have enhanced powers to collect local taxes and fees including property tax. In 2003, the government issued an Emergency Ordinance on Local Public Finance that provides a legal framework for local budgeting akin to the Law on Public Finance for the central government level. The national budget remains an important source of local government funding. Revenue-sharing arrangements extend to personal income tax as well as value-added tax. The Romanian Federation of Local Authorities, a body representing organised local government, discusses the budgetary implications for local government of the draft budget laws during the annual budget process and comments are forwarded to the government.

penalties to make credit holders take it seriously and parliament and civil society have not used the data to hold the executive to account. Moreover there are virtually no performance audits performed by either the internal auditors or the external audit institution, although this capacity is being developed. This suggests that programme budgeting is at a very early stage and no conclusions should be drawn as to its usefulness in the Romanian context.

2.6. Conclusions

The arrangements for the development of macroeconomic assumptions work well. While the estimates are currently reliable, the institutional arrangement may not ensure that this is sustained over time. The OECD believes that the sound development of macroeconomic indicators is an important and often overlooked feature of the budget system. The current development of macroeconomic indicators is circumscribed by outside forces such as the IMF and the EU, but in the absence of these forces there do not seem to be institutional checks to verify the accuracy.

The formulation process is generally good; however, the gamesmanship in developing budgets by spending ministries seems acute. Mostly this is the result of great financial needs but little available money to fund those needs. While this is a fact in most systems, a more robust MTEF could help with the planning from year to year.

3. Parliamentary approval

3.1. Timing of the parliamentary process

The overall timeframe for parliamentary approval is relatively tight. Government is required to submit budget bills to parliament for approval by 15 October, two and a half months before the beginning of the fiscal year.¹ Both chambers of parliament jointly determine the timetable for discussing the budget. After the tabling of the budget, members are given a period of between seven to ten days to study the budget documents and to develop their proposals for amendments. This is followed by a committee stage and discussions in the plenary that conclude with a final vote on the State budget.

The Constitution provides that if the budget bills have not been passed at least three days before the expiry of the relevant fiscal year, the previous year's State budget and social security budget continue to be applied until the adoption of the new laws.² The Law on Public Finance also allows for the implementation of certain proposed amounts in the draft budget in "special cases".³ In the past, parliamentary deliberations were not always completed in time and delays of several months occurred. Under the current government, which commands a stable parliamentary majority, the conclusion of debate has in recent years been reached before the beginning of the new fiscal year. For instance, the budget for the 2004 fiscal year was approved at the end of November 2003. This means that parliamentary scrutiny is in current practice compressed into about one and a half months. By contrast, the OECD Best Practices for Budget Transparency recommend a minimum of three months for parliamentary scrutiny of the draft budget.⁴

3.2. Committee process

Parliament draws on wide committee participation that is organised as a two-step process. Principally, the relevant committees of both chambers sit jointly to discuss the budget and also produce a joint report. The first step involves consideration of relevant sections of the budget by the appropriate sectoral committees. For example, the health committees of both chambers issued a 58-page joint report on the 2004 budget at the end of October 2003 that mostly suggested increases of individual items in the health budget.

Following the sectoral committee process, the Committees on Budget, Finances and Banks take an overall view and go through the budget article by article. The budget committees conduct hearings that bring together officials from the relevant spending ministries and the MPF. Additional witnesses are sometimes invited, such as outside experts, civil society representatives or other relevant stakeholders. As discussed above, the Economic and Social Council submits an opinion on the draft budget law that may be accompanied by some suggestions for amendments. Members of other committees may

Box 5. The structure of the Romanian Parliament

The Parliament of Romania has a bicameral structure and consists of the *Camera Deputatilor* (Chamber of Deputies) and the *Senat* (Senate). Both chambers are elected in constituencies on the basis of a party list system and according to the principle of proportional representation. The Chamber of Deputies is composed of 345 members and the Senate of 143 members. The difference results from the fact that a Deputy represents 70 000 voters and a Senator represents 160 000 voters. Certain national minorities are granted special representational rights. Elections are held concurrently for both chambers and members are elected for four-year terms. The two chambers have equal powers in budgetary matters.

Both chambers have standing committee structures. There are 17 such committees in the Chamber of Deputies and 15 in the Senate. Both chambers have a Committee on Budget, Finances and Banks. Membership of committees reflects the party political majorities in the respective chambers. Senate committees are smaller in size than their Chamber counterparts. For example, the Senate budget committee has 11 members of whom five are currently from the governing party and one from a party that has a parliamentary co-operation agreement with the government. Its counterpart in the Chamber of Deputies consists of 27 members, of whom 13 are from the ruling party plus two from its parliamentary co-operation partner.

Source: Parliament of Romania.

attend the budget committee debates but they have no voting rights. These hearings are open to the press and the public and there appears to be extensive coverage of discussions. For the 2004 State budget bill, the budget committees issued their joint report comprising over 400 pages in mid-November 2003, as well as a shorter joint report on the social security budget bill.⁵

There are different sources of technical support to parliament and its committees. Each parliamentary committee has some expert staff and it might also draw on funds to take on consultants on a temporary basis. For instance, the Senate Committee on Budget, Finances and Banks has five attached councillors not all of whom specialise in budget matters, however, given the committee's wide remit. In addition, committees can draw on logistical support from the parliamentary information and documentation department. There is no specialised budget research institution or similar that is attached to parliament, but political parties might employ staff for such purposes. The legal provisions suggest relative autonomy of parliament in drafting its own budget for inclusion in the State budget law.⁶ In practice, the parliamentary budget is subject to negotiations with the MPF.

3.3. Amendments and approval

The views of the budget committees carry particular weight during the debate on the budget bills in the plenary consisting of a joint sitting of both chambers. Although both chambers have the same powers in budgetary matters, the fact that their total membership differs effectively gives the Chamber of Deputies more voting power than the Senate. At present, this has little effect, as the party political majorities are very similar in both chambers. The final vote on the budget in the plenary is characterised by voting along party political lines. A rejection of the budget would be interpreted as a vote of no confidence and cause the fall of the government. Since democratisation, parliament has never refused to approve the budget.

The total number of changes made and the associated overall budgetary effect are very modest. Parliamentary powers to amend the draft budget are circumscribed, as the Law on Public Finance prohibits amendments that would result in an increase of the deficit.⁷ Members get several subsequent opportunities to argue the case for their amendments, i.e. in the sectoral committees, during the budget committee hearings and on the floor of the chamber. Proposals for spending increases have to indicate the source of funding for additional expenditures, principally by suggesting commensurate cuts elsewhere in the budget. There are generally about 300 to 400 amendments that are proposed by members. Health and education appear to be particularly high profile areas. As some of these may be of a similar nature, the sectoral committee process serves to filter out any duplicates and co-ordinate proposed changes, so that the actual number of amendments that have to be considered by the budget committees is around 250 to 300. About one-third of these are typically adopted, and occasionally there is some cross-party consensus. Not all parliamentary amendments shift money as some serve the purpose of clarifying text in the budget bills. Officials from the MPF indicated that the reserve fund is sometimes used to finance small increases in particular items.

It appears that parliamentarians benefit from ongoing improvements in budgetary information. One member commented that the medium-term figures that are now provided are useful for indicating an overall trend and provide “context” to annual appropriations. However, members’ attention is still predominantly focused on the budget figures for the upcoming fiscal year. In accordance with legal provisions, the parliamentary vote is on the figures for the upcoming budget year only and does not bind government to the out-year projections, with the exception of multi-annual authorisations for capital spending.⁸ The development of programme budgeting was seen as “most desirable” while at the same time the need to enhance capacity to assess performance was acknowledged. Also, it was indicated that the Budget Report

that the MPF prepares and tables with the budget has matured into a consistent source of information that members use in their scrutiny of the budget. The report contains an analysis of economic and budgetary developments in the expiring fiscal year, an overview of macroeconomic assumptions and budgetary policy for the upcoming year and a medium-term outlook.⁹

During the course of the fiscal year, parliament might be asked to approve “rectifying laws” to provide additional spending or to adjust the main budget. Modifications to the main budget law are allowed only up to the end of November of the relevant fiscal year.¹⁰ In recent years there have been one and only occasionally two rectifying laws per fiscal period. This indicates that the implementation of the budget is fairly sound. The procedure for the consideration of rectifying budget bills in parliament is essentially the same as for the main budget, but far less elaborate. The passage of a rectifying law would often be required around the time of the parliamentary vacation. Parliament typically grants the government interim authorisation to make adjustments by ordinance and then considers and approves any such measures when it reconvenes.

3.4. Conclusions

To sum up, the stabilised political situation and the new timetable provided by the Law on Public Finance have smoothed the passage of budget legislation and facilitated timely approval. However, the timetable for parliamentary scrutiny is perhaps too tight for proper scrutiny, although parliament has more recently chosen not to exhaust the full amount of time that is legally available for approval. Nonetheless, it appears that parliament provides a useful forum to broaden public debate on budgetary matters.

The two-tier committee process allows parliament to draw on the whole breadth of its expertise, while at the same time guarding fiscal discipline. The budget committees are largely effective in moderating spending demands from sectoral committees and the two-tier committee process is quite close to what the OECD considers good practice in parliamentary involvement.¹¹ The limitations on parliamentary powers of amendment further serve to safeguard the government’s deficit target, but they are sufficiently broad to allow for meaningful engagement. Overall, parliament plays a minor role in setting budget priorities but it has retained the capacity to make limited changes to the budget proposed by the executive.

4. Budget execution and internal control

Like other parts of the budget process, the budget execution process is undergoing fundamental changes. Coupled with quickly changing organisational structures, the large number of legal changes means that

practice struggles to keep up with formal requirements. However, the basic procedures for budget execution are quite well entrenched and designed with the primary purpose of not spending over the amount provided in the budget. The relative success in enforcing fiscal aggregates during budget execution is reflected in the moderate use of rectifying budget laws.

After the approval of the annual budget law, funds are disbursed on the basis of quarterly distribution plans for each credit, which are approved by the MPF. Within this ceiling, the main credit holders distribute the approved budgetary credits for their own budget and for subordinated public institutions whose managers are secondary or tertiary credit holders. The secondary credit holders distribute the approved budgetary credits for their own budget and the subordinate tertiary credit holders.

The main credit holders retain 10% of the approved amount for a reserve, excluding wages and salaries and funds related to external liabilities, which are entirely distributed. The retained amount is distributed in the second quarter, after the government reviews the first quarter budgetary execution. Periodically, the main credit holders send reports to the Ministry of Public Finance regarding the utilisation of funds, and draw up financial statements on budget execution.

4.1. Internal control and audit

Ministries are responsible for committing and using budget credits within the amounts and destinations approved and for expenditures related to their functions and in accordance with the law. In committing and validating expenditures, their own preventive financial control structures issue preliminary checks on expenditures. In addition, each large governmental entity also has a “delegated” controller from the MPF. The delegated controllers are independent of the spending ministries and conduct legality and regularity reviews for large spending items over a set threshold. They also assess the legality of contracts and new commitments. The main job of preventive control – both “own” and “delegated” – is to ensure that appropriation limits are adhered to as well as the legality and regularity of expenditures. The General Directorate for Preventive Internal Control of the MPF co-ordinates all internal controllers.

In 2002, Romania added a new *ex post* internal audit function to work with the continuing *ex ante* internal control. The units started to become operational in 2003. Each ministry is required to have an internal audit division but it is up to the minister to determine its size and make-up. The basic functions of internal audit are quite wide according to their statutory authority. They are charged with performing system, performance and financial audits for all levels and all activities of credit holders in government organisations.

The internal controllers and internal auditors are co-ordinated by separate divisions of the MPF: the General Directorate for Preventive Internal Control and the Central Harmonisation Unit for Public Internal Audit (CHUPIA). The CHUPIA is relatively more independent and reports only to the Minister of Finance. Each role though is similar: they set standards and guidelines for units in government entities, provide technical assistance and oversee the functioning of control. The CHUPIA acts also as an auditor of the auditors. There is no co-ordination of internal control or audit with the Court of Accounts.

Each internal audit unit creates its own audit plans and carries out the audits according to centrally developed risk assessment norms. The plans can also incorporate suggestions by the head of the public unit. The statute generally gives the internal auditors rights to all information they deem necessary and the ability to resort to civil penalties if they are blocked from carrying out their duties. A completed audit report including recommendations is sent to the head of the public entity depending on the level of credit holder. The head of the entity formally responds to the recommendations and sets out a plan for rectifying problems found by the audit. According to Law No. 672/2002, should the head of an internal audit structure feel that the recommendations are not being addressed, he/she must inform the CHUPIA. However, it is not clear what happens in the case of continued non-compliance. While there are civil penalties for a number of violations, there are no penalties, monetary or otherwise, for failing to comply with internal audit recommendations. Therefore it is ultimately the government which has to decide on corrective action.

It is far too early to judge the success or usefulness of the internal audit function. One goal is to make self-control effective and efficient so that delegated controllers are not needed and *ex ante* control can be loosened. In practice, the current system is far from this goal. Most internal audit structures have suffered from a lack of viable candidates for positions. At the time of the review, the CHUPIA had only 16 of a planned staff of 33 persons, and the ratios are similar or worse in the departments. The MPF properly sees the inclusion of internal audit as a gradual process that will culminate in full integration by the EU accession target date. The CHUPIA is to evaluate the achievement of this objective and planned 13 assessment missions of main credit holders in 2004.¹²

Despite heavy internal controls, expenditures have exceeded limits in the past since some creditors can legally spend more than budgeted and others simply ignore the tight budget constraints and spend more. This is a particularly acute problem in the health sector where budgets for individual hospitals (tertiary creditors) are mixed with public and private sources and no consolidated budget is presented to the Health House. The hospitals are

allowed to continue spending and build up budget arrears. This indicates that there are breakdowns in the internal control environment. Nonetheless, internal control might be considered effective in the sense that the Ministry of Justice does not see overspending or other misappropriation of funds as large concerns for the anti-corruption division. The *ex ante* control is inefficient, however, since there are high transaction costs and low levels of automation in the process. This is not a recommendation to end *ex ante* control in Romania as it is entrenched in the culture, only a suggestion to review where transaction costs can be lowered.

4.2. Limits on transfers

The budget is rather detailed and classifies expenditures in parts, chapters, subchapters, titles, items and paragraphs. Moreover, the Law on Public Finance includes extensive rules on virement, or the transfer of funds between items during the execution of the budget. Article 47 includes an outright prohibition for personnel allocations down to the chapter level of ministerial budgets to be increased or used for other expenditure purposes. Credits for primary credit holders (ministries) cannot be adjusted, nor can funds be transferred from one chapter to another. Starting with the third quarter of the fiscal year, adjustments of up to 10% of spending within chapters are possible as well as limited transfers between chapters and programmes with the special approval of the MPF. In addition, Article 61 of the Law on Public Finance disallows carryover of unspent funds at the end of the fiscal year.

Detailed appropriations and strict rules on budget execution support compliance with budget laws. In the medium to long term, greater flexibility will be needed in order to give managers the tools to improve performance. This can be achieved by making implementation rules less rigid and the budget classification less detailed, while at the same time strengthening output and outcome reporting. One option might be to introduce an experimentation clause that allows for relaxation of rules in certain spending units in order to pilot more flexible execution arrangements. Experiments with flexibilisation should focus on spending units where the risk associated with the relaxation of input controls is low and such experiments would have to be closely monitored and evaluated against agreed targets and expected results.

4.3. Budget reporting

The OECD Best Practices for Budget Transparency¹³ call for a number of reports during the budget process.¹⁴ Among the most important, apart from the basic requirement of crafting a comprehensive budget, are the regular reports on budget execution. Execution reports are published by the MPF on a monthly, quarterly and annual basis and much of what is generated is

available to the public on the MPF Internet site. What could be improved is the timeliness of the information (i.e. the annual end-of-year financial report takes five months to produce and six months to audit) and the types of disclosures increased. For example, better analyses of tax expenditures and contingent liabilities are needed. In general the freedom of information laws for citizens are comprehensive and noteworthy, and the independence and right of access for internal controllers, internal auditors and external auditors are legally assured. Thus Romania has a solid base on which to build.

4.4. Conclusions

As in other areas, there are many changes occurring in the budget execution phase of the budget process. These changes are viewed positively, but in most cases it is too early to tell what the effects will be. The current process focuses on financial control. This is necessary given that there are still places where overspending occurs and arrears build up. As the financial control improves and other components – especially internal audit and programme budgeting – come on line, the internal control environment can move away from a highly legalistic undertaking to one that emphasises systems and procedure confidence.

Romania could work on better and more timely budget reporting, including a more comprehensive mid-year assessment and incorporating better reports on liabilities and financial risks.

Performance budgeting and management is a long way off in Romania. To hold people to account, managers will need more flexibility than is currently available to achieve goals. Experience in OECD countries shows that more time and attention should be placed on developing appropriate targets and measures.

5. Accounting and external audit

5.1. Accounting

Accounting in Romania is heavily guided by EU directives and guidelines. Currently financial accounting is officially done solely on a cash basis. The Law on Accounting gives the MPF wide regulatory authority to issue guidelines on drawing up accounts and a new chart of accounts was issued by the MPF in 2002 that will take effect government-wide by 2005. Monthly, quarterly and annual budget execution reports are currently issued. Other observers including the EU, the IMF and the World Bank have indicated that the financial reports are generally reliable and accurate; however, due to widespread manual bookkeeping, the process is not efficient. Romania has noted this problem and is taking steps to automate the process.

The major event regarding accounting is the 2002 government decision to move accounting to a parallel cash and accrual basis. The addition of a full accrual basis started with pilot programmes in 2003 and then will move to government-wide application by 2007 (the date of planned EU accession). There are 13 line agencies that are engaged in pilot testing and the development of accruals and are benefiting from a twinning project with France and Italy. The current plan to introduce accruals is focussing on training. Head accountants will be trained first and training will cascade down the ranks of government employees. The first step is to train the trainers for each ministry and in regional centres, and to engage the Institute of Public Administration in the process. However, this training plan still awaits large scale roll-out.

The team reviewing Romania views the move to accrual-based accounting as positive but with a great deal of caution. The benefits of moving to a system of financial reports generated on an accrual basis are well documented. Implementing full accrual accounting will improve transparency and accountability by providing a more comprehensive picture of the government's assets and liabilities and showing an annual fiscal result which better reflects the impact of economic events and government decisions during the fiscal year. It should help with many areas that are currently lacking or need improvement. Reporting and monitoring on an accrual basis for capital assets, tax revenues, contingent liabilities and long-term liabilities – all areas that need upgrading in the Romanian context – should be improved.

Yet, there are many challenges that Romania will face in implementing accruals and experience in OECD countries is informative. First, the move to accruals is projected to be complete within three years. This is an extremely ambitious goal as the few OECD countries that have completed this process have taken longer to move to full accruals. In fact, a recent OECD survey shows that only seven out of 30 OECD member countries have thus far adopted full accrual accounting, and 21 use only or mostly cash accounting for whole-of-government financial statements.¹⁵ The assembling of a complete asset record – like that which Romania is currently undertaking – is one area that countries found took much longer than expected and slowed down the process. OECD countries underestimated both the time to train staff as well as the amount of new staff needed to implement a new accounting system. OECD countries moving from cash to accruals found that it requires an entirely new set of skills in many cases for the people who are working on accounting issues for government, and it may in fact lead countries to have to recruit people with those new skills rather than only training existing staff. Moreover, OECD countries found that the move to accruals is costly.

Romania is implementing the new accounting regime at a time when many other budget processes as well as organisational structures are in

motion. Co-ordinating the many changes and ensuring that public servants know the new rules in their new organisations will be extremely difficult. The level of automation must increase especially since accruals imply fluctuations resulting from changing exogenous variables. Accrual accounting is also an area where there are still large international debates on the appropriate method. Thus many interpretations and decisions on accounting concepts will need to be fitted to the Romanian environment.

The team was disturbed to hear doubts expressed by several people involved in financial management wondering why the changes needed to occur now. Some senior officials involved in the process were under the impression that the move to accrual accounting was a requirement for EU accession. Given the state of the system and the costs of the changeover, in sum, the team believes that it may be appropriate to slow down the move to accruals. There are ways to continue the drive to accruals such as implementation in those areas which have the most benefit in terms of effective management and increased transparency compared to the costs involved.

5.2. External audit

The *Curtea de Conturi* (Court of Accounts) is the supreme audit institution of Romania. Its origins date back to 1864, although institutional discontinuities characterised the communist era and the present Court was re-established in 1993. The Court of Accounts is an independent body that has the constitutional duty to report to parliament. Its principal legal framework is the Law No. 94/1992 on the Organisation and Operation of the Court of Accounts, which was amended in 2002. The audit law provides that the Court “performs its activity independently” but at the same time “functions near the parliament” (Article 1). Parliament appoints the 18 members of the Court including a president and a vice-president. Their term of office has recently been changed from six to nine years without the possibility of renewal. The constitutional provisions envisage that one-third of the Court’s membership is renewed every three years. The Constitution and the audit law describe members of the Court as “irremovable”, but the audit law allows parliament to dismiss members of the Court from office following recommendation from specialised committees (Article 140).

The Court’s control mandate covers government units, the central bank, public companies, companies in which the State holds a majority of shares, and self-managed social security bodies.¹⁶ The audit law guarantees access to relevant information (Article 4), although access in practice remains a subject for further study. The main focus of audit is to assess the legality of spending, in particular that ceilings for expenditures set out in the budget laws were observed. The Court can issue a decision requiring credit holders to comply with accounting norms. As infringements occur, the Court refers matters to

Box 6. Revised constitutional mandate for the Court of Accounts

- The Court of Accounts shall exercise control over the formation, administration, and use of the financial resources of the State and public sector. Under the terms of the organic law, the disputes resulting from the activity of the Court of Accounts shall be solved by specialised courts of law.
- The Court of Accounts shall annually report to parliament on the accounts of the national public budget administration in the expired budgetary year, including cases of mismanagement.
- At the request of the Chamber of Deputies or the Senate, the Court of Accounts shall check the management of public resources, and report on its findings.
- Audit advisers shall be appointed by parliament for a term of office of nine years, which cannot be extended or renewed. Members of the Court of Accounts shall be independent in exercising their term of office and irremovable throughout its duration. They shall be subject to the incompatibilities the law stipulates for judges.
- The Court of Accounts shall be renewed with one-third of the audit advisers appointed by parliament, every three years, under the terms stipulated by the organic law of the Court.
- Parliament shall be entitled to revoke the members of the Court of Accounts, in the instances and under the terms stipulated by the law.

Source: Article 140 of the Constitution of Romania.

the Financial Prosecutor-General and this is apparently a frequent occurrence. The Court uses a sampling method to select individual accounts for audit. In its main audit report relating to the 2002 fiscal year the Court reported coverage of 47% of auditable entities.¹⁷

Overall the Court employs over a thousand staff, many in its territorial units. In 2001 its budget was cut severely, affecting about one-quarter of its staff. Some of the eliminated positions were associated with a transfer of *ex ante* control functions from the Court to the MPF. These developments at the time caused concern about the independence of external audit and led to the resignation of the president of the Court. The revised audit law implies that the Court has relative autonomy in determining its budget (Article 5).¹⁸ According to the discussions held with the review team, the Court regards its independence as sufficiently respected in practice.

The timeliness of audit reporting has been problematic in the past. The MPF is charged with the preparation of the annual general execution account of the State budget and the social security budget, based on reports submitted by the primary credit holders.¹⁹ The general annual execution account has to be presented to parliament within five months after the end of the relevant fiscal year and it is passed on to the Court of Accounts. The Court submitted its main audit reports for the 2001 and 2002 fiscal years the following December, six months after it had received the execution accounts. Although the tabling in December is unfavourable in terms of the parliamentary calendar, it nonetheless represents a substantial improvement over some previous years when the gap between the end of the fiscal year and the submission of the main audit report was at times more than two years. Swifter finalisation of the execution accounts by executive authorities could bring further advances in timeliness. Ideally, the main audit report should be available prior to parliament's deliberations on the upcoming draft budget. This would allow parliamentarians to harness audit findings for budget scrutiny.

The Romanian Constitution and the audit law allow parliament to order that particular audits are carried out, and the Court has to oblige. At the same time, the Court is to determine "autonomously" its own programme.²⁰ These provisions are to some extent contradictory, as extensive or excessive use of the power of parliament to demand specific audits would be in conflict with the autonomy of the Court. Some countries in the region have struck a more even balance between aiding parliamentary control and ensuring the autonomy of external audit by limiting the number of audits that have to be carried out at the order of parliament. In Slovenia, for instance, the Court of Audit has to select for its annual work programme at least five proposals from the National Assembly, two of which must come from opposition deputies.²¹ To improve the legal basis for independent State audit, Romania might consider adopting similar provisions.

The Court is improving its financial audit process to consistently comply with international standards and recently started to build capacity for performance audit. To perform the mandate to conduct performance audits for utilisation of public resources (Article 16), the Court has created a special division on performance audit with a staff of about 25 that has developed an activity plan. So far the unit has mainly carried out preparatory work and some pilot activities. It was reported that the Court has completed the development of a performance audit manual. The Court has benefited from technical assistance to develop performance audit capacity and study visits have also been undertaken. In its report on the 2002 fiscal year the Court included a section with comments on the performance of the salary system in public institutions, a programme for funding scientific research, the protection of historic monuments and financial management in loss-making

government enterprises.²² It is unclear how the Court is planning to engage with the annual performance reports that the public finance law requires ministries to submit with their yearly financial reports.²³ These reports are to include information on the achievement of objectives, and thus appear relevant to the Court's work in the area of performance audit.

5.3. Parliamentary review of audit findings

The main audit report is referred to parliament by the president of the Court. Additional special reports can focus on particular areas of inquiry and are discussed in the relevant subject committee in parliament. It appears that interaction with parliamentary committees varies to some degree according to the interests of currently serving members. There is no debate in the plenary of special reports, but parliament has the possibility to follow up issues by setting up committees of inquiry. The Court has a unit for external relations that follows the parliamentary agenda and co-ordinates inputs into parliamentary discussions. The Court appears to have strengthened its public relations functions and broadened the use of press conferences to draw attention to the release of its reports.

The main report is discussed in the parliamentary budget committees. The Court does not report to a specialised committee on public accounts as typically exists in countries that follow the auditor general model, nor do the budget committees in either chamber have permanent sub-committees to discuss audit findings as exist in some countries in the region.²⁴ The main audit report is subject to review in the budget committees and it is the only report of the Court that is subject to a formal discussion in the plenary consisting of a joint sitting of both chambers of parliament. As is common under the court model of public sector audit, Romania follows the tradition of granting discharge by approving budget execution in law.²⁵ The purpose of the main audit report is to provide parliament with the information that is necessary in order to vote on budget execution.

The parliamentary debate on budget execution attracts considerably less interest than the discussions of the draft budget law, and approval is usually quickly obtained. Refusal to approve the execution of the budget would be interpreted as a vote of no confidence in the government, but this has never occurred since democratisation. Parliamentary debate on the execution of the budget currently takes place more than one year after the end of the relevant fiscal year. This time lag might be one reason why debate is largely formalistic and attracts limited interest from members, which limits the potential for audit issues to provide pointers for parliamentary scrutiny of upcoming draft budgets. Parliament's interest might increase over time as the performance aspect of auditing is strengthened and it would appear important for the Court

to engage with parliament on the usefulness and presentation of its performance audits.

5.4. Conclusions

Romania is starting an ambitious move to accrual accounting. In the view of the team, this move should be reassessed and slowed down to a more realistic timeline and more attention should be given to basic processes and automation of the current system.

The external audit process is undergoing noteworthy improvements. The time required by the Court of Accounts to prepare the main audit report has been reduced substantially, and the Court is building its capacity for performance audit. In the medium term, it is desirable to make audit reporting even more timely, which would also require enhanced swiftness in the preparation of accounts by government.

Parliamentary engagement with audit findings is sub-optimal. This is a crucial shortcoming in the accountability process. Parliament might consider the setting up of a permanent committee to scrutinise audit findings. Such a body would be useful for conducting hearings on audit findings and to track the government's response.

6. Comments on budget transparency in Romania

In general, the transparency of the Romanian budget is fairly good. From an analysis of the system looking purely at whether Romania produces reports and has processes in place, it is perhaps better than average. Moreover, there is a positive overall trend. Romania has made large strides in making the budget more comprehensive, producing more and better data, and improving the quality assurance and accountability processes. Thus Romania has a good legal base from which to improve the transparency of the budget. The guideline items should not be viewed as equal in importance and as such Romania receives positive marks in the most important categories of, for example, budget comprehensiveness, availability of data and role of parliament. Generally, though, each area of budget transparency and the quality of the process could be improved and some new specific budget disclosures generated. Below are a few specific areas for improvement (but not an exhaustive list):

- The budget: While health and social funds are voted at the same time, they are voted on separately. Romania should continue to consolidate all funds into one budgetary document and one decision point so that all budgetary tradeoffs can be made. A column in the budget data presentation should be added to show the changes in the MTEF for what was forecast in year 2 from

Table 2. **Budget transparency in Romania according to OECD guidelines**

	Assessment	Comments
1. Budget reports		
The budget	Item substantially met.	The budget is more comprehensive than in the past, but large funds in health, social security and unemployment are voted on separately from the annual budget.
Pre-budget report		
Monthly reports	Item substantially met.	
Mid-year report		
Year-end report	Item met, situation needs improvement.	While there are monthly and quarterly execution reports, there is no comprehensive mid-year report – although some important sectors like pension and health do produce mid-year reports. Year-end report is released but not timely.
Pre-election report		
Long-term report		
2. Specific disclosures		
Economic assumptions	Item substantially met.	Quality of assumptions assured by outside factors; need to think of how forecasts are constructed in the future.
Tax expenditures	Item met, situation needs improvement.	There is some analysis on tax expenditures, but it is not comprehensive or part of the budget documents.
Financial liabilities and financial assets	Item met, situation needs improvement.	Foreseen with the implementation of accruals; in 2004, first reassessment of fixed assets in several years. There is current reporting in separate statements attached to the balance sheets.
Non-financial assets		
Employee pension obligations	Item met, situation needs improvement.	Foreseen with the implementation of accruals.
Contingent liabilities	Item met, situation needs improvement.	Governmental guarantees for domestic and external loans are presented with public debt accounts.
3. Integrity, control and accountability		
Accounting policies	Item met, situation needs improvement.	
Internal audit and control (systems responsibility)	Item met, situation needs improvement.	Internal control is effective but not efficient; internal audit is new and has not reached critical mass.
Audit	Item met, situation needs improvement.	Could be more timely with audit of year-end report; better follow-up needed; increase in performance audits.
Parliamentary scrutiny	Item met, situation needs improvement.	The budget has recently been approved in time, but the timetable for parliamentary scrutiny is tight.
Public scrutiny	Item met, situation needs improvement.	Little civil society involvement in budget process; the Economic and Social Council (CES) lends institutionalised civil society involvement.

the previous year's budget and the amount budgeted for that year accompanied by a short explanation on the deviations.

- Mid-year report: The guidelines call for a comprehensive mid-year report on the implementation of the budget which includes an updated forecast of budget outcome for the current year and if possible for the medium term. The economic assumptions underlying the budget should be reviewed and the impact of any changes on the budget disclosed.
- Year-end report: The year-end report should be prepared and audited in a more timely manner so that it can be used during the budget formulation and parliamentary stage. The year-end report should include non-financial performance data and a comparison of targets and results. The year-end report should contain a comprehensive discussion of the government's financial assets and financial liabilities, non-financial assets, employee pension obligations and contingent liabilities.
- Contingent liabilities: In a system with large external loans and loan guarantees and explicit and implicit budgetary relations with State-owned enterprises, more reporting is needed on contingent liabilities.
- Tax expenditures: Tax expenditures are functionally similar to budget expenditures and should be included in the debate on the annual budget. A short review or table of tax expenditures could be included in the documents accompanying the budget.
- The role of parliament: The current budget is transmitted to parliament on 15 October. Parliament needs more time and better resources to scrutinise the budget. The authorities could consider a more formal process early in the year to set expenditure totals.

Notes

1. Article 35 of the Law on Public Finance.
2. Article 138 of the Constitution of Romania as amended in 2003.
3. Article 37 of the Law on Public Finance.
4. OECD (2001), "OECD Best Practices for Budget Transparency", *OECD Journal on Budgeting*, Volume 1, Number 3, p. 8: "The government's draft budget should be submitted to parliament far enough in advance to allow parliament to review it properly. In no case should this be less than three months prior to the start of the fiscal year. The budget should be approved by parliament prior to the start of the fiscal year."
5. Committee reports can be accessed via the Internet site of the Chamber of Deputies: www.cdep.ro/.
6. Article 64 of the Constitution of Romania and Article 34 of the Law on Public Finance.

7. Article 17 of the Law on Public Finance.
8. Article 36 of the Law on Public Finance.
9. Guvernul României, Ministerul Finanțelor Publice, *Raport privind situația macroeconomică pentru anul 2004 și proiecția acesteia pe anii 2005-2007*.
10. Article 6 of the Law on Public Finance.
11. Jón R. Blöndal (2001), "Budgeting in Sweden", *OECD Journal on Budgeting*, Volume 1, Number 1, pp. 27-57.
12. MPF Order No. 1031/2003 establishes evaluation criteria for preventive financial control at the level of the public institutions and the procedures for their integration into managerial structures, as well as the role of the MPF in this process.
13. OECD (2001), *op. cit.*
14. See Table 2 for a comprehensive assessment of the OECD transparency guidelines for Romania.
15. See Table 1 in Jón R. Blöndal (2004), "Issues in Accrual Budgeting", *OECD Journal on Budgeting*, Volume 4, Number 1, pp. 103-119.
16. Article 18 of the Law on the Organisation and Operation of the Court of Accounts.
17. Court of Accounts, *Synthesis of the Public Report of the Romanian Court of Accounts for the Year 2002*.
18. Romania is a member of the International Organisation of Supreme Audit Institutions (INTOSAI) whose *Lima Declaration of Guidelines on Auditing Precepts* demands the functional and organisational independence of supreme audit institutions.
19. Article 56 of the Law on Public Finance.
20. Article 2 of the Law on the Organisation and Operation of the Court of Accounts.
21. Court of Audit of the Republic of Slovenia (2002), *Watching Over Public Money*, p. 13.
22. Court of Accounts, *Synthesis of the Public Report of the Romanian Court of Accounts for the Year 2002*.
23. Article 56 of the Law on Public Finance.
24. In the Czech Republic, for instance, the Budget Committee of the Chamber of Deputies has an audit sub-committee.
25. See United Kingdom National Audit Office (2001), *State Audit in the European Union*.

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