

The Role of Budget Execution Auditing, Existing Challenges in Budget Execution, and Proposed Solutions

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Abstract: This paper analyzes the role of budget execution auditing in the budget execution process, identifies issues encountered during execution, and seeks measures to address these issues. It proposes specific measures for the issues that arise in the course of budget execution. The research indicates that the slow progress of budget execution can be attributed to two main factors: internal and external factors. Internal factors include: Unrealistic budget preparation that sets overly ambitious goals, making it challenging to achieve objectives during actual execution; Lack of clarity in accountability, where executors are either unaware of or unable to accurately interpret budgetary requirements; Inefficient information sharing between departments hampers timely feedback and adjustments; Uneven resource allocation, where insufficient resources for critical tasks adversely affect progress. External factors encompass: The influence of the budget preparation cycle; Changes in the market environment; Unexpected circumstances, among others. The study concludes that it is essential to analyze the reasons for the sluggishness in budget execution, which includes examining whether the budget preparation is scientifically sound, whether monitoring mechanisms are in place, whether resource allocation is appropriate, whether inter-departmental communication is smooth, and whether the incentive mechanisms are robust. By analyzing these issues, more targeted corrective measures can be formulated.

Keywords: Budget Execution; Budget Execution Auditing; Role; Issues; Measures

1. Introduction

In recent years, relevant authorities have implemented proactive fiscal policies focusing on moderate stimulus, quality enhancement, and

efficiency improvement. This has been accompanied by a combination of various policy tools designed to optimize expenditure management and oversight while enhancing risk prevention capabilities. The focus remains steadfast on advancing modernization and further deepening reform comprehensively, amplifying macroeconomic control measures, and enhancing counter-cyclical adjustments. The goal is to effectively implement a proactive fiscal policy that strengthens the ongoing recovery and favorable trends of the economy, genuinely safeguards and improves the well-being of the populace, and drives the completion of annual economic and social development objectives and tasks [1]. Building upon the organized collection of fiscal revenue in accordance with laws and regulations, it is imperative to closely monitor the budget execution and the implementation of policies, evaluate and refine policy measures in a timely manner, and establish a sound mechanism for closed-loop management. By optimizing resource allocation and conducting audits to analyze the distribution and utilization of budgetary funds, issues such as idle funds and waste can be identified. This will facilitate the redirection of fiscal resources towards key areas and crucial segments, thereby enhancing the efficiency of resource allocation. Furthermore, improving the efficiency of fund utilization requires an evaluation of budget execution performance, illuminating inefficiencies and ineffectiveness in fund usage, thus promoting the enhancement of financial efficacy across various departments and units.

2. The Role of Budget Execution Auditing in the Execution Process

Budget execution auditing plays a crucial role in the execution process, primarily aimed at ensuring the legal, compliant, and effective use of budgetary funds, while promoting the efficient utilization of budgetary funds.

2.1 Budget Execution Auditing Ensures Legality and Compliance

Budget execution auditing entails the examination of actual expenditures to ascertain their adherence to pre-approved budgets, which is essential for ensuring that funds are allocated judiciously and preventing waste and misappropriation. This process guarantees the rational and effective use of resources in accordance with established plans, identifies potential issues, and proposes improvement measures to enhance overall management standards. Legal and compliant execution of the budget contributes to the maintenance of fiscal order, safeguards the integrity of financial resources, enhances the efficiency of fund utilization, and supports the healthy development of government or enterprise operations. Moreover, it bolsters departmental credibility and transparency, providing critical insights for informed governmental decision-making.

2.2 Budget Execution Auditing Enhances the Efficiency of Budgetary Fund Utilization

Budget execution auditing is one of the vital mechanisms for elevating the efficiency of budgetary fund utilization. Through this process, governments and relevant departments can ensure the scientific nature of budget preparation, the effectiveness of budget execution, and a comprehensive understanding of budgetary performance. Firstly, progress monitoring of budget execution is essential. During the auditing process, the execution progress of departmental budgets is scrutinized to identify issues such as low budget execution rates or instances of significant budget rollovers and substantial unspent funds. These evaluations enable the timely detection and correction of discrepancies in budget execution, ensuring that resources are deployed as planned. Secondly, performance management of budgetary funds is critical. Auditors focus on whether the anticipated objectives of projects and their expenditure directions are underpinned by policy, as well as whether there are issues related to arbitrary project initiation and unclear expenditure delineation. Furthermore, assessments of project applications, implementation, and performance evaluation results are conducted to guarantee that budgetary performance objectives are scientifically sound

and duly approved and adjusted according to established procedures. Lastly, remediation of issues and refinement of institutional frameworks are paramount. Budget execution auditing does not merely identify problems; its more significant role is to foster corrective actions [2]. By establishing categorized problem logs for remediation, it ensures that all identified issues are effectively addressed.

2.3 Promoting Scientific and Refined Budget Management

Budget execution auditing ensures that various departments and units adhere strictly to budgetary arrangements in their utilization of funds, thereby preventing issues such as overspending and expenditures not accounted for in the budget. Additionally, auditing places emphasis on the scientific formulation of budget standards, the uniformity of execution, and the regulatory nature of budget adjustments, asset allocation, and utilization, thus fostering a more scientific and refined approach to budget management.

2.4 Enhancing Social Credibility and Transparency

Through rigorous auditing supervision, fiscal activities become increasingly transparent, thereby enhancing public trust in the market and bolstering confidence in the economic system. In summary, budget execution auditing plays a multifaceted role in ensuring legality, enhancing efficiency, promoting scientific management, increasing transparency, serving decision-making, and mitigating risks. It stands as a vital mechanism for guaranteeing the rational, legal, and efficient use of budgetary funds [3].

3. Issues Encountered during Budget Execution

3.1 Internal Factors

3.1.1 Deviations in financial budget management execution

There exists a discrepancy between actual expenditures or revenues and the budgetary plan. Causes for this divergence include unreasonable budget formulation, changes in the external environment, misjudgments in management decisions, and internal management issues. Budgetary preparation often fails to adequately account for actual needs, leading to improper allocation of funds; furthermore, strict adherence

to budgetary schemes during execution is frequently lacking. The absence of an effective internal supervision mechanism results in wastage of financial resources.

3.1.2 Information asymmetry and poor communication

During the budget execution phase, personnel responsible for specific project implementation may possess a limited understanding of the organization's overall strategic objectives, resulting in deviations in budget allocation. Additionally, a lack of effective communication during inter-departmental collaborations impedes the optimization and realization of the budget [4]. Insufficient communication between management and staff contributes to a lack of clarity regarding budgetary goals and individual responsibilities, which subsequently diminishes employee motivation and initiative, adversely affecting the progress of budget execution.

3.1.3 Absence of an effective monitoring system

The absence of a robust budget execution monitoring system inhibits the timely detection and resolution of issues arising during the execution process. For instance, without real-time tracking and analysis of budget performance, deviations may go unnoticed, preventing prompt corrective actions from being taken.

3.1.4 Absence of evaluation and feedback mechanism

The absence of regular assessment and feedback mechanisms concerning budget execution hampers the establishment of a continuous improvement loop. This impedes timely adjustments to the budget plan based on evaluative results, ultimately resulting in inefficient budget execution.

3.2 External Factors

3.2.1 Changes in market and policy

Shifts in the market environment and adjustments in policy can render the originally established budget plan inadequate. For instance, significant increases in raw material prices or alterations in tax policies can profoundly impact budget execution.

3.2.2 Impact of unexpected events

Natural disasters, pandemics, and other unforeseen events can negatively affect budget execution. For example, a pandemic may halt operations and production within a company, impeding the progress of projects and

consequently impacting the timeline of budget execution.

3.2.3 Lack of incentive measures

Employees may exhibit a lack of enthusiasm for budget execution due to the absence of associated rewards or penalties. Without an incentive mechanism, staff may perceive that the quality of budget execution bears little relevance to their own responsibilities and may not proactively seek to enhance budget management. The disconnect between budget management and personal performance can lead to insufficient emphasis on budget execution, as employees are more inclined to focus on tasks directly linked to performance metrics, thereby neglecting budget-related responsibilities and affecting overall execution progress.

3.2.4 Additional issues

Periodicity in Budget Formulation: The timelines mandated by relevant departments for their affiliated units can be lengthy, contributing to delays in transfer payments. Moreover, prior arrangements for funds are made with caution and may occur through multiple layers of designated approvals, resulting in a lag in actual funds' availability and subsequently resulting in delayed progress. Additionally, approval processes, tendering, and procurement prior to project commencement require ample time, and further verification and approval of payments further hinder the pace of budget execution [5-7].

4. Measures for Issues Identified in the Budget Execution Process

4.1 Proactive Fiscal Policy

Relevant authorities should implement proactive fiscal policies focusing on appropriate stimulus, quality enhancement, and efficiency improvement, employing a combination of various policy instruments to significantly optimize the expenditure structure. The strengthening of fiscal management and supervision alongside improving risk mitigation capabilities is essential. This entails consolidating fiscal resources, maintaining necessary expenditure levels, and ensuring funding for critical strategic missions and key areas such as basic livelihoods. Emphasis should be placed on multiple focal areas, including promoting innovation to advance new quality productive forces, safeguarding and improving public welfare, facilitating rural revitalization and coordinated urban-rural development,

bolstering ecological civilization, and enhancing fiscal management, thereby providing robust support for significant decision-making initiatives.

4.2 Strengthening Expenditure Budget Execution Management Policies

Clarification of Budget Execution Progress and Requirements: For instance, relevant departments should intensify their efforts in executing the expenditure budget, ensuring that by the end of June, the progress of fiscal special expenditures reaches at least 50%. The goal should be to achieve over 80% by the end of October and over 90% by the end of November, with a year-end retention rate below 10%. Timely allocation of fiscal resources is critical to ensure early benefits [8-9].

Accelerating Project Budget Approval and Allocation: Departments must approve their respective budget allocations within 20 days of project budget approval. It is also imperative to expedite the disbursement of transfer payment budgets, aiming to finalize the allocation of self-prepared budgets by June 30. Any budget allocations not implemented by September 30, without valid justification, shall be reclaimed entirely, except for projects settled based on actual accounts.

Enhancing the Evaluation Mechanism: It is essential to organize the evaluation of budget expenditure execution, closely monitoring the use of project funds. Departments that fall below the average execution progress without justifiable reasons will face reductions in projected funding for the following year. Additionally, for projects that are unlikely to be completed within the fiscal year, the local finance department may reclaim the unexecuted portions of the budget. Funds for projects that have not reached 80% execution progress by the end of October will be proportionately reallocated for other uses [10].

Increasing Accountability Measures: The responsibility for executing the fiscal expenditure budget must be reinforced through enhanced organizational leadership, ensuring a meticulous approach to budget execution. Strict adherence to financial management regulations is required, prohibiting any violations. Departments must rigorously implement funding management protocols and performance evaluation systems while properly balancing budget execution timelines with normative

financial management practices. Measures should be taken promptly to rectify violations and hold responsible parties accountable.

Stringent Control over the Normative and Binding Nature of Budget Execution: Strengthening the regulatory framework around funds in priority areas is necessary, with a specific focus on the usage of special funds aimed at supporting economic development to ensure fairness and transparency in fund utilization. It is crucial to establish a comprehensive oversight and assessment system for fund allocation, enabling the scientific and rational formulation of budgets to guarantee public, equitable, and transparent distribution of resources.

5. Conclusions

Budget execution auditing and actual budget execution are two interconnected and mutually reinforcing components within the fiscal management framework. Budget execution constitutes the process by which relevant departments organize revenues, allocate expenditures, and fulfill their financial objectives in accordance with the approved budget. In contrast, budget execution auditing involves supervisory activities conducted by auditing agencies to assess the authenticity, legality, and efficacy of this process. Together, these elements serve the overarching goals of standardizing fiscal management, enhancing the effectiveness of fund utilization, and ensuring the implementation of policies. The former acts as the subject of oversight for the latter, while the latter, through its supervisory role, propels the optimization and refinement of the former. Issues uncovered during the budget execution process are transformed into specific measures for improving budget management following their revelation through audit practices. By continually enhancing and refining budget execution auditing, we can optimize the execution process itself, improve the progress of budget execution, and thereby promote the structural optimization of fiscal expenditures, ultimately leading to the more efficient resource utilization.

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