

The public sector financial management cycle

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Effective public sector financial management and service delivery is a continuous process of planning, implementation, evaluation, audit and improvement based on the outcomes. In other words, there is a financial management cycle in which:

- Earlier steps lead logically to later steps during the financial year.
- At the end of the process internally (and, from the auditors, externally) there is evaluation and review whether or not what was planned was actually delivered and how it might be done more efficiently in future.

The key elements of the cycle are:

- Budgeting and service planning - what the organisation plans to do and how it allocates the necessary resources to make service delivery possible.
- Operational performance management – ensuring that planned service outcomes are actually achieved.
- Budgetary control and integrated financial management – confirming that planned service outcomes are achieved within allocated budget.
- Evaluation - internal review of how processes can be improved.
- Audit - external verification and also independent advice on how processes can be improved.

Real challenges in making this work effectively

Finance departments often use jargon which service departments don't understand and service departments have difficulties keeping to agreed budgets. So the budget process is often an annual budget battle, frequently made more challenging by the necessary process of multi-annual budgeting.

Public sector bodies need to use budgets to express their priorities and achieve their objectives of delivering services to its citizens, so making the right budget choices is essential. To do so, budgeting cannot just be left to the finance department. Finance managers and service managers need to work together so that choices can be presented to political leaders to make better decisions for the organisation.

Of course this is not without risk so it's important to be able to identify and manage the most commonly arising financial and operational risks in budget and service delivery.

Can auditors help?

In my view they can. But a change in the timing of their interventions is needed, increasingly looking forward as well as backward. Audit should not be limited to the audit of outcomes. To add value auditors must also audit decision-making processes. These include how strategic and operational objectives are set, how these linked to budget allocations and performance goals and how budgets and service outcomes and the implementation of infrastructure projects are monitored.

Auditors must also more clearly explain the role of public sector audit and how they discharge it. They should explain how they undertake financial and performance audits, including compliance and value for money aspects, systems audits and transactions audits at all stages of the financial and performance management audit cycle. It is also important for public sector entities to understand the key idea

of risk-based auditing and how public sector entities can better prepare for audit visits to maximise their value to the organisation.

EIPA's workshops in the field of financial management have now been extended to cover all key aspect of the financial management cycle i.e.

- **Budgeting and service planning.**

26-27 June 2019 in Maastricht - co-presented with the Rijksacademie voor Financiën, Economie en Bedrijfsvoering.

>More information

- **Budgetary control and performance management of services.**

15-16 October 2019 in Maastricht - co-presented with OECD Governance.

>More information

- **Managing the audit process.**

27-28 November 2019 in The Hague - co-presented with the Algemene Rekenkamer.

>More information

I'm delighted that EIPA is working with three high profile sources of expertise to benefit citizens across Europe - as public finances remain tight, managing budgets and public services is an ever more challenging task for public bodies.

The views expressed in this blog are those of the authors and not necessarily those of EIPA.