

Understanding the public sector financial management cycle

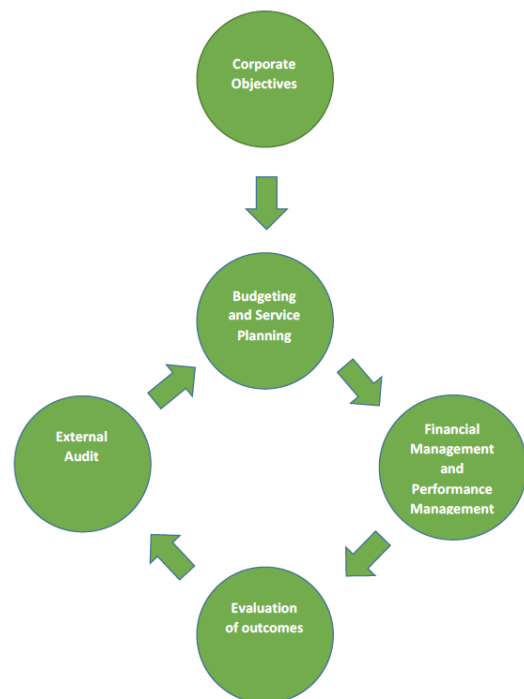
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Public administrations in Europe at all levels continue to face many very difficult and complex and often multiple challenges, many of which are not susceptible to quick solutions, especially as public finances remain tight and managing budgets and public services is an ever more challenging task for the public sector.

So it is even more essential than in the past for there to be effective implementation processes for public sector financial management and service delivery.

This is a continuous process of planning, implementation, evaluation, audit and improvement based on the outcomes – in other words, as 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) evaluation and review whether or not what was planned was actually delivered and how it might be done better in future.



The key stages in 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. This is

based on a combination of corporate objectives and resources and project and activity budgeting and planning i.e. where top-down meets bottom-up

- 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 and outcomes can be improved
- Audit – external verification and also independent advice on how processes and outcomes can be improved.

Is it easy?

– NO!

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 battle, often made more challenging by the necessary process of multi-annual budgeting.

Is it necessary?

– YES!

Public sector bodies need to use budgets to express their priorities and achieve their objectives of delivering services to 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.

In difficult times this requires compromise to prepare public sector budgets and service plans

by making realistic choices about priorities and thus make best use of limited resources.

And budgets and service plans should be used as tools to manage public services, including setting appropriate Key Performance Indicators (KPIs) and targets for them and effective processes for when/how to deal with unfavourable outcomes.

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 budgeting and service delivery.

In short there needs to be efficient management of public sector budgets and services and the public sector needs to know what to do and how to do it.

How can auditors help?

Auditors are increasingly seen as key to public trust in governance, which means some changes in what they do such as, for example:

- A change in the timing of their interventions – auditors must increasingly look forward as well as backward and not, as is sometimes said, only arrive after the car crash. Audit should not be limited to the audit of outcomes – to add value auditors must also audit decision-making processes e.g. how strategic/operational objectives are set, how these linked to budget allocations/performance goals, and how budgets and service outcomes/implementation of infrastructure projects are monitored
- While process compliance, financial assurance and legality will continue to form the basis of audit this must increasingly be supplemented by value for money audit
- Auditors must more clearly explain the role of public sector audit and how they discharge it, such as 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, 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.

Are you about to face the annual budget battle? Are this year's decisions even more difficult than usual? Since 2011 EIPA has helped experienced finance professionals and service managers make better decisions for delivering services to citizens! Have a look at our upcoming courses!

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