

Introduction to Financial Management in

Introduction to Financial Management in Public Administration

Public Administration
(A concise, easy-to-read guide for students and practitioners)

1. What Is Financial Management in the Public Sector?

Aspect	Definition	Why It Matters
Scope	Planning, directing, controlling, and monitoring the use of public resources (revenues, grants, loans, assets).	Ensures that government actions are financially sustainable and aligned with policy goals.
Objective	Achieve efficiency, effectiveness, equity, and accountability in delivering public services.	Balances fiscal prudence with social objectives.
Environment	Operates under legal/political constraints (laws, regulations, budgets, audits) and macro-economic conditions.	Provides a framework for legitimacy and transparency.

2. Core Functions of Public Financial Management (PFM)

1. Budget Preparation & Approval

- **Strategic Planning** ? Long-term policy goals.
- **Medium-Term Expenditure Framework (MTEF)** ? Links multi-year plans to annual budgets.
- **Legislative Approval** ? Parliament/legislature enacts the budget.

2. Revenue Mobilization

- Tax collection (direct & indirect).
- Non-tax revenues (fees, licences, dividends).
- Intergovernmental transfers & external borrowing.

3. Expenditure Management

- Allocation to ministries, agencies, projects.

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- Procurement & contract management.

- Payroll, social security, capital outlays.

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4. Cash & Debt Management

- Daily cash flow forecasting.
- Treasury operations (bank accounts, payments).
- Debt issuance, servicing, and risk monitoring.

5. Asset & Liability Management

- Inventory of public assets (infrastructure, land, equipment).
- Valuation, maintenance, disposal.

6. Financial Reporting & Auditing

- Preparation of financial statements (accrual or cash basis).
- Internal controls, performance audits, external audits.

7. Performance Monitoring & Evaluation

- Use of KPIs, cost-benefit analysis, and outcome indicators.
- Feedback loop to improve future budgeting cycles.

3. The Public Budget Cycle (Step-by-Step)

1. **Strategic Planning** – Define national/sectoral priorities.
2. **Budget Formulation** – Ministries submit **budget proposals**; Treasury consolidates.
3. **Budget Approval** – Legislative body debates, amends, and passes the budget law.
4. **Budget Execution** – Agencies spend according to appropriations; Treasury monitors cash.
5. **Financial Reporting** – Periodic statements (quarterly, annual) submitted to oversight bodies.
6. **Audit & Evaluation** – Supreme audit institutions (SAIs) review compliance and performance.
7. **Feedback & Reform** – Findings inform the next planning round.

Visual tip: Think of the cycle as a **continuous loop**, not a one-off event.

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4. Key Principles Guiding Public Financial Management

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Principle	Practical Implication
Transparency	Open data portals, published budgets, citizen access to financial information.
Accountability	Clear lines of responsibility; audit trails; performance contracts for officials.
Fiscal Discipline	Limits on deficits, debt ceilings, medium-term fiscal targets.
Equity	Progressive taxation, targeted subsidies, balanced regional allocations.
Efficiency & Effectiveness	Cost-effectiveness analysis, value for money assessments, outcome