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Review Article

Financial Management Practices and Financial Accountability in Public Sector Organizations: A Conceptual Review

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Abstract

Financial management practices play a pivotal role in promoting accountability, transparency, efficiency, and effective resource utilization within public sector organizations. This paper provides a conceptual review of financial management practices and their relationship with financial accountability. Specifically, it examines policy-based fiscal strategy and budgeting, budget credibility, management of assets and debts, control in budget execution, accounting and reporting, external audit and legislative scrutiny as critical dimensions of public financial management. Drawing on Agency Theory, Stewardship Theory, Public Financial Management Framework, New Public Management Theory, Public Choice Theory, and related theoretical perspectives, the paper explains how these practices contribute to improved governance and responsible stewardship of public resources. The review reveals that effective financial management systems strengthen transparency, reduce financial mismanagement and corruption, improve budget implementation, and enhance public confidence in government institutions. Conversely, weak financial controls, poor budget credibility, inadequate auditing mechanisms, and ineffective asset management undermine accountability and service delivery. The paper concludes that strengthening financial management practices through institutional reforms, improved internal controls, capacity building, and enhanced legislative oversight is essential for achieving sustainable financial accountability and good governance in public sector organizations.

Keywords: *Financial management practices, financial accountability, public financial management, budget credibility, public sector governance, external audit.*

Introduction

Financial management has become one of the most critical components of organizational success, particularly in public sector institutions where government agencies are entrusted with managing scarce public resources on behalf of citizens. Effective financial management ensures that financial resources are planned, allocated, utilized, monitored, and reported in a manner that promotes efficiency, transparency, accountability, and sustainable development (Brigham & Ehrhardt, 2017; Pandey, 2015). In recent years, governments across the world have implemented various public financial management reforms aimed at improving fiscal discipline, reducing corruption, strengthening accountability, and enhancing service delivery (World Bank, 2020; Allen et al., 2013).

Public financial management practices encompass a wide range of financial activities, including policy-based fiscal strategy and budgeting, budget credibility, management of assets and liabilities, budget execution and financial reporting, internal and external auditing, and legislative oversight. These practices provide mechanisms through which public institutions ensure that financial resources are utilized according to approved budgets, legal frameworks, and organizational objectives (International Monetary Fund [IMF], 2014; Andrews et al., 2014). When effectively implemented, they improve decision-making, enhance institutional performance, strengthen public trust, and promote good governance (Andrews, 2013). Conversely, weak financial management practices often result in financial mismanagement, budget overruns, poor service delivery, corruption, and declining public confidence in government institutions (World Bank, 2020).

The importance of financial accountability has also gained increasing attention among policymakers, researchers, and development partners because it serves as the foundation of responsible governance. Financial accountability requires public officials to provide accurate, timely, and transparent information regarding the utilization of public resources while remaining answerable for financial decisions and outcomes (Jensen & Meckling, 1976; Eldridge et al., 2019). Achieving financial accountability depends largely on the effectiveness of financial management practices implemented within public institutions (Christiaens & Lægreid, 2015; Andrews, 2013).

The relationship between financial management practices and financial accountability is well established in the literature. Agency Theory posits that public officials, acting as agents, have a responsibility to manage public resources prudently on behalf of citizens, who serve as principals (Jensen & Meckling, 1976). Likewise, New Public Management emphasizes performance, transparency, and results-oriented financial management as essential elements of effective governance (Andrews, 2013). Consequently, strengthening budgeting systems, enhancing budget credibility, improving asset and debt management, reinforcing financial controls, and promoting independent external audits are fundamental strategies for improving accountability and ensuring prudent management of public resources (COSO, 2013; INTOSAI, 2019; World Bank, 2019).

This paper therefore reviews the concept of financial management practices and examines how key dimensions, including policy-based fiscal strategy and budgeting, budget credibility, management of assets and debts, control in budget execution, accounting and reporting, external audit and legislative scrutiny influence financial accountability. It further discusses the theoretical foundations and empirical evidence supporting the role of sound financial management practices in promoting transparency, accountability, fiscal discipline, and good governance in public sector organizations.

Financial Management Practices

Financial management involves the strategic planning, directing, and controlling of financial resources to meet organizational objectives and maximize value (Brigham & Ehrhardt, 2016). It is theoretical foundations included agency theory, which emphasizes the role of managers as agents acting in the best interest of stakeholders (Jensen & Meckling, 1976), alongside the Modigliani- Miller Theorem, Traditional theory.Financial management refers to the systems of efficient and effective management of resources in such a manner as to accomplish the objectives of the organization (Chung & Chuang, 2010).

Financial management practices refer to the processes, policies, and procedures used by organizations to plan, control, and monitor their financial resources in order to achieve organizational goals effectively. In both private and public sector organizations, financial management practices play a critical role in ensuring efficient utilization of resources, financial discipline, and accountability. Financial management involves the planning, organizing, directing, and controlling of financial activities such as procurement and utilization of funds in an organization (Brigham & Ehrhardt, 2017). In the public sector, these practices are particularly significant because government institutions manage public resources on behalf of citizens and must ensure transparency and accountability in their operations.

Financial management practices encompass several key activities including budgeting, financial control, accounting, financial reporting, and auditing. These activities help organizations maintain proper records of financial transactions and ensure that financial resources are used for their intended purposes. Effective financial management systems enable organizations to allocate resources efficiently, monitor expenditures, and evaluate financial performance. Financial management practices are essential tools that guide decision-making regarding the acquisition and utilization of funds within an organization (Pandey, 2015). Without sound financial management practices, organizations may face problems such as financial mismanagement, waste of resources, and lack of accountability.

One of the most important components of financial management practices is budgeting. Budgeting is a financial planning process that estimates expected revenues and expenditures over a specific period. It serves as a guide for financial operations and helps organizations allocate resources to various programs and activities based on priorities. In the public sector, budgeting is essential for ensuring that government spending aligns with policy objectives and development goals. Elliott and Elliott (2019) budgeting provides a framework for planning and controlling financial activities and helps organizations monitor their financial performance (Khan & Jain, 2018). Through budgeting, ministries, departments, and agencies can plan their expenditures and ensure that funds are used efficiently to achieve organizational objectives (Brigham & Ehrhardt2017).

Another important aspect of financial management practices is financial control. Financial control refers to the procedures and policies established to ensure that financial resources are used in accordance with established rules and regulations. Financial controls mechanisms help prevent fraud, errors, and misuse of funds. These mechanisms include authorization procedures, verification of financial transactions, segregation of duties, and regular financial reporting. (Anthony & Govindarajan, 2007). In public institutions, strong financial control systems enhance accountability and promote transparency in the management of public funds.

Internal control systems are also an essential component of financial management practices. Internal control refers to the processes designed and implemented by an organization to ensure the reliability of financial reporting, safeguard assets, and promote operational efficiency. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) identifies five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring (COSO, 2013). These components help organizations detect and prevent financial irregularities and ensure that financial activities are properly supervised. Effective internal control systems contribute significantly to improved accountability and transparency in public sector organizations.

Financial reporting is another key element of financial management practices. Financial reporting involves the preparation and presentation of financial statements that provide information about the financial position and performance of an organization. Accurate and timely financial reporting allows stakeholders to assess how financial resources are managed and whether they are used in accordance with established policies. According to Barry Elliott and Jamie Elliott, financial reporting enhances transparency and supports decision-making by providing relevant financial information to managers, regulators, and other stakeholders (Elliott & Elliott, 2019). In the public sector, financial reports are essential for promoting accountability and ensuring that government agencies comply with financial regulations.

Closely related to financial reporting is auditing, which is the independent examination of financial records and statements to determine their accuracy and compliance with applicable standards and regulations. Auditing helps identify financial irregularities, errors, and cases of mismanagement. Plays a crucial role in enhancing the credibility of financial information and strengthening accountability within organizations,in government institutions, both internal and external audits are conducted to ensure that public funds are used appropriately and that financial management practices comply with established regulations (Arens et al, 2017).

Despite the importance of financial management practices, many public sector institutions face significant challenges in implementing effective financial management systems. These challenges include weak internal controls, inadequate financial monitoring, corruption, and lack of skilled financial personnel. In many developing countries, including Nigeria, poor financial management practices have contributed to inefficiencies in public service delivery and misuse of public resources. According to World Bank, weak public financial management systems often lead to poor budget execution, limited transparency, and reduced accountability in government institutions (World Bank, 2020).

To address these challenges, governments are increasingly implementing reforms aimed at strengthening financial management practices in the public sector. These reforms include the adoption of modern accounting systems, implementation of integrated financial management information systems, improved budget monitoring mechanisms, and capacity building for financial personnel. Strengthening financial management practices can significantly improve transparency, accountability, and efficiency in the management of public resources (Khan & Jain2018).

Policy-Based Strategy and Budgeting

Policy-based fiscal strategy and budgeting refer to the deliberate alignment of government budgetary decisions with policy objectives to ensure efficient and effective allocation of public resources. This strategic approach is supported by the Public Financial Management (PFM) framework, which emphasizes linking expenditures with priorities, and draws further support from Keynesian fiscal theory, which advocates for active government intervention in managing economic cycles. Additional frameworks such as New Public Management and Public Choice Theory (Buchanan & Tullock, 1962) highlight both the performance focus of modern public administration and the political economy dynamics underlying budgetary reforms.

Operationally, policy-based fiscal strategy and budgeting are implemented through tools like Medium-Term Fiscal and Expenditure Frameworks (MTEFs), macro-fiscal forecasting, performance based and program-based budgeting, and strategic budget classification systems (International Monetary Fund, 2014). These instruments aim to move beyond incremental budgeting and ensure that spending reflects policy goals rather than purely input categories. This also includes annual budgets structured to promote taxation and public spending measures that support growth and social equity.

Empirical evidence indicates that countries employing such strategies often experience enhanced fiscal discipline, greater allocation efficiency, improved transparency, and more effective public service delivery (Andrews, 2013). Reports from IMF and PEFA assessments further reinforce the value of policy-based budgeting in promoting responsiveness to socio-economic priorities and resilience during financial downturns. Findings suggest that when fiscal strategies are welldefined and systematically applied, they contribute to stronger governance, stakeholder trust, and sustainable macroeconomic development (Andrews et al, 2014).

However, full realization of these benefits depends heavily on institutional capacity, data availability, and political commitment. Governments must establish robust frameworks and demonstrate the will to prioritize long-term objectives over short term gains (Allen et al., 2013). Ultimately, policy-based fiscal strategy and budgeting are not merely technical reforms but vital mechanisms for enhancing public financial management, resource utilization, and overall accountability.

Budget Credibility

Budget credibility refers to the extent to which actual government expenditures and revenues align with budgeted estimates, reflecting reliability, predictability, and fiscal integrity (Andrews, 2013). This concept is central to public financial management (PFM), where effective budget execution and financial discipline underpin fiscal trustworthiness. Theoretically, budget credibility is framed by PFM systems, Rational Choice Theory, Public Choice Theory, New Public Management (NPM), and Legitimacy Theory each emphasizing different drivers of fiscal reliability from institutional capacity and incentives to performance and stakeholder trust (Buchanan & Tullock, 1962).

Operationalization involves tools such as budget variance analysis, expenditure tracking, financial reporting, forecasting accuracy, and stakeholder satisfaction surveys. Instruments like Medium-Term Expenditure Frameworks and PEFA assessments serve as benchmarks for tracking alignment between planned and actual spending across sectors (International Monetary Fund, 2014). Empirical findings highlight frequent underspending especially in capital intensive sectors and point to weak forecasts, economic shocks, and poor planning as common culprits (Andrews, 2013). Countries with stronger accountability mechanisms and transparent fiscal practices tend to maintain higher budget credibility. Deviations are more prevalent in low-income countries and often undermine key areas like health and education. The implications are significant: poor budget credibility erodes public trust, distorts resource allocation, inflates borrowing costs, and weakens service delivery and macroeconomic stability (World Bank, 2019). Enhancing transparency, accountability, and forecasting capacity is critical to improving fiscal governance and securing public confidence in financial management.

Management of Assets and Debts

Management of assets and debts often framed as Asset-liability Management (ALM) is the strategic process through which individuals, organizations, or plan, monitor, and control their financial resources and obligations to ensure financial sustainability, maximize value, and minimize risk (Brigham & Ehrhardt, 2016). It encompasses acquisition, allocation, and disposition of assets alongside prudent liability oversight. ALM optimizes net earnings, manages liquidity, controls diverse risk (e.g, interest rate, currency, credit), and safeguards long-term solvency.

This concept draws extensively from multiple financial theories. Modern Portfolio Theory emphasizes balancing risk and return through optimal asset allocation (Markowitz, 1952). Capital structure Theory examines how the mix of debt and equity financing affects firm value and cost efficiency (Modigliani & Miller, 1958). Agency Theory highlights the accountability challenges where agents manage public or corporate finances on behalf of stakeholders (Jensen & Meckling, 19776). Additionally, the Debt Management Theory (Keynes, 1936), Trade-off Theory, and Pecking Order Theory further clarify how financial structure decisions impact stability and control. Operationalizing asset and debt management involves strategies and metrics that assess efficiency and solvency. These include financial indicators such as debt to equity ratio, asset turnover, current ratio, ad debt maturity profiles (Sullivan et al, 2016). Advanced techniques such as gap analysis, duration matching, stress testing, and scenario modeling, often overseen by dedicated ALM committees, support robust internal governance structures.

Empirical studies affirm the significance of effective asset and debt management in enhancing financial performance, stability and resilience. Research shows that firms with structured maturity profiles and optimal asset utilization and excessive short-term debt correlate with increased distress, while consistent frameworks foster profitability and economic durability. The implications are profound, sound asset and debt management strengthens creditworthiness, investor confidence, and organizational longevity whether in corporate or public contexts (Ross et al, 2019). Weak institutional support and erratic fiscal policies, especially in developing economies, undermine effective financial planning and exacerbate fiscal vulnerability. Therefore, financial managers must prioritize comprehensive strategies and monitoring systems to optimize resources, mitigate risk, and drive sustainable growth.

Control in Budget Execution, Accounting and Reporting

Control in budget execution, accounting and reporting encompasses the mechanisms, processes, and systems that ensure financial transactions are authorized, accurately recorded, and reported in compliance with legal frameworks and approved budgets (Ahmed & Evans, 2015), Accounting Insights, 2024). Theses controls aim to guarantee the efficient, effective, and transparent utilization of public funds while reinforcing fiscal discipline and institutional accountability (World Bank, 2019, Andrews 2013).

From a theoretical standpoint, various frameworks underpin the concept of control. Principal agent theory emphasizes oversight to mitigate conflicts of interest between public managers and citizens (Jensen & Meckling, 1976), while public choice theory and stewardship theory highlight the role of accountability and trust in resource management. Managerial accounting theory adds a performance oriented perspective, focusing on planning, monitoring, and evaluation (Bhimani, 2016). Contingency theory introduces a contextual lens, suggesting control systems must adapt to environmental factors for optimal effectiveness (Lawrence & Lorsch, 1967).

Operationally, control is manifested through a variety of tools and practices, internal audits, commitment controls, procurement compliance, account reconciliation, variance analysis, and timely financial performance, stability, and resilience. Research shows that firms with structured maturity profiles and optimal asset allocation perform better under favorable macroeconomic and institutional conditions. Poor asset utilization and excessive short term debt correlate with increased distress, while consistent frameworks foster profitability and economic durability. The implications are profound, sound asset and debt management strengthens creditworthiness, investor confidence, and organizational longevity whether in corporate or public contests (Ross et al., 2019). Weak institutional support and erratic fiscal policies, especially in developing economies, undermine effective financial planning and exacerbate fiscal vulnerability. Therefore, financial managers must prioritize comprehensive strategies and monitoring systems to optimize resources, mitigate risk, and drive sustainable growth.

Financial reporting using international standards such as PEFA indicators, the integration of financial management information systems (IFMIS) has proven particularly transformative, reducing leakages and improving transparency (Accounting Insights, 2024).

Empirical evidence consistently underscores the value of robust control systems. Strong financial oversight correlates with reduced corruption, enhanced resource allocation, improved service delivery, and increased organizational performance (Christiaens & Van Peteghem, 2024), Andrews, 2013). In contrast, inadequate enforcement and limited institutional capacity common in many developing countries hinder reliable budget execution and reporting. The implications of effective control in public financial management are far reaching. It fosters macro economic stability, strengthens public trust, enhances decision-making, and safeguards good governance (Cohen et al, 2016, Ahmed & Evans, 2015). Ultimately, the integrity and success of budgetary systems hinge not just on the existence of control mechanisms, but on their continuous adaptation and rigorous enforcement throughout the financial management cycle.

External Audit and Legislative Security

External audit and legislative scrutiny constitute vital oversight mechanisms designed to evaluate government financial activities and resources use, thereby ensuring accountability, transparency, and good governance (INTOSAI, 2019). These processes involve independent assessments by Supreme Audit Institutions (SAIs) and subsequent legislative review, offering a check on executive power and safeguarding fiscal integrity. Rooted in Agency Theory, they address the informational asymmetry between public officials (agents) and citizens (Principals), ensuring that agents act in the public interest and are held to account (Jensen & Meckling, 1976). Public Accountability Theory and democratic frameworks further underscore the right of stakeholders to demand justification for resource utilization and policy outcomes. Operationalization involves the formal establishment of audit bodies, publication of financial reports, and the use of performance metrics such as audit coverage, report timeliness, implementation of recommendations, and legislative debates (Baker, 2017). Indicators of effectiveness also included audit independence, resource capacity, and the vigor with which audit findings are followed up by parliamentarians and oversight committees. In both public and private contests, audits and scrutiny are executed through mechanisms like external reporting, compliance evaluations, and sanctioning frameworks that reinforce legal and ethical standards.

Empirical evidence affirms that jurisdictions with well-resourced and independent audit institutions, coupled with robust legislative engagement, experience improved fiscal discipline, reduced corruption, enhanced efficiency of public spending, and stronger public trust in institutions (Talluri & Hoque, 2017). Furthermore, increased investor confidence and improved organizational performance have been linked to the integrity and credibility of external oversight processes. However, the transformative potential of external audit and legislative scrutiny is often curtailed by political interference, weak institutional independence, and limited legislative capacity to act on audit findings (World Bank, 2019). These constraints diminish the impact of audits as tools of reform. It has been observed that meaningful accountability hinges not only on the existence of oversight structures but also on the political will to enforce recommendations and citizen engagement in monitoring financial stewardship.

The implications are far-reaching, effective audit and legislative scrutiny systems strengthen democratic governance, promote ethical conduct, and reinforce fiscal responsibility. Governments aiming to bolster transparency and trust must prioritize capacity building, safeguard institutional autonomy, and create responsive mechanisms that transform scrutiny into action.

Financial Accountability

Financial accountability is the obligation of individuals, institutions, and organizations, particularly in the public and nonprofit sectors, to report, justify, and assume responsibility for their financial transactions, decisions, and performance, ensuring transparency, ethical conduct, and legal compliance (Eldridge et al, 2019). At its core, it addresses the stewardship of resources, requiring agents entrusted with public funds to act in the best interests of principals such as citizens, taxpayers, and stakeholders (Jensen & Meckling, 1976, Bohren & Hauk, 2019).

Theoretically, financial accountability draws from several influential perspectives. Agency theory emphasizes oversight and incentive structures that align agents actions with public expectations (Jensen & Meckling, 1976). Stewardship theory highlights agents ethical responsibility to manage resources conscientiously, while Institutional Theory underscores the role of formal rules and norms in shaping accountability practices. The New Public Management (NPM) paradigm adds a performance driven lens, viewing financial accountability as essential to efficiency and governance modernization. Public Accountability Theory further recognizes citizens rights to demand clear accounts of financial stewardship.

Operationalization occurs through structured mechanisms such as timely and accurate financial reporting and disclosure (Kumar & Singh, 2020), internal controls and audit trails aligned with standards like GAAP and IFRS (Christiaens & Laegreid, 2015), independent external audits and public expenditure tracking (World Bank, 2019) and legislative oversight and adherence to procurement and budget laws. Empirical evidence consistently links strong financial accountability systems to reduced corruption, improved fiscal discipline, better governance outcomes, and elevated stakeholder trust (Andrews, 2013 Buchanan et al 2021). These systems also foster ethical practices, enhance public service delivery, and promote economic stability when backed by institutional independence and civic engagement (Logsdon et al, 2020). The implications are profound robust financial accountability frameworks are foundational to public trust, democratic legitimacy, and effective resource management. Conversely, weak enforcement and limited transparency can undermine these benefits, leading to financial mismanagement, policy failure, and erosion of confidence in institutions. It has been widely observed that governments and organizations should prioritize strengthening audit functions, enhancing reporting standards, and enforcing compliance to cultivate fiscal integrity and sustainable development outcomes.

Fig.1 Conceptual Diagram

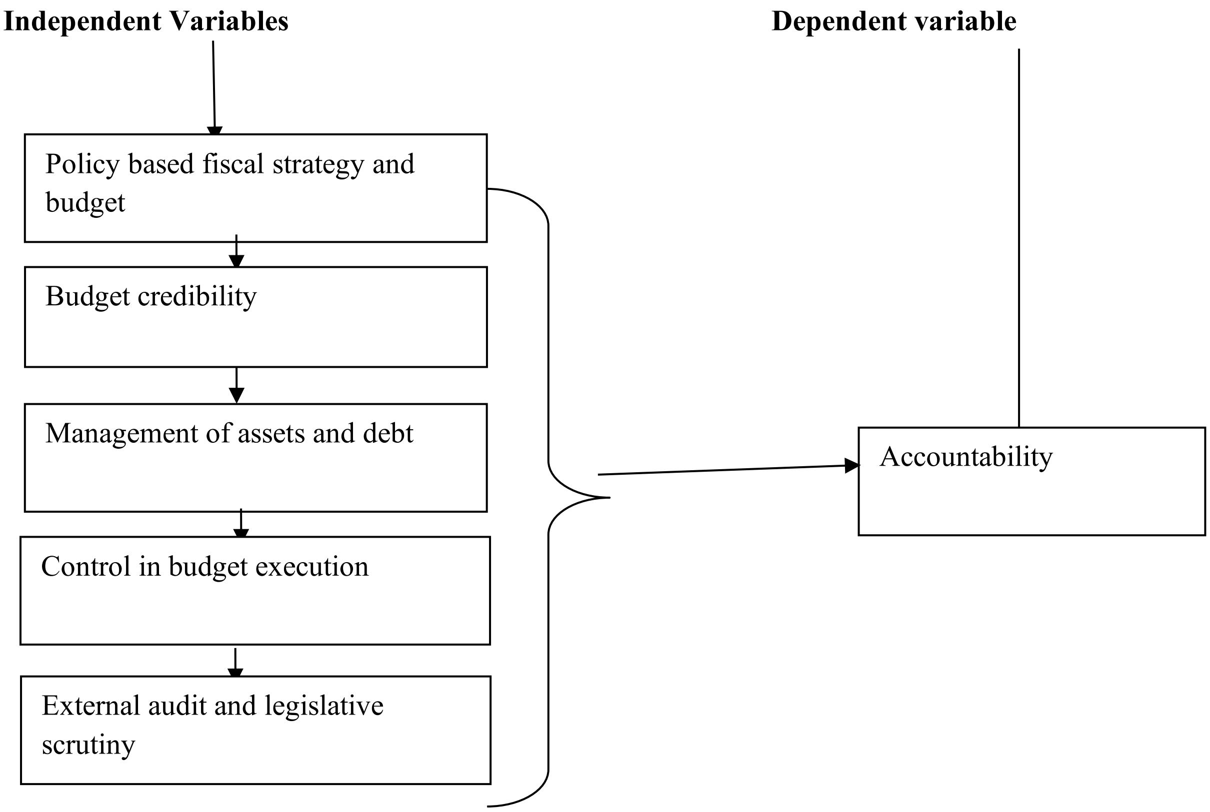

Figure 1: Conceptual Framework

Conclusion

Financial management practices constitute the cornerstone of financial accountability and good governance in public sector organizations. This conceptual review has demonstrated that key dimensions of public financial management, including policy-based fiscal strategy and budgeting, budget credibility, management of assets and debts, control in budget execution, accounting and reporting, and external audit and legislative scrutiny, collectively enhance transparency, fiscal discipline, and the efficient utilization of public resources. The review further established that sound financial management practices are supported by several theoretical perspectives, including Agency Theory, Stewardship Theory, Public Financial Management Framework, New Public Management Theory, and Public Choice Theory, all of which emphasize accountability, prudent stewardship, and performance-oriented governance.

The review also revealed that effective financial management systems improve budget implementation, strengthen internal controls, reduce opportunities for corruption and financial mismanagement, and promote public confidence in government institutions. Conversely, weaknesses in budgeting processes, poor budget credibility, inadequate financial reporting, ineffective asset and debt management, weak internal controls, and limited external oversight undermine financial accountability and negatively affect public service delivery. Therefore, achieving sustainable financial accountability requires strong institutional frameworks, transparent financial reporting systems, competent financial personnel, and independent oversight mechanisms. Strengthening these financial management practices remains essential for improving governance, ensuring responsible stewardship of public resources, and fostering sustainable socio-economic development in public sector organizations.

Policy Recommendations

1. **Strengthen policy-based budgeting:** Governments should institutionalize policy-based fiscal planning by aligning annual budgets with national development priorities through Medium-Term Expenditure Frameworks (MTEFs) and performance-based budgeting to improve resource allocation and budget effectiveness.
2. **Enhance budget credibility:** Public sector organizations should improve revenue forecasting, expenditure planning, and budget monitoring systems to minimize variances between approved budgets and actual expenditures, thereby strengthening fiscal discipline and public confidence.
3. **Improve asset and debt management:** Government institutions should establish comprehensive asset registers, adopt prudent debt management strategies, and regularly monitor asset utilization and debt sustainability to safeguard public resources and maintain fiscal stability.
4. **Strengthen internal controls and budget execution:** Public organizations should reinforce internal control systems through segregation of duties, commitment controls, regular reconciliations, integrated financial management information systems (IFMIS), and continuous risk assessment to prevent fraud and financial irregularities.
5. **Promote high-quality financial reporting:** Ministries, departments, and agencies should prepare timely, accurate, and transparent financial reports in accordance with recognized public sector accounting standards to facilitate informed decision-making and accountability.
6. **Enhance external audit independence and legislative oversight:** Governments should strengthen the autonomy, capacity, and resources of Supreme Audit Institutions while ensuring that legislative bodies effectively review audit reports and enforce the implementation of audit recommendations.
7. **Invest in capacity building:** Continuous professional training and development should be provided for public financial management personnel to enhance competence in budgeting, accounting, auditing, financial reporting, and the application of emerging financial management technologies.
8. **Leverage digital financial management systems:** Governments should expand the deployment of integrated financial management information systems, e-procurement platforms, and digital audit tools to improve transparency, real-time monitoring, efficiency, and accountability in public financial management.
9. **Strengthen anti-corruption and compliance mechanisms:** Public institutions should enforce strict compliance with financial regulations, strengthen anti-corruption agencies, and establish effective whistleblower protection mechanisms to deter financial misconduct.
10. **Encourage citizen participation and transparency:** Governments should promote open budgeting, public disclosure of financial information, and citizen engagement in budget monitoring and expenditure tracking to strengthen public trust, accountability, and democratic governance.

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