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Review Article

Public Financial Management Practices and Financial Accountability in Government Ministries, Departments, and Agencies: A Review of Key Dimensions and Empirical Evidence

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Abstract

Financial accountability remains a fundamental objective of public financial management (PFM) systems in both developed and developing economies. This paper reviews key dimensions of public financial management that influence financial accountability in government Ministries, Departments, and Agencies (MDAs). Specifically, it examines the role of policy-based fiscal strategy, budget credibility, management of public assets and debt, control in budget execution, and external audit with legislative scrutiny in promoting transparency, fiscal discipline, and accountability. The reviewed literature indicates that policy-oriented fiscal frameworks, realistic and credible budgets, prudent asset and debt management, effective expenditure controls, and independent oversight institutions contribute significantly to improved governance and responsible management of public resources. However, institutional weaknesses, political interference, weak enforcement mechanisms, and limited technical capacity continue to constrain effective financial accountability, particularly in developing countries such as Nigeria. The paper concludes that strengthening institutional capacity, improving budget implementation, enhancing audit independence, and reinforcing legislative oversight are essential for achieving sustainable public sector accountability and improved governance.

Keywords: *Public Financial Management; Financial Accountability; Government Ministries, Departments, and Agencies (MDAs).*

Introduction

Public financial management (PFM) constitutes one of the most important mechanisms through which governments ensure prudent utilization of public resources and promote accountability in public institutions. Effective financial management enables governments to allocate scarce resources efficiently, maintain fiscal discipline, improve service delivery, and strengthen citizens' confidence in public institutions. Consequently, financial accountability has become a central objective of public sector governance reforms across both developed and developing economies (International Monetary Fund [IMF], 2018).

Government Ministries, Departments, and Agencies (MDAs) are responsible for implementing government policies and managing significant public resources. Their effectiveness largely depends on the quality of financial management systems that guide budgeting, expenditure control, asset management, debt management, auditing, and financial reporting. Weak public financial management systems often result in budget deviations, financial irregularities, corruption, poor service delivery, and reduced public trust (World Bank, 2010).

One important dimension of public financial management is the adoption of policy-based fiscal strategies. Policy-based fiscal strategy ensures that government revenue generation, expenditure allocation, borrowing, and deficit management are guided by clearly defined development priorities and medium-term fiscal frameworks. Such strategies improve macroeconomic stability, fiscal discipline, and accountability by aligning budget implementation with national policy objectives (Alesina & Perotti, 1999; Schick, 1998). Medium-Term Expenditure Frameworks (MTEFs), fiscal responsibility laws, and performance-based budgeting have become important instruments for strengthening policy-oriented fiscal governance (Allen et al., 2013).

Budget credibility also represents a critical determinant of financial accountability. A credible budget reflects realistic revenue projections and expenditure estimates that are implemented as approved by the legislature. Empirical evidence indicates that credible budgeting improves fiscal discipline, strengthens legislative oversight, enhances transparency, and reduces opportunities for financial mismanagement (PEFA Secretariat, 2016; OECD, 2019). Conversely, unrealistic budgeting and poor implementation undermine accountability and weaken public confidence in government institutions.

Similarly, prudent management of public assets and debt contributes significantly to accountability by ensuring that government resources are properly recorded, safeguarded, and utilized for intended purposes. Adoption of International Public Sector Accounting Standards (IPSAS), maintenance of reliable asset registers, and transparent debt reporting improve financial reporting quality and reduce fiscal risks (Blöndal, 2003; IMF, 2018). In many developing countries, however, weak asset management systems continue to generate audit queries and financial reporting deficiencies. Control in budget execution further strengthens accountability by ensuring that public expenditures comply with approved budgets and established financial regulations. Effective commitment controls, cash management systems, internal audits, Treasury Single Account (TSA), and Government Integrated Financial Management Information Systems (GIFMIS) enhance expenditure monitoring, reduce revenue leakages, and improve fiscal transparency (Olaoye & Ojo, 2018; OECD, 2019).

Finally, external audit and legislative scrutiny serve as indispensable accountability mechanisms by providing independent assessment of government financial activities and ensuring compliance with legal and budgetary requirements. Independent audit institutions and effective legislative oversight enhance transparency, reduce corruption, and improve governance outcomes, although political interference and weak enforcement continue to limit their effectiveness in many developing countries (Bovens, 2007; Wehner, 2010). Against this background, this paper reviews major public financial management practices influencing financial accountability in government Ministries, Departments, and Agencies, with emphasis on policy-based fiscal strategy, budget credibility, asset and debt management, budget execution controls, and external audit supported by legislative scrutiny.

Policy Based Fiscal Strategy and Budget and Financial Accountability

Policy-based fiscal strategy refers to a structured approach whereby government fiscal actionsrevenue generation, expenditure allocation, borrowing, and deficit managementare guided by clearly articulated policy objectives embedded in medium- to long-term development frameworks. In modern public financial management (PFM), fiscal strategy is not merely an annual budgeting exercise but a rule-guided and performance-oriented process designed to promote macroeconomic stability, allocative efficiency, and public accountability (Alesina & Perotti, 1999; Schick, 1998).

Budgeting serves as the principal instrument through which fiscal strategies are operationalized. When aligned with policy priorities and governed by transparent processes, budgets become a mechanism for accountability, ensuring that public resources are utilized in accordance with legislative approval and development objectives (Allen, Hemming, & Potter, 2013). Empirical evidence increasingly demonstrates that policy-based fiscal strategies enhance fiscal discipline, reduce corruption, and strengthen institutional accountability (PEFA Secretariat, 2016; IMF, 2018).

The adoption of Medium-Term Expenditure Frameworks (MTEFs), fiscal responsibility laws, and performance-based budgeting systems are institutional tools used to embed policy orientation in fiscal governance (World Bank, 2010). Countries such as South Africa, Chile, and Sweden have demonstrated that medium-term fiscal frameworks improve predictability and strengthen expenditure control (OECD, 2019). Empirical studies suggest that fiscal rules and credible budget frameworks reduce fiscal deficits and enhance macroeconomic stability (Debrun et al., 2008). Furthermore, transparent fiscal policies are positively associated with improved sovereign credit ratings and investor confidence (Alt & Lassen, 2006). Empirical literature establishes a strong linkage between policy-based fiscal strategies and improved budgetary performance. Alesina and Perotti (1999) found that institutional constraints and rule-based fiscal policies reduce fiscal imbalances in OECD countries. Similarly, the IMF (2018) reported that countries with credible medium-term fiscal frameworks experience lower fiscal volatility and better expenditure prioritization.In developing countries, empirical findings reveal that weak fiscal planning and poor policy alignment often result in budget deviations and inefficiencies (World Bank, 2010). For instance, studies on Sub-Saharan Africa show that policy-inconsistent budgeting contributes to high levels of budget variance and weak service delivery (PEFA Secretariat, 2016).

In the Nigerian context, fiscal responsibility reformssuch as the Fiscal Responsibility Act (2007) were introduced to ensure that annual budgets align with macroeconomic frameworks and debt sustainability targets. Empirical assessments indicate moderate improvements in fiscal transparency but persistent challenges in budget implementation and accountability (Okonjo-Iweala & Osafo-Kwaako, 2007; Ezeabasili & Herbert, 2014).

Empirical evidence supports the assertion that policy-based fiscal strategy enhances budget credibility, fiscal discipline, and accountability. Institutional mechanisms such as fiscal rules, medium-term frameworks, and transparency reforms play critical roles in aligning budgets with policy objectives. However, the effectiveness of these strategies depends largely on institutional quality, political commitment, and enforcement capacity.For developing countries like Nigeria, strengthening policy-based fiscal frameworks and enhancing oversight institutions remain essential for improving public sector accountability and sustainable fiscal performance.

Budget Credibility and Financial Accountability

Budget credibility refers to the extent to which actual government revenues and expenditures correspond to the approved budget. A credible budget is one that is realistic, policy-aligned, and implemented as authorized by the legislature. In public financial management (PFM), budget credibility is widely recognized as a foundational pillar for fiscal discipline and public accountability (PEFA Secretariat, 2016; International Monetary Fund, 2018).

In the context of government Ministries, Departments and Agencies (MDAs), budget credibility directly influences service delivery outcomes, financial transparency, and institutional accountability. Where budget implementation deviates substantially from approved estimates, it weakens legislative oversight, undermines policy effectiveness, and reduces public trust. Empirical evidence across developing and developed economies shows that poor budget credibility is associated with inefficiencies, corruption, and weak financial reporting systems (World Bank, 2010; OECD, 2019).

Empirical studies consistently demonstrate that budget credibility is positively associated with fiscal discipline and governance quality.Alesina and Perotti (1999) found that institutionalized budget frameworks reduce fiscal deficits and enhance policy consistency. Similarly, the IMF (2018) reports that countries with realistic revenue projections and strong commitment controls experience lower fiscal volatility and improved macroeconomic performance. In Sub-Saharan Africa, empirical PEFA assessments reveal persistent budget deviations in several countries, particularly in capital expenditure execution. These deviations often result from over-optimistic revenue forecasts and weak expenditure controls (PEFA Secretariat, 2016). In Nigeria, studies show significant differences between approved and actual budget implementation rates, especially at the MDA level. Ezeabasili and Herbert (2014) report that weak fiscal discipline and limited enforcement of financial regulations contribute to budget overruns and underperformance. Furthermore, Nwaorgu and Alozie (2017) found that Nigeria's federal budget credibility remains low due to unrealistic macroeconomic assumptions and poor implementation capacity.

Budget credibility is a critical determinant of accountability in government Ministries, Departments and Agencies. Empirical evidence indicates that credible budgeting frameworks enhance fiscal discipline, strengthen oversight mechanisms, and reduce financial mismanagement. However, institutional capacity, political commitment, and governance quality significantly influence the effectiveness of these frameworks. For developing economies such as Nigeria, improving budget credibility at the MDA level remains essential for strengthening public financial accountability and achieving sustainable development objectives.

Management of Assets and Debt and Financial Accountability

The management of public assets and debt constitutes a central component of public financial management (PFM) and is critical to ensuring fiscal sustainability, transparency, and accountability in government Ministries, Departments and Agencies (MDAs). Public assets include financial assets (cash, investments, receivables) and non-financial assets (infrastructure, buildings, equipment), while public debt encompasses domestic and external borrowings incurred to finance government activities.

Effective asset and debt management ensures optimal utilization of public resources, minimizes fiscal risks, and promotes intergenerational equity (International Monetary Fund, 2018; World Bank, 2010). Empirical evidence indicates that weak management of assets and debt increases the likelihood of financial mismanagement, audit irregularities, and fiscal instability, thereby undermining accountability mechanisms within MDAs.International best practices emphasize accrual-based accounting and asset registers as critical tools for improving transparency and accountability (IMF, 2018). The adoption of International Public Sector Accounting Standards (IPSAS) has strengthened asset disclosure requirements in many countries.Poor asset management in MDAs often manifests through unrecorded assets, abandoned projects, underutilized infrastructure, and weak maintenance systems. Empirical findings from developing economies show that absence of reliable asset registers contributes significantly to audit queries and financial reporting deficiencies (World Bank, 2010).

Empirical studies reveal a strong relationship between asset management practices and financial accountability in public institutions. Blöndal (2003) argues that accrual accounting systems improve asset visibility and promote responsible stewardship of public resources. Countries that adopted IPSAS-based reporting frameworks recorded improvements in asset transparency and audit compliance (OECD, 2019). In Sub-Saharan Africa, weak asset tracking systems have resulted in significant losses of public property and difficulties in financial reporting. PEFA assessments frequently highlight deficiencies in asset registers and valuation systems as major weaknesses in PFM systems (PEFA Secretariat, 2016).

In Nigeria, the transition to IPSAS (cash basis initially, with gradual movement toward accrual basis) was aimed at improving asset recording and disclosure across MDAs. Empirical evaluations indicate improvements in financial statement transparency; however, challenges persist in asset verification and valuation processes (Ezeabasili & Herbert, 2014). Sound debt management contributes to fiscal transparency and accountability. Alt and Lassen (2006) demonstrate that fiscal transparencyincluding debt disclosurereduces corruption and improves governance outcomes. Similarly, Wehner (2010) finds that legislative oversight of borrowing enhances fiscal responsibility and limits excessive debt accumulation.

In developing economies, empirical evidence shows that lack of transparent debt reporting often leads to hidden liabilities and fiscal crises. The IMF (2018) reports that countries with comprehensive debt management offices (DMOs) and medium-term debt strategies exhibit improved fiscal credibility and lower borrowing costs.Nigeria established a Debt Management Office (DMO) to centralize and improve debt reporting. While this reform enhanced debt transparency at the federal level, subnational debt accountability remains inconsistent due to weak institutional controls.

Effective management of assets and debt is fundamental to strengthening accountability in government Ministries, Departments and Agencies. Empirical evidence indicates that transparent asset recording, prudent debt management, and strong institutional frameworks significantly enhance fiscal discipline and reduce financial irregularities.

However, institutional weaknesses, political interference, and limited technical capacity continue to constrain effective implementation in many developing countries. Strengthening governance systems, adopting international accounting standards, and improving oversight mechanisms remain essential for ensuring sustainable public financial accountability.

Control in Budget Execution and Financial Accountability

Control in budget execution refers to the institutional, procedural, and regulatory mechanisms established to ensure that public expenditures are implemented in accordance with approved budgets, financial regulations, and policy objectives. It constitutes a core dimension of public financial management (PFM) and directly influences fiscal discipline and accountability within government Ministries, Departments and Agencies (MDAs).

Effective budget execution controls prevent overspending, misallocation of funds, accumulation of arrears, and financial irregularities. According to the International Monetary Fund (2018), sound expenditure control systems enhance fiscal transparency and strengthen public accountability. Similarly, the World Bank (2010) emphasizes that weak execution controls undermine budget credibility and reduce the effectiveness of oversight institutions. In developing economies, deficiencies in budget execution controls are frequently associated with corruption, audit qualifications, and weak service delivery outcomes. Thus, strengthening control mechanisms in MDAs remains central to achieving accountable governance.

Empirical literature demonstrates that strong budget execution controls are associated with improved fiscal outcomes and reduced financial irregularities. Alesina and Perotti (1999) argue that institutionalized expenditure controls reduce fiscal deficits and improve budgetary discipline. Similarly, the IMF (2018) reports that countries with well-designed commitment and cash management systems experience fewer arrears and improved fiscal predictability. In OECD countries, integrated financial management information systems (IFMIS) have significantly enhanced monitoring of expenditures and strengthened compliance with budgetary limits (OECD, 2019). These systems improve transparency by providing real-time financial data for decision-making.

In Sub-Saharan Africa, however, empirical PEFA assessments reveal persistent weaknesses in commitment controls and cash management systems. These deficiencies often result in expenditure overruns and accumulation of payment arrears (PEFA Secretariat, 2016).

In Nigeria, reforms such as the Treasury Single Account (TSA) and Government Integrated Financial Management Information System (GIFMIS) were introduced to enhance control in budget execution across MDAs. Empirical findings suggest that TSA improved cash management and reduced revenue leakages, although challenges remain in procurement compliance and internal audit effectiveness (Olaoye & Ojo, 2018). Control in budget execution is a critical determinant of accountability in government Ministries, Departments and Agencies. Empirical evidence demonstrates that strong commitment controls, cash management systems, internal audits, and digital financial platforms significantly enhance fiscal discipline and reduce financial irregularities.

However, institutional weaknesses, limited technical capacity, and political interference continue to constrain effective implementation in many developing countries. Strengthening governance frameworks, improving internal controls, and enhancing oversight mechanisms remain essential for achieving sustainable public sector accountability.

External Audit and Legislative Scrutiny and Financial Accountability

External audit and legislative scrutiny constitute fundamental pillars of public sector accountability. In democratic governance systems, public officials are required to justify the use of public resources to independent oversight bodies and elected representatives. External audit provides independent assurance on the accuracy and legality of financial statements, while legislative scrutiny ensures that executive actions conform to approved budgets and statutory regulations.

The effectiveness of these oversight mechanisms significantly influences fiscal transparency, corruption control, and institutional credibility. According to the International Monetary Fund (2018), strong external audit and legislative institutions are essential for promoting fiscal discipline and safeguarding public resources. Similarly, the World Bank (2010) emphasizes that accountability frameworks are incomplete without independent audit and effective parliamentary oversight.

Accountability in public finance implies answerability, transparency, enforceability, and consequences for mismanagement (Bovens, 2007). External audit and legislative oversight serve as ex-post accountability mechanisms by reviewing past financial performance and ensuring compliance with legal and policy frameworks. Empirical literature indicates that strong and independent SAIs significantly improve fiscal outcomes and reduce corruption. Blume and Voigt (2011) find that countries with constitutionally independent audit institutions experience lower levels of public sector corruption. Similarly, Alt and Lassen (2006) demonstrate that fiscal transparency—including public audit disclosures—reduces debt accumulation and enhances governance quality. The IMF (2018) reports that countries with effective external audit systems exhibit improved compliance with financial regulations and more credible financial reporting. In Sub-Saharan Africa, however, empirical assessments reveal that audit institutions often face capacity constraints, political interference, and delays in reporting, which weaken their impact on accountability (PEFA Secretariat, 2016). Audit reports are sometimes produced but not adequately acted upon, thereby limiting their effectiveness.

In Nigeria, the Office of the Auditor-General conducts annual audits of government accounts. While audit reporting has improved, enforcement of audit recommendations remains a significant challenge, reducing the deterrent effect of audit findings. Legislative scrutiny complements external audit by providing political oversight and enforcement. Wehner (2010) finds that legislatures with strong committee systems and research capacity exert greater influence on fiscal outcomes. Empirical studies across OECD countries show that active Public Accounts Committees enhance compliance with financial regulations and reduce misappropriation of funds (OECD, 2019). In developing economies, however, legislative oversight is often constrained by limited technical expertise, executive dominance, and inadequate follow-up mechanisms. PEFA assessments frequently identify weak legislative scrutiny as a bottleneck in achieving full accountability (PEFA Secretariat, 2016). In Nigeria and similar contexts, delays in reviewing audit reports and limited sanction enforcement weaken the accountability chain between audit findings and corrective action.

External audit and legislative scrutiny are indispensable components of public sector accountability. Empirical evidence demonstrates that independent audit institutions and strong legislative oversight significantly enhance fiscal transparency, reduce corruption, and improve governance outcomes. However, institutional weaknesses, limited enforcement capacity, and political interference often constrain the effectiveness of these mechanisms in developing economies. Strengthening audit independence, enhancing legislative capacity, and ensuring enforcement of audit recommendations remain essential for promoting sustainable accountability in government institutions.

Conclusion

The reviewed literature demonstrates that effective public financial management is fundamental to strengthening financial accountability in government Ministries, Departments, and Agencies. Policy-based fiscal strategies improve budget planning and fiscal discipline, while credible budgets enhance transparency and effective allocation of public resources. Similarly, prudent management of public assets and debt promotes fiscal sustainability and responsible stewardship of government resources. Strong expenditure controls, supported by modern financial management systems, reduce financial irregularities and improve compliance with approved budgets. Furthermore, independent external audit institutions and effective legislative oversight provide critical mechanisms for ensuring answerability, transparency, and enforcement of financial regulations. Nevertheless, institutional weaknesses, inadequate technical capacity, political interference, and weak implementation continue to hinder effective accountability in many developing countries. Strengthening these public financial management dimensions is therefore essential for improving governance, transparency, and public confidence in government institutions.

Policy Recommendations

1. Governments should institutionalize policy-based fiscal strategies that align annual budgets with medium- and long-term national development priorities.
2. Ministries, Departments, and Agencies should improve budget credibility through realistic revenue forecasting, effective expenditure planning, and strict adherence to approved budgets.
3. Governments should strengthen public asset and debt management by maintaining comprehensive asset registers, adopting IPSAS, and improving debt disclosure practices.
4. Internal expenditure controls should be reinforced through stronger commitment controls, cash management systems, TSA, GIFMIS, and regular internal audits.
5. Independent external audit institutions should receive adequate funding, legal protection, and operational independence to enhance financial oversight.
6. Legislative committees, particularly Public Accounts Committees, should be strengthened to ensure timely review and enforcement of audit recommendations.
7. Continuous training should be provided for finance officers and public administrators to improve technical competence in public financial management.
8. Governments should strengthen institutional governance, reduce political interference, and improve enforcement of financial regulations to sustain accountability reforms.

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