

Applying CIPFA's

# whole system approach

for better public financial management

**CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our members and trainees work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.**

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a route to qualification and membership for people already working in senior financial management positions. These are taught by our own CIPFA Education and Training Centre, as well as at other places of learning around the world face to face, online and by distance learning.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, counter fraud tools and qualifications, courses and conferences, property and asset management solutions, advisory and recruitment services for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with international aid donors and agencies, partner governments, accountancy bodies and the wider public sector as well as private sector partners around the world to advance public finance and support better public services.

# Foreword

Whatever the level of development or economic circumstances in a country, citizens keep raising the bar with regard to their expectations about public service delivery. As pressures on national budgets have increased and additional demands have been made by the global financial crisis, there is now an unprecedented need to understand better the key components of Public Financial Management (PFM) and how the full set of organisations and processes relate to each other. CIPFA believes that only by taking a holistic view and highlighting special characteristics of the public sphere will we be able to properly focus thinking on how to improve service delivery, transparency and accountability, and where to prioritise efforts.

CIPFA originally developed its thinking about a whole system approach to Public Financial Management as a contribution to the international debate and with a view to assisting the improvement of PFM and public service delivery across the world. Since the WSA was originally published in 2009 there have been a number of responses to the challenges it has raised:

- IMF Code for Fiscal Transparency revision
- PEFA framework revision (due to be completed in 2015)
- MOSAIC agreement
- IFAC Accountability Now initiative

CIPFA has also published two further documents calling on the accountancy profession to create a step-change in PFM:

- Fixing the Foundations
- PFM Taking Responsibility

In addition CIPFA and IFAC have worked together on developing their International Framework: Good Governance in the Public Sector, which complements the WSA and provides links to best practice guidance. The Framework summary is reproduced in the Appendix.

This paper is intended to take a further step towards strengthening PFM by helping both governments and individual organisations to apply the principles set out in CIPFA's original Whole System Approach to Public Financial Management [web links] in practice, through signposting available guidance and tools provided by CIPFA and other international organisations.

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# Introduction to the Whole System Approach (WSA) to PFM

PFM drives the performance of the public sector through the effective and efficient use of public money. Good PFM ensures that public money is used well, and is made to stretch as far as possible. In the international context it can help to change the lives of very poor people. It provides leaders and managers with information to raise finance, to know if they are using resources effectively and to make decisions. Managing finances in the public sector is about much more than accountancy – it is integral to a country's financial health and to making critically important services available to people.

The CIPFA definition of PFM focuses on its contribution to achieving strategic and operational goals as a key aspect of good governance:

*“Public Financial Management (PFM) is the system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals.”*

Using money well is the business of every manager charged with delivering public services. This definition of PFM applies equally across multiple or single bodies, and at all levels of government. It can therefore be used in the context of national governments or regions, localities or individual public service organisations.

High-performance means consistently demonstrating strengths in leadership, public financial management and performance management. Public financial management is not just about accountants keeping score. With diffused financial responsibilities the leadership and managers need to be financially literate and finance professionals need to contribute challenge, interpretation and advice; allied with control and compliance.

The purpose of the WSA is to provide an analytical framework to support effective PFM in countries, enabling relevant public services for citizens. It aims to stimulate analysis of the performance of the PFM system, as the foundation for improvement. In the international development context, it aims to support development partners in improving the functioning of PFM systems and the legacy impact of PFM initiatives.

In the WSA to PFM CIPFA:

- emphasises PFM's contribution to the delivery of public services and the social benefits this can bring. The wider public finance functions of national economic management and fiscal policy are critical to a country's success, but are not the main focus of this paper;
- offers an analytical framework, describing the components of a fully functional PFM system, to inform design and evaluation of PFM systems and reforms and to assist discussion on sequencing PFM improvement initiatives. The framework is relevant for all countries, but particularly for partners in the developing world;
- emphasises whole system effects, including feedback loops and correction mechanisms, offering a basis to consider the complementarity, balance and completeness of reform components;
- makes observations on some ways in which PFM practice could be strengthened by international development partners.

## WSA overview

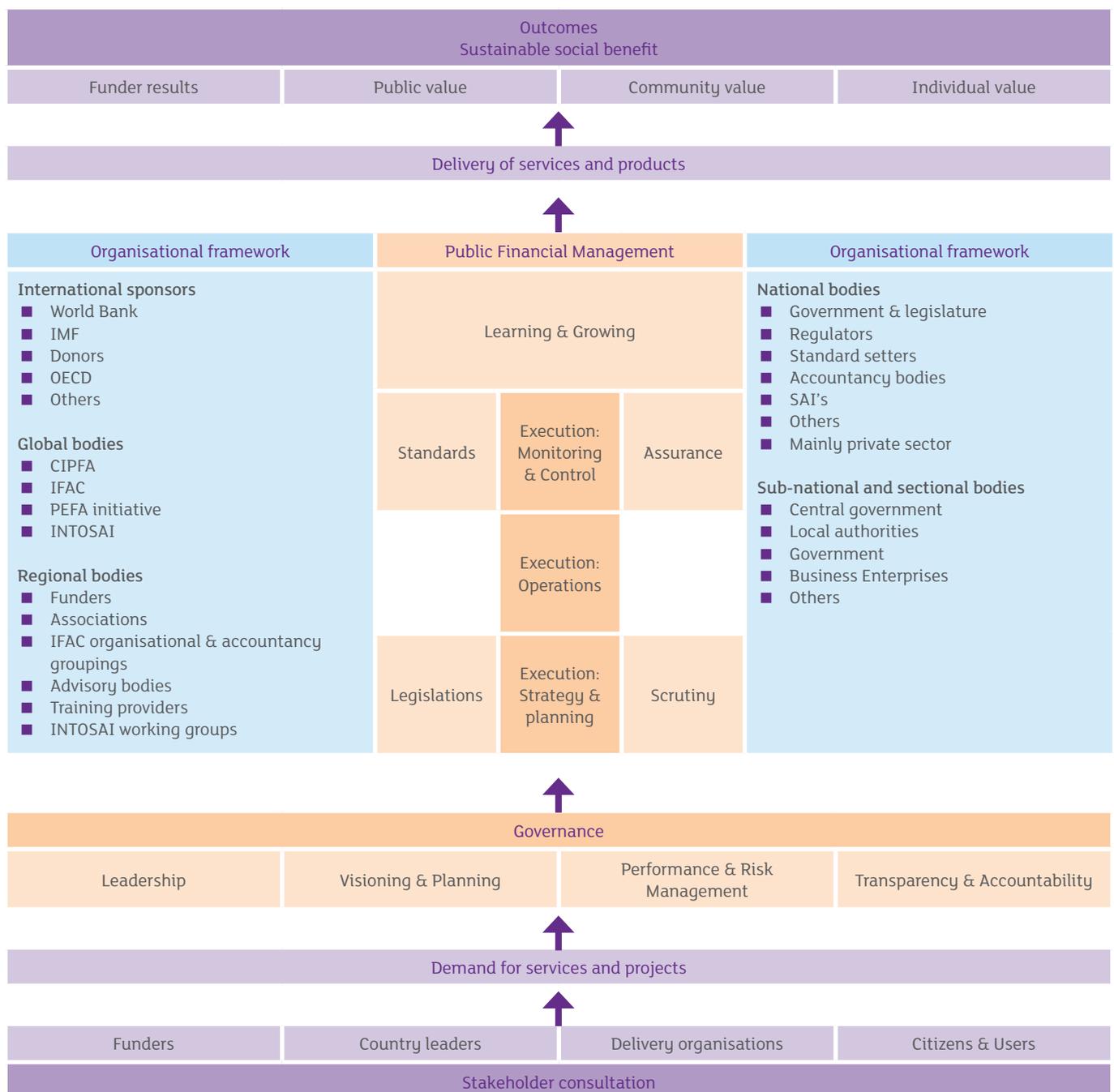
The overall organisational architecture is a key aspect of the PFM environment, including global organisations such as the World Bank and International Federation of Accountants (IFAC), regional bodies such as the groupings of Supreme Audit Institutions, national organisations including key central government actors and training bodies, and sub-national bodies.

The chart below provides a high level delineation of the PFM process architecture alongside the institutional framework of PFM organisations, and shows how it is critically linked to good governance. Consistent with the proposed definition of PFM, the PFM system chart stresses the link to service delivery, as a means of transmission from money to social benefit, whether this accrues to individuals, communities or to the public at large. In the international development context this should also generate results that meet donor objectives.

# CIPFA's Whole System Approach to PFM

Strong PFM requires strong governance. The model shows how PFM is integral to good governance. It also highlights collaboration and coordination of interests in originating and prioritising expenditure policies and programmes. Planning is driven by government, with formal representation through parliamentary organisations. However, the direct involvement of citizens and service users, delivery organisations and contributing donors in decision making should help to improve the effectiveness and relevance of social outcomes.

## CIPFA's Whole System Approach to PFM



# Using the WSA

The whole system described in this paper is a model of checks and balances which, acting together, can gear up PFM effectiveness. Its purpose is to consider whether PFM elements and components are operating together and are mutually supportive and to suggest where there may be practical gaps and weaknesses in the support that the major organisations offer to less developed countries. The model is intended as an objective base for analysis and improvement, complementing existing assessment tools rather than creating additional ones.

The WSA therefore offers a range of ways to choose priorities for improvement, for example:

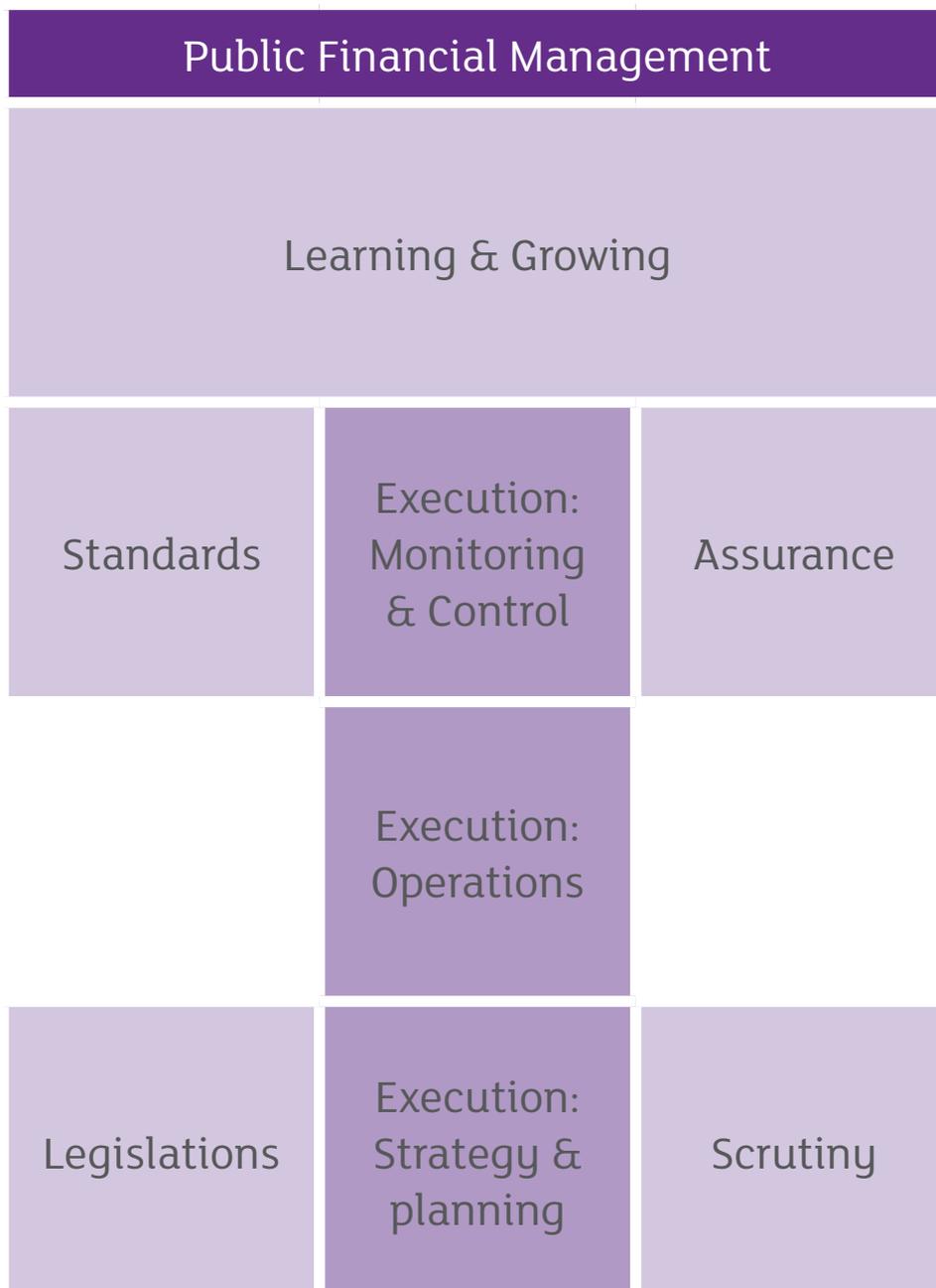
- strengthening individual financial processes;
- analysing the separate activities that contribute to targeted outcomes and focussing on the ones that will make most difference;
- looking across all the processes that need to come together, and targeting improvement plans on areas where change will have the biggest impact on overall effectiveness;
- identifying core processes in sequencing PFM improvements along with the developments that will sustain them in the future;
- suggesting complementary programmes that are not directly to do with financial management but may be blocking reform.

An emphasis on the whole system argues that the effectiveness and sustainability of PFM depends on a healthy balance across the system components. This is not to advocate a rigid implementation of every item. There should be room for what the Overseas Development Institute (ODI) calls ‘astute and opportunistic PFM interventions’ - but these aspects of Realpolitik should be located in the big picture and mindful of their system effects and possible unintended consequences.

The selection of PFM improvement programmes therefore depends on local priorities and circumstances. However the PFM system is dynamic. It is not simply linear, enabling a fixed staircase towards the goal of a fully functioning system. ‘Basic’ processes are not always enough at an early stage of development. A Ministry of Finance introducing a new PFM system needs to draw on relatively sophisticated understanding to act as conduit for donor assistance and champion of PFM reform, to create, lead and direct implementation, and to act as client to consultants.

It is also clear that it would be beyond the capacity of almost all countries to implement PFM improvements across the whole range of processes at the same time. In practice more limited objectives will be required. CIPFA aims to provide a platform for analysis of the most relevant path to PFM improvement for countries, and to assist those thinking about sequencing, rather than to prescribe a universal hierarchy of basic processes. The chart below summarises the core PFM elements of the WSA, and the matrix that follows then summarises the guidance currently available. CIPFA plans to update this as new PFM guidance and implementation tools are developed.

# Public Financial Management



# CIPFA's PFM WSA - Practical guidance

PFM Process Element	CIPFA 'Keystones for PFM' guidance	Examples of other publicly available guidance	Web references
<p><b>Legislation:</b> the regulatory framework for PFM, determining the powers and mandatory requirements within which public sector bodies raise and spend money and receive income.</p>	-	<ul style="list-style-type: none"> <li>■ UK Government Resources and Accounts Act 2000</li> <li>■ NZ Public Finance Act 1989 and Amendment Act 2013</li> <li>■ Kenyan PFM Act 2012</li> </ul>	<p><a href="http://www.legislation.gov.uk/ukpga/2000/20/contents">http://www.legislation.gov.uk/ukpga/2000/20/contents</a></p> <p><a href="https://www.ssc.govt.nz/node/8522">https://www.ssc.govt.nz/node/8522</a></p> <p><a href="http://www.cickenya.org/index.php/legislation/acts/item/245-the-public-finance-management-act-2012">http://www.cickenya.org/index.php/legislation/acts/item/245-the-public-finance-management-act-2012</a></p>
<p><b>Standards:</b> the established principles or rules common to a group of like organisations or professionals that is intended to govern their actions and behaviour to achieve compliance with a common set of non-statutory requirements.</p>	Role of the CFO in the Public Services	<ul style="list-style-type: none"> <li>■ International Public Sector Accounting Standards</li> </ul>	<p><a href="http://www.ifac.org/publications-resources/2014-handbook-international-public-sector-accounting-pronouncements">http://www.ifac.org/publications-resources/2014-handbook-international-public-sector-accounting-pronouncements</a></p>
<p><b>Execution - Strategy and Planning:</b> the processes that set the direction for the activities which require financial management, in the short, medium and longer term, and the frameworks within which overall financial performance is managed.</p>	Stepping Stones to Accrual	<ul style="list-style-type: none"> <li>■ IMF PFM Blog – Technical Notes and Manuals and Guidance Notes</li> <li>■ World bank PFM Reform Database</li> </ul>	<p><a href="http://blog-pfm.imf.org/">http://blog-pfm.imf.org/</a></p> <p><a href="http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTFINANCIALMGMT">http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTFINANCIALMGMT</a></p>
<p><b>Execution - Operations:</b> the principal financial operations needed to maintain financial discipline and resilience, deliver services and enable desired outcomes.</p>	Financial Management Model		
<p><b>Execution - Monitoring and Internal Control:</b> a cluster of processes, complementary to operations, designed to measure progress and achievement of milestones and to keep organisations on track to realise their objectives.</p>	Code of Practice on Managing the Risk of Fraud		

# CIPFA's PFM WSA

## - Practical guidance

PFM Process Element	CIPFA 'Keystones for PFM' guidance	Examples of other publicly available guidance	Web references
<b>Assurance:</b> formal processes to give assurance to stakeholders about the organisation's standards and effectiveness, carried out at arm's length from the operations they examine.	Role of the Head of Internal Audit	<ul style="list-style-type: none"> <li>Public Sector Internal Audit Standards (PSIAS)</li> </ul>	<a href="http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards">http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards</a>
<b>Scrutiny:</b> scrutiny of PFM processes, outside executive responsibility, are an important part of overall checks and balances and a way of enabling the citizen voice to be heard by executive authority.	-	<ul style="list-style-type: none"> <li>International Standards of Supreme Audit Institutions (ISSAIs)</li> <li>How to increase the use and impact of audit reports (INTOSAI)</li> </ul>	
<b>Learning and Growing:</b> processes that enable public service organisations, individually and collectively, to reflect and learn from best practice, from partners, mentors and peers and from their own experiences, in order to develop their knowledge and capabilities.	Emerging Stronger	<ul style="list-style-type: none"> <li>Supporting Capacity Development in PFM – A Practitioners Guide (Volume 1) – CIPFA/OECD 4th High Level Forum on Aid Effectiveness 2011, Busan, Korea</li> <li>Building Capacity in Supreme Audit Institutions, A Guide (INTOSAI 2007)</li> </ul>	<a href="http://www.oecd.org/dac/effectiveness/48782679.pdf">http://www.oecd.org/dac/effectiveness/48782679.pdf</a> <a href="http://www.carosai.org/wp-content/uploads/2013/01/download_item_1341174748.pdf">http://www.carosai.org/wp-content/uploads/2013/01/download_item_1341174748.pdf</a>

# Appendix

## International Framework: Good Governance in the Public Sector

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times.

### Purpose of the Framework

The aim of Good Governance in the Public Sector (the Framework) is to encourage better service delivery and improved accountability by establishing a benchmark for aspects of good governance in the public sector. It is intended to apply to all entities that comprise the public sector.

The Framework is not intended to replace national and sectoral governance codes. Instead, it is anticipated that those who develop and set governance codes for the public sector will refer to the Framework in updating and reviewing their own codes. Where codes and frameworks do not exist, the Framework will provide a powerful stimulus for positive action.

The real challenge for public sector entities, however, remains in the implementation of such codes and frameworks, as it is often their application that fails in practice. The supplement to the Framework provides more detailed explanatory material for each of the principles—a series of examples, evaluation questions, and references to other sources of information. The aim is to assist public sector entities in interpreting the principles in a way that is appropriate to their structures, taking account of the legislative and constitutional arrangements that underpin them.

### Principles for Good Governance in the Public Sector

The diagram below illustrates how the various principles for good governance in the public sector relate to each other. Principles A and B permeate implementation of principles C to G. The diagram also illustrates that good governance is dynamic, and that an entity as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.

### Public Financial Management

The structural skeleton of PFM comes from governments and other major organisations. But the whole system also comprises the set of processes that animate them: a circulatory system of funding flows; processes for monitoring, balancing and regulating, formal and informal feedback systems for learning and adapting; and generative processes for organisational growth. All these elements need to operate together if development inputs are to reinforce virtuous cycles of improvement and to be self-sustaining for the longer term.

CIPFA's process architecture provides an overview of the components of a fully functional PFM system, to assist analysis and explore connections that can lead to effective PFM systems and support the goals of the public sector. It aims to support PFM professionals in analysing, evaluating and designing system reforms and improvements.

The model distinguishes a number of different process elements, pictured in the chart below, and then described in summary. The proposition is that each of these elements needs to be nurtured, but equally none is sufficient without the others.

# Appendix

## Achieving the Intended Outcomes While Acting in the Public Interest at all Times



# Implementing the principles

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times, consistent with the requirements of legislation and government policies, avoiding self-interest and, if necessary, overriding a perceived organizational interest. Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders. It therefore requires:

<p><b>A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</b></p>	<p>Public sector entities are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. Public sector entities are accountable to legislative bodies for the exercise of legitimate authority in society. This makes it essential that each entity as a whole can demonstrate the appropriateness of all of its actions and has mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.</p>
<p><b>B. Ensuring openness and comprehensive stakeholder engagement</b></p>	<p>As public sector entities are established and run for the public good, their governing bodies should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.</p>

In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance in the public sector also requires effective arrangements for:

<p><b>C. Defining outcomes in terms of sustainable economic, social, and environmental benefits</b></p>	<p>The long-term nature and impact of many of the public sector's responsibilities mean that it should define and plan outcomes and that these should be sustainable. The governing body should ensure that its decisions further the entity's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.</p>
<p><b>D. Determining the interventions necessary to optimize the achievement of the intended outcomes</b></p>	<p>The public sector achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of interventions is a critically important strategic choice that governing bodies of public sector entities have to make to ensure they achieve their intended outcomes. Public sector entities need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimized.</p>

# Implementing the principles

<p><b>E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it</b></p>	<p>Public sector entities need appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. The governing body must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that an entity’s management has the operational capacity for the entity as a whole. Because both individuals and the environment in which an entity operates will change over time, there will be a continuous need to develop the entity’s capacity as well as the skills and experience of the leadership of individual staff members.</p>
<p><b>F. Managing risks and performance through robust internal control and strong public financial management</b></p>	<p>The governing bodies of public sector entities need to ensure that the entities they oversee have implemented—and can sustain—an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. They consist of an ongoing process designed to identify and address significant risks involved in achieving an entity’s outcomes.</p> <p>A strong system of financial management is essential for the implementation of public sector policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability.</p>
<p><b>G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability</b></p>	<p>Accountability is about ensuring that those making decisions and delivering services are answerable for them, although the range and strength of different accountability relationships varies for different types of governing bodies. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the entity plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.</p>





Registered office:

3 Robert Street, London WC2N 6RL

T: 020 7543 5600 F: 020 7543 5700

[www.cipfa.org](http://www.cipfa.org)

The Chartered Institute of Public Finance and Accountancy.  
Registered with the Charity Commissioners of England and Wales No 231060

From 1 January 2015:

77 Mansell Street, London E1 8AN

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700

[www.cipfa.org](http://www.cipfa.org)

