

## **FMM 01.3      Efficient, Effective, Economical, Ethical and Value for Money**

Public financial management is the collection, custody, reporting and expenditure of public funds. It is managed by the principles of efficient, effective, economical, ethical and value for money.

1. Section 5 of the PFMA requires departmental heads to establish internal controls and take all necessary actions to ensure the efficient, effective, economical and ethical use of the public money and property for which they are responsible for.
2. Section 3A requires the Treasurer to develop and implement strategies to promote economic and financial transparency to achieve a stable macroeconomic environment.

### **3.1      Efficiency**

Efficient management of financial resources ensures that resources are used in delivery of services with minimal waste.

It requires robust financial management systems, clear processes, and regular assessments to identify and eliminate inefficiencies. For instance, improving budget execution processes, reducing unnecessary administrative layers, and using technology to streamline operations are practical steps toward enhancing efficiency. Additionally, a focus on efficiency helps in maintaining fiscal discipline, ensuring that public funds are used responsibly and sustainably.

For instance, systems and equipment may become obsolete, leading to longer or wasteful processes. Upgrading relevant systems or equipment can significantly enhance efficiency.

Efficiency is not measuring how much you spend but what you are spending your money on to maximise delivery of an agency's services.

### **3.2      Effective Operations**

The effectiveness of agency operations is how well you are delivering your responsibilities. Being effective requires that you are monitoring the results – using performance indicators and other ways to evaluate if you are achieving the expected outcomes.

An effective PFM system enhances the government's ability to respond to public needs efficiently and transparently. It ensures that budgetary allocations are spent as intended and that public services are delivered in a timely and quality manner. This involves not only the proper allocation of resources but also the execution of projects within set timelines and budgets

The departmental head should evaluate whether the controls and processes in place are achieving the desired outcomes. For example, is the reporting adequate for management to monitor achievements of the corporate plan.

### **3.3 Economical Operations**

It involves procuring goods and services of the required quality at the lowest possible cost, ensuring that expenditures are justified and contribute to the efficient delivery of public services. Economy emphasises the importance of cost-effectiveness without compromising the quality or quantity of public services provided.

A common example of economy in PFM is the procurement of office supplies for a government agency. By negotiating bulk purchases or seeking competitive bids, the agency can secure the necessary supplies at a lower cost, thereby conserving public funds.

### **3.4 Ethical PFM**

Ethical management in PFM ensures that all actions, decisions, and practices adhere to the highest standards of integrity and accountability. Departmental heads must foster a culture of honesty, fairness, and transparency, ensuring that public funds and resources are used solely for their intended purposes and in the public interest.

This involves implementing robust internal controls to prevent and detect fraud, corruption, and misuse of resources. Ethical management also requires promoting an environment where staff feel empowered to report unethical behaviour without fear of retaliation.

Departmental heads must lead by example, demonstrating ethical behaviour in all their actions and decisions. This includes making decisions based on objective criteria rather than personal interests, ensuring equal treatment of all stakeholders, and maintaining transparency in financial reporting and procurement processes.

Training and awareness programs should be in place to ensure all staff understand and adhere to ethical standards.

### 3.5 Value for Money

Value for money is a comprehensive concept encompassing whole-of-life costs, opportunity costs, and non-cost factors such as fit for purpose, quality, service and support, reliability, and sustainability. It involves maximising the benefits from every dollar spent. The dimensions of value for money include:

- Careful consideration and prioritisation of objectives on a cost-benefit basis.
- Assessment and prioritisation of competing objectives, funding only those with high benefits.
- Selection of the most cost-effective options to achieve objectives.
- Explicit evaluation of whether the government or other potential providers are best placed to provide services.
- Rigorous analysis of all activities, both recurrent and capital.
- Close monitoring of implementation to ensure adherence to budgets.
- Continuous review and evaluation of programs, activities, and projects to ensure outcomes align with stated objectives and benefits are realised.

<b>Further Information</b>	frcd@finance.gov.pg
<b>Version</b>	1.0
<b>Date Issued</b>	30 June 2025