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Evaluation of Public Sector Financial Management and Costing System in Improving Performance Effectiveness

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Abstract

This study aims to evaluate the effectiveness of financial management strategies and costing systems in improving public sector performance. The research seeks to identify best practices that optimize resource allocation, enhance fiscal transparency, and strengthen accountability in public financial management by assessing the role of modern budgeting methods, costing techniques, and financial governance frameworks. This study employs a Systematic Literature Review (SLR) approach, synthesizing findings from recent empirical and theoretical research on financial management and costing systems in the public sector. It integrates analyses of performance-based budgeting (PBB), costing methodologies such as Activity-Based Costing (ABC) and Zero-Based Budgeting (ZBB), and digital innovations in fiscal governance. The findings indicate that adopting performance-driven budgeting and precise costing methodologies improves budget efficiency by ensuring expenditures are linked to measurable outcomes. The study highlights that transparency and accountability mechanisms, including independent audits and open financial reporting, mitigate corruption risks and enhance public trust in financial governance. However, challenges such as institutional resistance, political interference, and technological limitations hinder the successful implementation of these financial management frameworks. This study provides critical insights for policymakers and financial managers in strengthening public financial governance. The findings suggest that integrating digital innovations, enforcing stricter regulatory oversight, and fostering greater citizen engagement in budgetary processes can significantly improve fiscal sustainability. Future research should explore the long-term impact of these financial strategies, particularly in low- and middle-income economies, where financial governance remains a critical challenge.

Keywords: *Public Financial Management, Costing Systems, Performance-Based Budgeting, Fiscal Transparency, Accountability.*

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INTRODUCTION

Public sector financial management has undergone profound transformations in response to the increasing demands for transparency, accountability, and the overall effectiveness of public service delivery. As governments worldwide navigate increasingly complex economic landscapes and mounting fiscal pressures, the ability to allocate and manage financial resources efficiently has become a critical determinant of sustainable economic development. In the past, public sector financial management was primarily dictated by static budget allocations and historical expenditure patterns, which often failed to adapt to changing economic conditions or evolving public service needs (Schick, 2013). However, as public institutions face heightened scrutiny over financial stewardship and resource utilization, the necessity for more dynamic, data-driven approaches has become evident. The introduction of financial management strategies that integrate sophisticated costing systems, performance-based budgeting, and evidence-driven decision-making mechanisms has been widely recognized as a means to enhance the efficiency of resource allocation, reduce inefficiencies, and improve long-term fiscal sustainability (Brusca & Montesinos, 2016). These financial management reforms aim to create a more responsive and accountable governance framework that ensures financial discipline while optimizing public service delivery (Tettey, 2024). However, despite these advancements, significant challenges remain in aligning financial management practices with the evolving expectations of fiscal responsibility and service effectiveness. While theoretical frameworks advocate for these reforms, many public institutions struggle to implement them effectively due to structural inefficiencies, rigid bureaucratic processes, and a lack of technical expertise. These persistent issues call for a comprehensive evaluation of existing financial management methodologies to identify best practices that can drive efficiency and strengthen the financial resilience of public sector institutions.

One of the most critical aspects of this transformation is the transition from traditional cost allocation models to more structured and analytical costing frameworks, such as Activity-Based Costing (ABC) and Performance-Based Budgeting (PBB) (de Campos et al., 2016). Unlike conventional budgeting approaches, which rely on linear financial projections and retrospective expenditure analysis, modern costing frameworks provide a more systematic and data-driven method for allocating resources (Cleary, 2024). These methodologies align financial resources with organizational objectives, ensuring that each expenditure contributes to measurable public value. However, despite the theoretical advantages of these systems, their practical implementation in the public sector remains hindered by several institutional barriers. Bureaucratic inertia, limited technical expertise, and resistance to change within public institutions have significantly slowed the adoption of advanced costing methodologies (Onuorah & Bosso, 2024). Inefficiencies in budget execution, weak oversight mechanisms, and inconsistencies in financial reporting continue to contribute to fiscal mismanagement, reducing the overall effectiveness of public sector financial governance (Allen et al., 2004). A particularly pressing issue is the absence of standardized performance metrics, which complicates efforts to evaluate financial effectiveness and the impact of financial management reforms. Without a unified approach to performance measurement, it becomes increasingly difficult to assess whether these financial management frameworks have successfully enhanced efficiency and accountability. Consequently, this study addresses these pressing concerns by critically evaluating the effectiveness of financial management and costing systems in improving public sector performance. Through a systematic analysis of existing frameworks, this research aims to identify key challenges, best practices, and strategies that can enhance financial governance and ensure long-term fiscal sustainability.

Recent studies underscore the significance of effective financial management and costing systems in improving public sector performance. Analyzing financial reports and key indicators enhances decision-making and resource management in local governments (López et al., 2025). Similarly, evaluating capital adequacy ratios and asset quality provides insights into regulatory compliance and financial stability in public sector banks (Ashwath & Sachindra, 2025). Target costing has shown a positive correlation with financial performance in state-owned enterprises, highlighting its potential for improving profitability (Mchavi & Collins, 2024). In assessing local government financial performance, key metrics such as locally generated revenue, financial capability indices, and fiscal independence are essential. However, challenges such as reliance on central government transfers and inconsistencies in financial reporting persist (Purba, 2025). These issues underscore the necessity for standardized metrics, enhanced technical capacity, and strategic innovations to improve revenue generation and fiscal sustainability. Integrating performance evaluation with costing systems within public financial management frameworks has been emphasized to improve efficiency, effectiveness, and accountability (Nurfadila, 2024). Transparency, accountability, and value for money remain fundamental principles in strengthening public financial governance (Sam et al., 2024). Top management support, performance measurement systems, and financial autonomy are crucial for improving public sector performance, particularly in emerging markets like Vietnam (Tran et al., 2024). Critical cost management elements, including project cost analysis and financial management implementation, significantly enhance time performance and project quality in the public sector (Nandjebo et al., 2021). These findings collectively highlight the necessity of effective financial management strategies in ensuring fiscal discipline and operational efficiency.

Despite the extensive research on financial management and costing systems in the public sector, significant gaps remain in both empirical and theoretical perspectives. Existing studies have primarily focused on individual aspects of financial performance, such as financial reporting accuracy (López et al., 2025), capital adequacy in public sector banks (Ashwath & Sachindra, 2025), and the role of target costing in state-owned enterprises (Mchavi & Ngwakwe, 2025). However, these studies often examine these components without fully integrating them into a holistic framework that explains how financial management and costing systems collectively impact public sector performance. Additionally, while financial performance metrics such as revenue generation and fiscal independence have been highlighted as critical indicators (Purba, 2025), their practical application across diverse public institutions remains inconsistent, raising concerns about the generalizability of these findings. Theoretical gaps persist, particularly in integrating costing methodologies within broader public financial management frameworks. While research emphasizes the role of transparency, accountability, and value for money in improving governance (Aliyyah et al., 2024), there is limited empirical evidence on the practical implementation of these principles. While performance measurement and financial autonomy have been linked to improved public sector outcomes (Tran et al., 2024), studies have yet to explore the institutional and regulatory barriers that may hinder their effectiveness. The lack of standardized frameworks for evaluating financial management strategies remains a challenge, as does the need to examine how technological advancements and digital financial tools influence cost management practices. This research seeks to bridge these gaps by synthesizing existing literature and comprehensively analyzing financial management and costing systems in the public sector.

This study offers a novel contribution by systematically evaluating the effectiveness of public sector financial management and costing systems through a comprehensive Systematic Literature Review (SLR). Unlike previous research, which often examines financial management practices in isolation, this study integrates various dimensions, including costing methodologies, fiscal sustainability, performance measurement, and governance frameworks. By synthesizing findings from recent empirical studies, this research aims to provide a more holistic understanding of how financial management strategies and costing systems interact to improve public sector performance. Additionally, while prior studies have highlighted the importance of financial transparency and accountability, a gap exists in understanding the practical implementation challenges and institutional barriers that hinder their effectiveness. This study seeks to bridge that gap by analyzing existing literature to identify best practices, emerging trends, and the critical factors influencing financial performance in public institutions. Given these gaps, this research is guided by the following question: How do financial management strategies and costing systems improve performance effectiveness in the public sector? This study will systematically review and analyze existing literature through the SLR approach to identify key challenges, opportunities, and policy implications. The primary objective is to develop a structured evaluation of financial management and costing systems, offering insights to inform policymakers, public administrators, and researchers on optimizing fiscal management practices. This study aims to enhance the theoretical discourse on public sector financial governance while providing practical recommendations to improve efficiency, accountability, and long-term fiscal sustainability.

The New Public Management (NPM) Approach

New Public Management (NPM) has emerged as a dominant paradigm in public sector governance, emphasizing efficiency, accountability, and outcome-driven decision-making (Funck, 2024). Unlike the traditional bureaucratic model known as Old Public Administration (OPA), which prioritizes hierarchical structures and rigid compliance with administrative rules, NPM incorporates private sector management principles to create a more flexible and responsive governance system (Schnell & Gerard, 2023). In public financial management, NPM promotes efficiency in budgetary processes, ensuring that resource utilization maximizes societal benefits. This shift has led to performance-based budgeting, where financial allocations are directly tied to measurable outcomes rather than merely maintaining historical spending patterns (Hyndman & Liguori, 2018). Accountability within NPM extends beyond regulatory compliance; public institutions must demonstrate how effectively they achieve strategic objectives through sound financial governance. This perspective has significantly influenced decentralization efforts, granting local governments greater autonomy to manage their budgets independently while being held accountable for performance (Bardhan & Mookherjee, 2006). Unlike OPA, which focuses on input-based financial management, NPM focuses on outputs and outcomes, ensuring that public expenditures result in tangible improvements in service quality. The increasing relevance of NPM in public financial management is evident in its role in optimizing costing systems and enhancing financial transparency, allowing governments to evaluate the effectiveness of their programs using clear performance indicators rather than relying solely on compliance metrics (van der Kolk, 2022). By adopting an outcome-oriented approach, NPM enables policymakers to implement financial reforms prioritizing efficiency, transparency, and long-term fiscal sustainability.

Implementing New Public Management (NPM) in public financial management has significantly transformed budgeting and costing systems. One of the key applications of NPM in financial management is Performance-Based Budgeting (PBB), which links budget allocation to measurable performance outcomes rather than following historical spending patterns (Mauro et al., 2021). This budgeting approach ensures that public expenditures generate tangible benefits rather than merely maintaining past allocations (Greve, 2010). By shifting from traditional input-based budgeting to an outcome-driven approach, PBB aligns financial resources with strategic priorities, improving efficiency in public service delivery. NPM has encouraged the adoption of more precise costing methods, including Activity-Based Costing (ABC) and Target Costing, which enhance financial transparency and accountability. ABC enables governments to eliminate inefficiencies and optimize resource utilization by assigning costs directly to specific activities. Similarly, Target Costing ensures that services are delivered within predefined financial constraints without compromising quality (Engebø et al., 2021). While these costing methods offer significant benefits, their implementation often faces resistance due to bureaucratic complexities and limited technical expertise within public institutions (Haynes, 2015). Furthermore, integrating NPM-based costing systems with modern digital financial tools remains challenging, particularly ensuring data accuracy and transparency in financial reporting (Liberato et al., 2024). NPM's shift from input-based compliance to performance-driven financial management underscores its potential to enhance fiscal discipline, efficiency, and accountability in the public sector.

Public Sector Financial Management

Public sector financial management is the foundation for government fiscal operations, ensuring financial resources are allocated optimally, controlled effectively, and reported transparently (McKinney, 2015). Unlike private sector financial management, which focuses on profitability, public finance prioritizes efficiency in service delivery and socio-economic development. Effective financial management frameworks rely on fiscal policies and regulations establishing transparency and accountability mechanisms to prevent misallocation and inefficiencies (Ho et al., 2023). Governments worldwide have implemented various budgetary approaches to enhance financial discipline, including incremental budgeting, which has long been used for simplicity and stability. However, critics argue that this approach lacks flexibility and fails to respond to dynamic financial needs (De Vries et al., 2019). As an alternative, many countries have adopted Performance-Based Budgeting (PBB), which links budget allocations to measurable outcomes and performance indicators. This method enhances public service efficiency by ensuring financial resources are directed toward programs with tangible impacts rather than perpetuating historical spending patterns (Ahinsah-Wobil, 2024). Nurfadila (2024) indicates that PBB enables policymakers to optimize resource distribution and improve fiscal accountability, yet challenges remain, particularly in developing nations with limited administrative capacity and inconsistent performance measurement systems. The successful implementation of PBB depends on data accuracy, technological infrastructure for financial reporting, and institutional readiness to transition toward a performance-driven budgeting model. Governments must strengthen financial oversight mechanisms to ensure that public funds are used effectively and that budget reforms contribute to long-term fiscal sustainability.

Accountability and transparency are the two fundamental pillars of sound public financial governance. Fiscal transparency is essential to prevent budget mismanagement and ensure that financial transactions are accessible and auditable by stakeholders (Efunniyi et al., 2024). Governments must implement transparent financial reporting systems that allow for real-time monitoring of public expenditures, ensuring that resources are allocated effectively. Public sector accountability also functions as a critical oversight mechanism, requiring government agencies to produce accurate and comprehensive financial reports that reflect actual spending and budgetary decisions (O'Regan et al., 2022). However, achieving full transparency in public budgeting remains challenging due to reporting inconsistencies, limited disclosure of financial data, and the absence of active citizen engagement in budget oversight (Waddington et al., 2019). To address these issues, governments have increasingly turned to advanced costing systems such as Activity-Based Costing (ABC) and Target Costing, which enhance efficiency by linking expenditures directly to service delivery activities (Quesado & Silva, 2021). These costing models improve financial decision-making and help eliminate inefficiencies by ensuring public spending aligns with strategic objectives. Nevertheless, implementing such costing frameworks presents institutional challenges, including bureaucratic resistance, regulatory complexities, and inadequate technological infrastructure. Without robust financial management systems, the effectiveness of cost-based decision-making remains limited. Therefore, a holistic financial reform approach—integrating strong fiscal policies, data-driven costing methodologies, and enhanced administrative capacity—must establish a more transparent, accountable, and efficient public financial management system.

Costing Systems in Public Sector Efficiency

A costing system in the public sector serves as a structured approach to measuring the costs associated with service delivery and optimizing financial resources (Poister, 2008). Unlike cost allocation models in the private sector, which prioritize profitability, public sector costing aims to enhance fiscal transparency, accountability, and resource efficiency (Bracci et al., 2015). Governments employ various costing methods to ensure expenditures align with strategic goals and maximize public value. Traditional costing approaches, which allocate expenses based on broad expenditure categories, often lack precision in tracking actual service costs, leading to inefficiencies (Hansen et al., 1997). Modern costing techniques, such as Activity-Based Costing (ABC) and Target Costing, provide more accurate cost tracking and resource allocation. ABC assigns costs based on actual resource consumption, allowing government agencies to identify cost drivers and refine budgetary decisions (Udeh et al., 2024). In contrast, Target Costing ensures that service delivery remains within predetermined financial limits, preventing cost overruns without compromising service quality. Zero-based budgeting (ZBB) has also gained attention due to its ability to enhance fiscal discipline by requiring justification for every expense rather than relying on historical allocations (Allen & Clifton, 2024). Despite the advantages of these methods, their implementation faces challenges, including bureaucratic resistance, inadequate technical expertise, and inconsistencies in financial reporting standards. Addressing these obstacles requires substantial institutional capacity, policy integration, and technological advancements to establish a more transparent and data-driven public sector financial management costing framework.

Implementing costing systems in the public sector has significantly transformed financial management by enhancing efficiency, transparency, and accountability. Unlike traditional budgeting methods that often allocate resources based on historical expenditures, modern costing approaches ensure that financial resources are linked to measurable outputs and performance indicators (Alsharari, 2022). Governments worldwide have increasingly turned to advanced costing models, such as Activity-Based Costing (ABC) and Target Costing, to allocate costs more accurately and improve decision-making processes. ABC enables public institutions to identify cost drivers and optimize budget allocations by assigning costs based on actual resource consumption. Target Costing is crucial in maintaining financial sustainability by ensuring service delivery remains within predefined cost limits while maintaining quality standards (Gryna & Juran, 1999). However, despite the advantages of these modern costing models, challenges persist in their implementation. Institutional resistance to financial reforms and limited technical expertise often hinder the adoption of costing frameworks that promote transparency (Walter, 2011). The inconsistency of financial reporting standards across government agencies complicates the uniform application of costing methodologies. To overcome these barriers, governments must integrate data-driven costing models within their financial management systems, invest in capacity-building initiatives, and develop standardized reporting frameworks. Strengthening the adoption of costing systems can lead to more effective public spending, reduce inefficiencies, and enhance fiscal discipline, ultimately ensuring that public funds are utilized to maximize social impact.

Performance Effectiveness in the Public Sector

Performance effectiveness in the public sector is critical in ensuring that government institutions achieve policy objectives efficiently while optimizing financial resources (Nurfadila, 2024). Unlike private sector organizations, which measure success through profitability, public sector effectiveness is evaluated based on service quality, fiscal transparency, and the impact of policies on societal well-being (Poister, 2008). A well-structured financial management system supports performance effectiveness, ensuring budget allocations align with measurable outcomes and policy priorities. Performance-based budgeting (PBB) has gained traction to enhance financial accountability by linking government expenditures directly to performance metrics (Hou et al., 2011). Governments worldwide have adopted PBB to improve public service efficiency by shifting from traditional expenditure-based budgeting to a more dynamic, results-driven approach. This transition enables policymakers to assess the effectiveness of budget allocations in real-time and adjust funding based on actual performance indicators. However, the success of PBB depends on the availability of accurate financial data and the ability of institutions to integrate performance evaluation with budgetary processes (Azis, 2024). Without these essential elements, governments risk inefficiencies in budget execution and a disconnect between fiscal planning and service delivery. Strengthening transparency in financial reporting, ensuring timely budget execution, and implementing comprehensive performance measurement frameworks remain key challenges in enhancing public sector effectiveness. Addressing these issues requires integrating technology-driven financial management solutions, expanding institutional capacity, and adopting standardized performance evaluation mechanisms to foster greater fiscal discipline and accountability.

Enhancing performance effectiveness in the public sector remains a complex challenge, as rigid bureaucratic structures often hinder financial management and decision-making flexibility (Haynes, 2015). While essential for maintaining fiscal discipline, regulatory frameworks frequently impose constraints that slow down budget execution and limit institutional responsiveness. Inefficiencies in budget allocation further exacerbate these challenges, with public institutions struggling to ensure that funds are distributed optimally to maximize service delivery outcomes (Grossi et al., 2020). The lack of technical expertise in financial management poses a significant barrier to data-driven decision-making. Many government institutions rely on outdated financial management practices, leading to poor fiscal planning and inefficient cost allocation (Bracci et al., 2015). The inconsistent financial reporting standards across government agencies further complicate transparency and accountability efforts. Strengthening financial oversight mechanisms, such as audit functions and internal controls, is crucial in addressing these issues. Leveraging advanced technologies, including big data analytics and blockchain, can enhance budgetary transparency and mitigate financial mismanagement risks (Arnaboldi et al., 2017). Investing in workforce capacity through specialized training in public sector accounting and financial analytics can also facilitate a smoother transition towards performance-oriented financial governance. By integrating financial management systems with performance evaluation mechanisms, governments can create a more transparent, accountable, and fiscally sustainable public administration framework.

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Study Design

This study employs a qualitative research approach using the Systematic Literature Review (SLR) method to analyze the relationship between capital budgeting, financing decisions, and firm growth. The SLR method is chosen to systematically collect, evaluate, and synthesize relevant academic literature, providing a comprehensive understanding of the research topic. Using this approach, the study ensures an objective and structured analysis of financial decision-making processes and their impact on business expansion. The research identifies common themes, theoretical perspectives, and empirical findings that contribute to developing strategic financial planning and investment decisions.

Sample Population or Subject of Research

The subject of this study includes peer-reviewed journal articles, books, and conference papers published between 2015 and 2025. The selected sources are derived from recognized academic publishers to ensure the credibility and relevance of the reviewed literature. The study incorporates research from multiple disciplines, including corporate finance, investment management, and strategic business planning, to comprehensively analyze capital budgeting and financing strategies. The inclusion criteria focus on studies that examine financial decision-making, investment evaluation, and firm growth strategies while excluding non-academic sources, outdated studies, and articles with limited empirical findings.

Data Collection Techniques and Instrument Development

The data collection process involves a structured keyword-based search across major academic databases, using terms such as "capital budgeting," "financing decisions," "corporate growth," "investment analysis," and "financial management." The study applies a step-by-step screening process, starting with title and abstract reviews, followed by full-text assessment to ensure the relevance and applicability of each selected source. A citation management tool is used to systematically organize the references and avoid redundancy.

Data Analysis Techniques

The study employs thematic analysis to classify and interpret findings from the literature, identifying key patterns, conceptual frameworks, and empirical insights. The analysis includes a comparative evaluation of financial strategies, emphasizing similarities, differences, and trends across various studies. Additionally, a narrative synthesis approach is applied to present the results coherently, ensuring that the relationships between capital budgeting, financing decisions, and firm growth are effectively articulated. This method allows for a structured discussion on how financial planning influences business expansion and long-term sustainability.

RESULTS AND DISCUSSION

Results

Financial management strategies in the public sector are crucial in enhancing fiscal discipline, optimizing resource allocation, and improving governance. A key approach widely adopted by governments is Performance-Based Budgeting (PBB), which links budgetary allocations to measurable performance outcomes rather than historical expenditure patterns. Unlike traditional incremental budgeting, PBB ensures that public spending is aligned with specific policy goals, increasing efficiency and accountability in financial management (Azis, 2024). Empirical studies suggest that countries implementing PBB demonstrate improved financial discipline, as ministries and government agencies must justify their expenditures with quantifiable results (Alsharari, 2022). This budgeting approach encourages greater efficiency in allocating public resources, as budget approvals are based on the effectiveness of past spending rather than merely continuing previous funding levels. Research highlights that PBB promotes cost-effectiveness by reducing unnecessary expenditures and prioritizing high-impact projects (Ho et al., 2023). A comparative analysis between PBB and traditional budgeting frameworks has revealed that nations incorporating performance indicators into their financial planning processes experience greater fiscal sustainability and improved public service delivery (De Vries et al., 2019). Moreover, transparency-enhancing mechanisms such as real-time financial monitoring and open budget initiatives foster greater public trust by enabling citizens to track government expenditures (Sam et al., 2024). The increasing digitization of financial management systems further strengthens the effectiveness of financial strategies by improving accessibility, enhancing accuracy, and providing a higher level of oversight for budget execution (Cleary, 2024). As governments continue to adopt data-driven financial strategies, they must also ensure strong regulatory frameworks and institutional support to sustain these improvements in financial governance.

Costing systems are essential in allocating public funds efficiently, reducing financial waste, and enhancing fiscal discipline. Various advanced methodologies, including Activity-Based Costing (ABC), Zero-Based Budgeting (ZBB), and Target Costing, have been successfully implemented in several countries to streamline government spending and improve budget accuracy (Allen & Clifton, 2024). The ABC model allows public sector entities to assign costs based on actual resource consumption, ensuring that financial decisions are based on real-time data rather than estimates (Quesado & Silva, 2021). In contrast, ZBB requires government agencies to justify every budgetary request from scratch, eliminating inefficiencies associated with recurring or outdated budget allocations (Bracci et al., 2015). This approach ensures that public funds are directed toward projects and services that generate the highest impact, reducing fiscal waste and improving transparency in budget execution. Another widely used methodology, Target Costing, enables governments to set predefined spending limits to maintain fiscal sustainability and avoid budget overruns (Engebø et al., 2021). Research findings indicate that countries adopting modern costing techniques experience better financial efficiency, as these systems provide precise expenditure tracking and enable proactive budget adjustments (Mchavi & Collins, 2024). Case studies have demonstrated that successfully integrating costing methodologies in public sector management enhances budget predictability and ensures expenditures remain within sustainable limits (Liberato et al., 2024). Moreover, leveraging integrated costing models within financial governance structures enhances the reliability of fiscal projections and improves budgetary accountability (Grossi et al., 2020). Governments seeking to optimize their financial management practices must ensure that costing systems are aligned with their strategic objectives and that relevant stakeholders are adequately trained in their implementation.

Transparency and accountability are foundational to strengthening public financial governance, reducing corruption, and ensuring that budgetary decisions align with policy objectives. When governments establish open financial systems, citizens and oversight institutions can actively monitor expenditures, leading to improved trust in public administration and enhanced fiscal responsibility (O'Regan et al., 2022). However, research indicates that transparency alone is insufficient without comprehensive accountability measures (Efunniyi et al., 2024). While many governments have implemented open budget initiatives and digital financial disclosure platforms, these efforts often fall short due to weak enforcement mechanisms and bureaucratic resistance (Sam et al., 2024). Transparency initiatives must, therefore, be complemented by strong regulatory oversight, independent auditing institutions, and legal frameworks that enforce compliance (Bardhan & Mookherjee, 2006). In some cases, the lack of standardized financial reporting practices across government agencies makes it difficult to assess the efficiency of resource allocation (Arnaboldi et al., 2017). Countries establishing robust fiscal accountability systems, including independent financial watchdogs and anti-corruption bodies, have successfully maintained budgetary discipline (Brusca & Montesinos, 2016). Furthermore, technological advancements such as blockchain-based financial records and AI-driven audit systems have been found to enhance transparency by minimizing opportunities for financial mismanagement and fraud (Funck, 2024). Governments must address institutional and structural barriers to ensure that transparency mechanisms are effectively implemented and strong legal and regulatory frameworks back accountability systems.

Despite the advantages of modern financial management and costing systems, various institutional, regulatory, and technological barriers hinder their implementation in public sector settings. One of the primary challenges is institutional inertia, where government agencies resist change due to entrenched bureaucratic structures and legacy financial systems (De Vries et al., 2019). Political interference in financial decision-making further complicates these challenges, as budget allocations are often influenced by political considerations rather than objective fiscal priorities (Mauro et al., 2021). In addition, many developing economies lack the technological infrastructure to implement effective digital financial management solutions (Schick, 2013). While some nations have successfully introduced big data analytics, automated budgeting tools, and AI-driven expenditure tracking, others continue to rely on outdated financial reporting systems that hinder progress (López et al., 2025). Research highlights that institutional stakeholders benefiting from opaque budgetary processes frequently resist financial transparency reforms, delaying much-needed changes in fiscal governance (Bracci et al., 2015). To overcome these barriers, governments must prioritize regulatory enforcement, digital transformation initiatives, and comprehensive financial literacy programs for public administrators (Liberato et al., 2024). Establishing cross-sectoral collaborations between government agencies, private sector technology firms, and academic institutions can facilitate knowledge-sharing and accelerate the adoption of best financial management practices.

To strengthen the effectiveness of public financial management, governments must adopt a combination of innovative technologies, regulatory frameworks, and stakeholder engagement initiatives. One of the most promising advancements in financial governance is the integration of digital financial technologies, including blockchain, big data analytics, and artificial intelligence for fraud detection and expenditure monitoring (Cleary, 2024). These technologies allow governments to track expenditures in real-time, minimizing the risk of financial mismanagement and enhancing accountability (Waddington et al., 2019). Additionally, strengthening independent audit institutions ensures compliance with budgetary guidelines and reduces fiscal mismanagement (Efunniyi et al., 2024). Research has shown that performance-driven budgeting frameworks significantly improve financial efficiency and reduce public sector deficits (Ho et al., 2023). Whistleblower protection programs and citizen engagement platforms have proven effective in enhancing financial accountability and ensuring public funds are managed transparently (Sam et al., 2024). Governments must also implement stringent anti-corruption policies and fiscal transparency laws to enforce budgetary discipline and strengthen trust in financial governance (Ahinsah-Wobil, 2024). By integrating best practices in digital financial management, fostering regulatory compliance, and engaging citizens in fiscal decision-making, governments can achieve long-term financial stability, improve budget efficiency, and enhance the overall effectiveness of public service delivery (Tettey, 2024).

Discussion

The findings of this study indicate that the effectiveness of public sector financial management can be significantly enhanced through modern strategies, such as Performance-Based Budgeting (PBB) and the adoption of more precise costing systems. Implementing performance-based budgeting allows for a more strategic allocation of resources, ensuring that every expenditure directly contributes to achieving intended outcomes. Traditional budgeting methods, which primarily rely on historical expenditure patterns, often lead to inefficient allocation of funds due to a lack of performance evaluation mechanisms. In contrast, a results-based approach fosters data-driven financial decision-making and ensures that fiscal policies are more impact-oriented. This shift from incremental budgeting to a performance-centric model ensures that financial resources are distributed according to measurable outcomes rather than arbitrary spending trends. Moreover, implementing performance-based budgeting incentivizes government agencies to align their expenditures with strategic goals, ultimately enhancing fiscal discipline. Research has shown that PBB enhances fiscal sustainability by linking financial planning to service delivery, reducing inefficiencies, and improving public trust in financial governance. However, the transition to this model requires strong institutional capacity, clear regulatory frameworks, and robust mechanisms to assess performance objectively. Without these supporting structures, the benefits of PBB may remain theoretical rather than practical. Therefore, a well-structured performance measurement system and effective oversight mechanisms are essential for ensuring the long-term success of performance-based financial management.

This study confirms that adopting precise costing systems, including Activity-Based Costing (ABC), Zero-Based Budgeting (ZBB), and Target Costing, is crucial in optimizing budget utilization and enhancing financial efficiency. ABC allows for a more accurate allocation of costs to specific public service activities, ensuring that each expenditure is directly tied to service delivery. By contrast, ZBB eliminates unnecessary expenditures by requiring government entities to justify every budgetary request from scratch rather than relying on prior allocations. This approach promotes greater fiscal responsibility and ensures that each financial commitment aligns with governmental priorities. Additionally, Target Costing functions as a cost planning tool, ensuring that public infrastructure projects and essential services remain within predetermined budget limits, thereby preventing excessive cost overruns. The integration of these costing methodologies has been widely recognized for its ability to enhance budget predictability, improve resource allocation efficiency, and minimize financial waste. However, challenges persist in the widespread adoption of these systems, particularly in developing economies where financial data accuracy, technological infrastructure, and institutional readiness remain significant constraints. Despite these challenges, governments that have successfully implemented advanced costing systems report increased fiscal efficiency, greater accountability in budgetary processes, and improved service delivery outcomes. Therefore, adopting a well-structured and transparent costing system is critical in ensuring that public sector financial management remains sustainable and responsive to societal needs.

Beyond budgeting strategies and costing methodologies, this study highlights that transparency and accountability are fundamental to effective public financial management. Transparency in financial governance allows citizens and other stakeholders to monitor how public funds are allocated and utilized, ultimately strengthening public confidence in government institutions. However, the study reveals that numerous barriers hinder the effective implementation of financial transparency, particularly in jurisdictions where limited data access, institutional resistance, and weak regulatory frameworks restrict financial disclosure. In many cases, the absence of comprehensive fiscal reporting standards exacerbates the issue, making it difficult for oversight bodies and civil society organizations to conduct independent financial evaluations. Therefore, the study underscores the need for enhanced accountability mechanisms, such as independent audits, rigorous financial reporting systems, and increased public scrutiny. By reinforcing these accountability structures, governments can mitigate corruption risks, foster greater financial discipline, and improve overall fiscal performance. Despite progress in promoting financial transparency through digital governance initiatives, such as open budget systems and e-financial reporting, many governments struggle with data integrity gaps and real-time financial oversight. Addressing these challenges requires regulatory reforms that mandate fiscal disclosure, capacity-building initiatives to enhance institutional oversight, and the implementation of technology-driven financial governance tools.

This study identifies several policy and institutional challenges that hinder the adoption of modern financial management systems. Political interference and bureaucratic inefficiencies frequently impede the implementation of progressive fiscal reforms, as financial policies are often subject to political bargaining rather than objective performance assessments. Political considerations sometimes override financial prudence, leading to budget allocations that favor short-term electoral gains rather than long-term economic stability. Furthermore, technological readiness is another critical factor influencing the effectiveness of data-driven budget management systems. While emerging technologies such as blockchain and big data analytics have demonstrated their potential to enhance financial transparency and accuracy, many governments still face structural limitations in adopting these innovations. Insufficient IT infrastructure, lack of skilled personnel, and resistance to digital transformation create additional hurdles in modernizing financial management practices. As a result, many public institutions continue to rely on traditional accounting systems that lack real-time financial monitoring capabilities. To overcome these challenges, governments must prioritize the development of digital infrastructure, invest in capacity-building programs for public financial managers, and establish regulatory frameworks that support digital adoption in financial governance. Without these measures, financial management reforms may remain fragmented and ineffective in achieving long-term fiscal sustainability.

To address these challenges, this study highlights several strategies that can enhance the effectiveness of public financial management. One of the most impactful strategies is digitalizing public finance systems, integrating blockchain, artificial intelligence, and big data analytics technologies into government financial operations. These technologies facilitate real-time financial tracking, reduce opportunities for fraudulent transactions, and improve overall financial accountability. Blockchain, for example, offers an immutable ledger system that ensures every transaction is permanently recorded, thereby eliminating the risk of data manipulation. Similarly, big data analytics allows policymakers to analyze expenditure patterns, detect anomalies in financial records, and identify potential inefficiencies within government spending programs. In addition to technological integration, strengthening fiscal performance-based policies is essential for optimizing public financial governance. Governments must move beyond conventional budgeting approaches and embrace performance-based financial policies that justify expenditures based on measurable outcomes. Finally, collaborative partnerships between government entities, private sector stakeholders, and civil society organizations are vital in enhancing public financial transparency and accountability. Public-private partnerships can leverage external expertise, drive financial innovation, and ensure fiscal governance remains aligned with global best practices. By implementing these strategies, public institutions can strengthen their financial resilience, improve service delivery efficiency, and build long-term economic stability.

The findings of this study align with established theoretical frameworks that emphasize the importance of results-based financial strategies and transparency in public sector budget management. Specifically, the results support the New Public Management (NPM) theory, which advocates for greater efficiency, accountability, and performance-driven approaches in public administration (Hood, 1991). According to NPM, the public sector can enhance its effectiveness by adopting private-sector management principles, including performance-based budgeting, data-driven decision-making, and integrating advanced financial technologies. This perspective suggests that traditional bureaucratic structures, which often prioritize compliance over outcomes, may lead to inefficiencies in resource allocation. Instead, NPM promotes a managerial approach focusing on measurable results and cost efficiency, ensuring financial resources are directed toward policies and programs that yield tangible public benefits. NPM theory underscores the role of financial transparency and accountability in fostering fiscal discipline. Governments can minimize financial mismanagement and corruption risks by implementing mechanisms such as independent audits, real-time financial reporting, and open budget systems. The study's findings reaffirm this perspective, demonstrating that public institutions with higher financial transparency achieve greater fiscal sustainability and improved service delivery outcomes. The increasing reliance on digital financial management tools, such as blockchain and big data analytics, further aligns with the NPM framework, which encourages technological innovation in governance. Adopting modern financial strategies based on NPM principles can significantly enhance public sector performance, ensuring financial decisions are strategically sound and accountable to stakeholders.

The findings of this study can be compared with prior research that has examined the effectiveness of public financial management strategies. A study by Allen & Clifton (2024) on implementing Zero-Based Budgeting (ZBB) found that this approach significantly reduces inefficient expenditures and enhances governmental financial accountability. Their findings align with the results of this study, which also confirm that ZBB helps ensure that every budget allocation is justified based on actual needs rather than historical spending patterns. By requiring budget planners to justify every financial allocation from scratch, ZBB minimizes waste and promotes more strategic and efficient use of public resources. Similarly, Azis (2024) analyzed the application of performance-based budgeting (PBB) in Indonesia's public sector and found that this results-based approach improved financial management effectiveness. His research demonstrates that PBB enhances fiscal discipline and ensures that government expenditures translate into tangible social and economic benefits. These conclusions strongly support the findings of this study, reinforcing the notion that outcome-driven budgeting can optimize resource distribution and improve service delivery in public institutions. However, some previous studies highlight challenges in implementing performance-based financial management. Mauro, Cinquini, and Pianezzi (2021) argued that performance budgeting reforms face significant hurdles in public administration environments where transparency and accountability mechanisms are weak. Their research underscores that institutional constraints and regulatory gaps can impede the successful adoption of modern budgeting frameworks. This aligns with the present study's findings, identifying regulatory shortcomings and bureaucratic resistance as key obstacles to financial reform. These insights suggest that while performance-based strategies hold substantial promise, their effectiveness depends on strong institutional oversight and a commitment to financial transparency and accountability.

The practical implications of this study provide valuable insights that can be directly applied to public financial policy reforms. The findings highlight the urgent need for governments to enhance financial data transparency and strengthen independent audit systems to ensure that every budget expenditure is accountable and effectively monitored. One of the key recommendations is for governments to expedite the adoption of digital financial management systems, which can significantly improve budgetary efficiency and minimize corruption risks. Integrating blockchain technology in financial record-keeping offers a tamper-proof and highly transparent transaction history, ensuring that public funds are allocated and utilized responsibly. Additionally, big data analytics can be employed to analyze government spending trends, detect anomalies, and identify potential areas of budget inefficiency, thus enabling more strategic fiscal planning and reducing unnecessary expenditures. From a policy perspective, this study underscores the importance of reinforcing fiscal transparency regulations and ensuring that performance-based budgeting (PBB) frameworks are implemented across all sectors. Strengthening these policies will enhance the effectiveness of budget allocation and ensure that public funds contribute to tangible social and economic outcomes. Expanding public and private sector engagement in financial oversight is crucial for improving fiscal accountability. Increased citizen participation in budgetary processes fosters greater trust in government policies and ensures that expenditures align with societal needs. Fostering partnerships with the private sector and civil society organizations can provide external validation and improve financial monitoring mechanisms. By implementing these recommendations, governments can significantly enhance the effectiveness of financial management and costing systems in the public sector, ultimately supporting more sustainable and stable economic growth.

CONCLUSION

This study systematically evaluates the effectiveness of public sector financial management and costing systems in improving performance effectiveness. The research identifies key mechanisms that optimize resource allocation, enhance fiscal efficiency, and promote accountability through an in-depth analysis of modern budgeting strategies, performance-based financial management, and costing methodologies. The study highlights how adopting Performance-Based Budgeting (PBB), Activity-Based Costing (ABC), Zero-Based Budgeting (ZBB), and Target Costing significantly improves budgetary decision-making by ensuring that expenditures are justified and directly linked to measurable outcomes. Additionally, findings indicate that transparency and accountability are critical to ensuring the integrity of financial management practices, particularly in preventing inefficiencies and corruption within public financial systems. The study also underscores the challenges of implementing modern financial management frameworks, including institutional resistance, political interference, and technological limitations.

This research's significance extends to academic discourse and practical policy formulation. The study contributes to the literature by bridging gaps between traditional and performance-driven financial management approaches, offering a more integrated perspective on fiscal efficiency. It provides policymakers with empirical insights into how financial transparency, accountability mechanisms, and digital innovations such as blockchain and big data analytics can enhance public sector financial governance. The findings suggest that governments should strengthen independent audit systems, enhance citizen participation in fiscal decision-making, and accelerate the adoption of digital financial management tools to mitigate inefficiencies and corruption. From a managerial perspective, the research highlights the importance of aligning budgetary policies with performance-driven frameworks to ensure financial allocations yield tangible socio-economic benefits.

Despite its contributions, this study has limitations that should be addressed in future research. First, while the study draws on systematic literature analysis, it does not incorporate primary data collection, such as case studies or field surveys, which could provide deeper contextual insights. Future research should employ empirical methods, such as interviews with policymakers and financial managers, to validate the applicability of the proposed financial management strategies. Additionally, further studies should explore the long-term impacts of digital financial innovations, particularly in low- and middle-income countries where infrastructure and technological adoption remain significant barriers. Examining the interplay between financial governance and political dynamics would also be beneficial, as political interference hinders fiscal reform implementation. Addressing these gaps will further refine the understanding of effective public sector financial management and contribute to developing more resilient, transparent, and accountable financial governance frameworks.

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