

## THE FINANCIAL MANAGEMENT SYSTEM

### The Basic Approach

The new system of financial management which the Department has decided to introduce is an adaptation of a concept known as budgetary control, a concept which is widely accepted in business and industry and which is gaining ground as a means of promoting effectiveness in government operations.

#### What is Budgetary Control?

Budgetary control is a way of reconciling two requirements of management that are inherently conflicting; the needs of operating managers to have maximum freedom and autonomy in order to effectively carry out their assigned tasks; and the overriding needs of top management, at the centre of things, to direct all activities toward the desired ends of the organization, and to deploy the organization's total resources among various activities in the manner best suited to achieve these ends. This last requirement has two phases - the initial judgements on resource allocation and then a control mechanism to ensure that these judgements are carried out in practice.

These conflicting sets of management requirements exist in almost every organization. There are three alternative solutions available. Operating managers can be given complete autonomy without formal central controls. This is characteristic of very small organizations where the people, through close informal association, maintain overall direction and coordination. This alternative is really not available to an organization of any size because it would result in anarchy.

A solution at the other extreme is the completely centralized structure. Central management exercises