Towards a Unified Public Financial Management System (UPFMS) for States

CA. Sanjay Maheshwari
Member of the Institute

State governments manage a wide and evolving set of public accounting and public financial management functions covering planning, budgeting, revenue generation, and expenditure oversight, including capital infrastructure spending, alongside the delivery of social welfare services. This mandate further extends to human resource management, asset and inventory control, public fund investment, debt and guarantee management, safeguarding long-term fiscal sustainability, etc.

Over the last two decades, most States have progressively implemented digital systems to support budgeting, treasury operations, procurement, human resource management, accounting, audit, revenue administration and project monitoring. These initiatives have led to measurable improvements in transactional efficiency, transparency and compliance within individual functional domains. However, as the scale, diversity and velocity of public expenditure have expanded, the limitations of a fragmented and reporting-driven public financial management approach have become more apparent. In this evolving environment, the next phase of reform lies in deep integration, complete automation, use of Artificial Intelligence (AI) and Generative Artificial Intelligence (Gen AI), and transaction-driven governance.

Keeping the above in mind, a Unified Public Financial Management System (UPFMS) is therefore envisaged as a comprehensive reform framework for States. The UPFMS would integrate all accounting, financial and administrative functions into a single source of truth, ensure that transactions are captured at the point of origin, and enable transaction/event-driven data flows across the entire accounting and public financial management lifecycle.

The overall objective is to make UPFMS from accounting and reconciliation activities to real financial management system.

Need for Stronger, Efficient State-level UPFMS

Most of the States currently operate a diverse ecosystem of digital applications covering planning, budgeting, revenue management, expenditure management, treasury operations, procurement, Human Resource Management System (including processes relating to recruitment to retirement) accounting, audit, project monitoring, inventory management, asset registers, Personal Deposit Accounts, debt and guarantee management. These applications systems were introduced mostly in an incremental manner (rather than in a transformational manner) to meet specific functional or compliance needs, and each initiative has delivered tangible benefits within its defined scope. However, this incremental approach has resulted in fragmented data landscapes. Budgeting may take time from collection of data till presentation for review and approval.

As a result, in many cases, states' focus remains on accounting of transactions and reconciliation, rather than on proactive fund management, fiscal responsibility and timely utilisation of resources. This is due to the absence of a unified, transaction-driven system that automatically transforms transactions into auto-developed management information reports and present them in the form of informed decisions.

This context presents a clear and timely opportunity for States to evolve from a report-driven public financial management framework to a transaction-driven, self-governing Unified Public Financial Management System (UPFMS).

Conceptual Framework for UPFMS

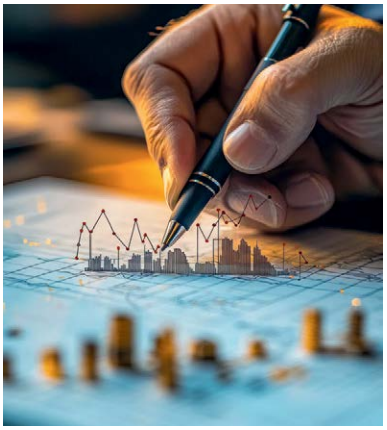
The UPFMS would be founded on the following clear and explicit governance doctrines which are not incidental design choices rather they are the core drivers of the proposed reform:

1. The UPFMS would prioritise self-governance over repetitive reporting - Functionaries at all levels, particularly at the Drawing and Disbursing Officer (DDO) and Budget Controlling Officer (BCO) levels, would be empowered to operate independently within clearly defined, system-enforced rules. Compliance, checks and balances would be embedded within workflows, approvals and validations, reducing dependence on manual supervision, inspections and repeated submission of returns.
2. The UPFMS would be based on the core philosophy of single source of truth for all public accounting and financial data of the State. Financial and operational information would be created once, at the point of transaction, and reused seamlessly across planning, budgeting, execution, accounting, audit and reporting.
3. The UPFMS would be transaction-driven and event-based. This means transactions would be captured at the time of their occurrence, rather than capturing them in a consolidated form or on a periodic basis. Financial intelligence would thus emerge as a direct by-product of operational activity.
4. The UPFMS would enable drill-down analysis to the lowest operational level. This would enable decision-makers to move seamlessly from State-level aggregates to department-wise, scheme-wise, project-wise, DDO-wise, BCO-wise, vendor-wise or asset-wise views without requiring any additional data calls, manual compilation or even any MIS report.
5. The UPFMS would enable a fundamental shift from gathering data to analysing results and taking informed decisions. A systematic automation and integration would free administrative capacity which is currently spent on data collection and reconciliation. This would allow greater focus on outcomes, fiscal risks and strategic fund management.
6. The UPFMS should leverage AI/Gen AI and have the latest IT technologies to automate workflows, provide intelligent insights, and provide personalized user experiences. The system should be built with scalable microservices.
7. The whole purpose of the above approach is to ensure that accounting within the UPFMS is treated as a by-product of integrated operations, not as the primary driver of financial management. With transactions captured at the time of their first occurrence, to a great extent, accounting entries are envisaged to be generated automatically and continuously, enabling finance leadership to focus on fiscal responsibility rather than reconciliation.

The UPFMS is also intended to ensure that financial classification, data structures and accounting flows are aligned with the extended codification frameworks as finalised by the Central Government. This alignment would strengthen standardisation, auditability and inter-State comparability.

Intended Outcomes

The proposed UPFMS is expected to deliver tangible improvements in governance outcomes. These would include faster budgeting exercise, smoother and need based utilisation of funds across the financial year, improved management of capital expenditure, enhanced



accountability at the DDO and BCO levels, early identification of abnormal financial and operational trends, stronger automated controls over Personal Deposit Accounts (PD Accounts), and improved fiscal discipline.

The overall impact of these changes would be a decisive shift from accounting and reconciliation-centric practices to real financial management, with efficient utilisation of public funds, strengthened fiscal responsibility and greater public confidence in State financial governance.

Functional Modules

The UPFMS would comprise several functional modules. These functional modules have been grouped in a very logical and scientific manner and discussed in subsequent paragraphs.

Planning and Budget Management

Planning and Budget Management Module would operate as the central governance and control layer of the Unified Public Financial Management System. The objective of this module is not merely to prepare and publish an annual budget, but to convert legislative authorisation into an operational, continuously managed financial plan that supports timely execution and fiscal discipline.

> The UPFMS would enable budgeting within a very short span of time. Annual allocations would be operationalised through monthly and need-based releases, particularly for capital expenditure, aligned with execution readiness, procurement status and verified project milestones.

The UPFMS would enable budgeting within a very short span of time. Annual allocations would be operationalised through monthly and need-based releases, particularly for capital expenditure, aligned with execution readiness, procurement status and verified project milestones. This approach would ensure that funds are available when they are to be utilised, rather than being front-loaded or bunched towards the end of the financial year. This would also ensure timely utilisation of funds and improved quality of expenditure.

The module would be inherently transaction-driven. Every sanction, commitment, procurement approval and payment would update budget utilisation in real time, creating a single source of truth for budget status across the State. This would eliminate parallel tracking, manual registers and post-facto consolidation.

This would also facilitate quick, routine and well-informed decisions on budget revision, re-appropriation and surrender. These would no longer be treated as exceptional or end-year exercises. Instead, the system would continuously analyse utilisation patterns, commitments, physical progress and cash position, enabling decision-makers to redirect funds to priority areas, release additional resources where required, or surrender unutilised provisions in time.

Program, Project and Scheme Management

The Program, Project and Scheme Management Module is designed to serve as a foundation for the Planning and Budget Management Module.

Under this module, the programs, projects and schemes would be arranged with distinctly specified objectives, landmarks, timeframes and expected outcomes. The material development would be taken at the initiation stage, using geotagged and time-marked indications wherever appropriate. Every individual confirmed milestone would create an entry in the computing system that routinely flows into fund accessibility, administration of expenses, asset development and accounting. This module would ascertain that fiscal choices are securely rooted in tangible development and intended results, instead of being determined solely by expenses.

This occurrence and transaction-oriented correlation between material and monetary progress is focal to the governance philosophy of the UPFMS. It would allow the initial identification of anomalous trends, such as slow implementation, inflation in prices, or irregular spending habits, much before they become crucial. Decision-makers would be able to closely examine from State-level aggregates to individual projects, locations and implementing units, enabling timely and evidence-based interventions.

To efficiently manage program, project, and scheme, an Evidence-Based Project Management System (EBPMS) is required in place. This module would assist in the management of empirical project, where financial reports, sustained funding, and resolutions related to re-orientation are determined based on validated implementation data instead of recurrent accounts of narratives. This would enable a decrease in the encumbrance of intermittent reporting and divert focus towards findings and conclusions.

By securely incorporating program implementation with funds and expense control, the module would strengthen financial prudence while also enhancing the efficacy of delivery.

Revenue Management

The Revenue Management Module within the UPFMS would surpass a limited focus on information gathering to evolve into becoming a crucial element of vigorous management of funds. The system would furnish near real-time discernibility of tax and non-tax revenue inflows, assimilated effortlessly with treasury, budgeting and cash management function.

Income transactions would get recorded at the outset and displayed instantaneously in the unified financial view of the State. This would allow high-ranking officers across state departments to consistently evaluate the

accessibility of resources and regulate the rate of expenditure consequently. Seasonal patterns, systematic transformations and potential risks impacting revenue streams would be recognizable at the initial level through system-generated metrics.

Additionally, this would assist in making sound decisions related to borrowing, funding and spending allocation, enhancing broad budgetary management. Essentially, financial metrics would not remain as a distinct reporting stream but instead belong to the same primary source of truth that aid all monetary decisions.

Expenditure Management

Expenditure Management Module would be tightly integrated with Planning and Budget Management Module. By ensuring that expenditure is always aligned with budget availability and verified execution, this module would directly support timely utilisation of funds and improved expenditure quality. This module would operate entirely on transaction-driven, system-enforced controls, replacing manual oversight with embedded governance. Sanctions, commitments and payments would be processed only against available budget and validated system events.

A key feature of this module would be the upfront recording of financial commitments, providing full visibility of future obligations. This would prevent inadvertent over-commitment and allow finance departments to manage cash flows and liabilities proactively.

The design would enable DDO-centric self-governance, where officers operate independently within system-defined limits. Automated validations, alerts and controls would reduce the need for repetitive reporting and manual approvals, while strengthening accountability through audit trail/ traceable transactions.

Human Resource Management System (HRMS)

The HRMS Module would be deeply integrated with the financial architecture of the UPFMS, covering the entire employee lifecycle from recruitment to retirement – thus covering both, monetary and non-monetary transactions/events.

Recruitment actions, payroll processing, pension disbursements and retirement benefits would be aligned with real-time budget availability. Transactions would be captured at source and reflected immediately in budget utilisation, cash management and accounting records. This would eliminate delays, mismatches and reconciliation issues associated with parallel systems.

Transaction-driven human resource data would facilitate effective trend analysis and forecasting of salary and pension liabilities, supporting medium-term and long-term fiscal planning. Decision-makers would be able to assess the financial implications of staffing policies, cadre strength and retirement patterns without relying on manual consolidation.

Inventory Management

Inventory Management Module would move from being a peripheral store-keeping function to a core instrument of financial control and operational governance. Inventory often represents a significant component of working capital in public programs and capital projects, yet it is traditionally managed outside the mainstream financial decision framework.

> Within the UPFMS, assets would be created upon verified completion of capital works, based on transaction-driven data from the Program, Project and Scheme Management module. Physical assets would be geotagged to establish existence and location, ensuring transparency and reducing the risk of ghost or duplicate assets.

Under the UPFMS, all inventory transactions such as receipt, storage, issue, transfer, consumption and write-off would be captured at the point of occurrence and integrated with procurement, program execution, expenditure management and accounting. Inventory would no longer be tracked through parallel registers or periodic returns. Instead, each movement of material would generate a transaction that updates the single source of truth in real time.

Further, inventory consumption linked to capital works would automatically flow into asset creation records, eliminating reconciliation gaps between material usage, project costs and asset valuation. This tight integration would strengthen fiscal discipline, improve cost accuracy and reinforce self-governance at the operational level by embedding controls directly into system workflows rather than relying on post-facto inspections.

Assets Management

Assets Management Module would provide end-to-end lifecycle governance of public assets, shifting the focus from mere asset creation to asset sustainability, utilisation and service outcomes. Public assets represent a substantial portion of the State's accounts, yet their financial and physical dimensions are often managed in silos.

Within the UPFMS, assets would be created upon verified completion of capital works, based on transaction-driven data from the Program, Project and Scheme Management module. Physical assets would be geotagged to establish existence and location, ensuring transparency and reducing the risk of ghost or duplicate assets. Financial valuation would flow directly from expenditure and inventory consumption records, ensuring accuracy and consistency.

This module would also support maintenance planning, depreciation and eventual disposal within the same integrated framework. This would allow decision-makers to assess not only the creation of assets, but also their ongoing financial implications and utilisation patterns. Drill-down analysis would enable movement from aggregated asset values to individual assets and locations, strengthening accountability at all levels.

Investment Management

Investment Management Module would cover the entire lifecycle of public investments, covering planning, approval, deployment, monitoring of returns, maturity management, reinvestment and closure. Investments of public funds would no longer be monitored through static registers or periodic statements, but through continuous, transaction-driven oversight.

Each investment transaction would be captured at source and reflected immediately in the State's unified financial position. Returns, maturities and reinvestment decisions would be tracked automatically, providing real-time visibility of liquidity and performance on need-to-know basis. This would support treasury operations and ensure that idle funds are optimally used in accordance with policy objectives.

Borrowing and Guarantee Management

Borrowing and Guarantee Management Module would operate as a lifecycle-based fiscal control mechanism, providing continuous visibility of the State's liabilities and contingent exposures. Borrowings would be managed from proposal and approval through drawdown, servicing, refinancing and closure, with each stage captured as a transaction at source.

Guarantees extended by the State would be recorded at occurrence of event(s) and tracked as contingent liabilities, with exposure monitoring and early warning indicators to flag potential risks of invocation.

This integrated, transaction-driven approach would allow borrowing and guarantee decisions to be aligned with budget availability, revenue performance and long-term fiscal strategy, strengthening overall fiscal responsibility.

Accounting Management

Accounting Management Module would represent a fundamental shift in philosophy. Accounting would no longer drive financial management; instead, it would emerge as a by-product of integrated operations.

With transactions captured at source across all modules and events driving system updates, accounting entries would be largely generated automatically and continuously. This would eliminate extensive reconciliation exercises and reduce dependence on manual adjustments. Financial statements would be produced from the same single source of truth that supports planning, budgeting and execution.

“With transactions captured at source across all modules and events driving system updates, accounting entries would be largely generated automatically and continuously. This would eliminate extensive reconciliation exercises and reduce dependence on manual adjustments”

By freeing finance personnel from reconciliation-centric workloads, the UPFMS would enable a decisive shift towards proactive and real financial management, fiscal analysis and strategic oversight.

Audit Management

To facilitate Internal and External Auditors as well, Audit Management Module would transition from episodic verification to continuous assurance. This would facilitate audit through innovative computer aided audit techniques.

Auditors would have access to transaction-level data across planning, budgeting, procurement, inventory, assets, borrowings and guarantees within a unified system environment.

By embedding audit readiness into system design, the UPFMS would enhance accountability while reducing audit cycle time and administrative burden.

Financial Management, Analytics and Decision Support

Financial Management Module would facilitate real financial management and thus a shift from 'accounting & reconciliation' to 'proactive' financial management. Financial Management Module would focus squarely on fiscal responsibility, fund optimisation and proactive decision-making. Advanced analytics would continuously analyse transaction-driven data to identify abnormal trends, emerging risks and performance deviations.

AI and Gen AI tools would support predictive insights, scenario analysis and fraud analytics, enabling early identification of anomalies across

> The administration of public finance in states is at a crucial stage. The intricacies of governance require a transition from a non-integrated data-driven framework to a harmonized, transaction-oriented and autonomous structure.

planning & budgeting, revenue, expenditure, procurement, payroll, asset management, etc.

Decision-makers would be able to drill down rapidly from high-level indicators to the underlying transactions driving those trends. Management Information System and Reporting would thus become an outcome of system activity rather than an administrative burden, reinforcing the principle of self-governance.

This capability would transform financial governance from reactive oversight to anticipatory management.

Fiscal Impact and Governance Outcomes

The cumulative impact of the UPFMS would extend beyond efficiency gains. By enabling rapid availability of budget, timely revision, re-appropriation and surrender, strong automated controls including over PD Accounts, early identification of abnormal trends and a decisive shift from accounting and reconciliation to real financial management, the UPFMS would materially improve utilisation of public funds.

Taken together, the above reforms could result in a notional efficiency gain in the range of 0.5 percent to 1.0 percent of the State budget, while strengthening fiscal discipline, accountability and public trust.

Implementation Strategy and the Way Forward

UPFMS may be developed by the Centre Government and a developed application may be made available to States for the use at their will or this document (as a base document) may be shared with States for developing their own System. Development may be done through open tender or inhouse with the help of Centre's or State's Nodal Agencies. Ideally, the development may take around 9-15 months depending on the team's strength to be deployed for this work.

Conclusion

The administration of public finance in states is at a crucial stage. The intricacies of governance require a transition from a non-integrated data-driven framework to a harmonized, transaction-oriented and autonomous structure. UPFMS would empower this shift by recording transactions at the outset, creating event-triggered data and incorporating organization, resource allocation, implementation, supplies, possessions, investments, credits, accounting and audit into a distinct and systematic architecture.

By transitioning from accounting and harmonization to robust fiscal management, supporting financial accountability and facilitating timely, substantiated decisions, the UPFMS would encourage responsible, honest and ethical governance for states.

Author may be reached at sanjaydelindia@rediffmail.com and eboard@icai.in