

More than co

THE SCOPE FOR PUBLIC

The Commonwealth Government is committed to legislative and management reforms to modernise the Commonwealth public service. To evaluate readiness, a team of public servants examined the state of play. The results were published in Beyond Bean Counting. Effective Financial Management in the APS - 1998 & Beyond. JENNY PEACHEY, who led the research team, explains the survey and outlines some important findings.

The public service is moving to a more business-like footing in managing its resources. Increasingly, pressure is being brought to bear to apply business disciplines and practices that must satisfy the Parliament, the Government and the community about the full cost, quality and timeliness of the services it delivers.

The imminent introduction of full accrual-based management will underpin the heralded improvements. To ensure that the implementation strategy undertaken by agencies meets future public sector challenges, the Management Advisory Board charged the project team with establishing the current standards of financial management in the Commonwealth and a number of other public and private sectors, to identify best practice.

The project team's findings were based on wide research into financial management in the Commonwealth, other public sectors in Australia and overseas, and in the private sector.

A large part of our research revolved around a benchmarking survey which encompassed 216 organi-

sations. These comprised 48 Commonwealth government agencies (33 core-government and 15 government-owned trading organisations), 55 state Government organisations from five State jurisdictions, 15 local government organisations (Victoria, South Australia, New South Wales and Queensland), 45 overseas government organisations (New Zealand, United Kingdom, Canada and the United States) and 53 private sector organisations (both profit and non-profit).

Four questionnaires gathered facts about these organisations and their accounting, financial management and management practices. The four groups of executives targeted were chief financial officers (CFOs) and corporate services heads in core government agencies; CFOs in the trading sector, both public and privately-owned; senior operational managers within agencies; and secretaries and chief executive officers (CEOs). A total of 367 questionnaires were sent out and 263 responses received, giving a response rate of about 72 per cent.

Counting beans

SERVICE FINANCIAL REFORM

The survey and follow up analysis provided details of 'real-life' experiences in a range of organisations to illustrate the attributes of good financial management actually at work.

The report that emerged from this extensive research phase, *Beyond Bean Counting*, identified some key messages for the public service. Not least, it stressed that successful uptake of many of the Government's current reforms, especially those relating to performance management, accrual management and output budgeting, will rely on effective financial management practice in all agencies.

Federal managers lagging

Our analysis indicates that the quality of Commonwealth public service financial management lags significantly behind that practised in other government and private sector jurisdictions. This is partly because few Commonwealth agencies operate full accrual management systems, relying on cash systems for day to day budget management. Accordingly, they do not have access to full cost data, do not practice balance sheet management and must rely on data that cannot support forward planning. For instance, only four per cent of Commonwealth core budget agencies use accrual data for internal management reporting. This points to significant challenges ahead, not only for finance operatives, but for all public service managers.

With the Government having decided to move to an accruals-based resource management framework by 1999-2000, agencies will need to improve their financial management practices in a variety of ways. The survey showed that less than 10 per cent of finance staff in Commonwealth core budget agencies hold professional accounting qualifications compared to 78 per cent in the private sector. This means that one of the basic elements of good financial management,

professional independent financial advice, falls well short of the mark established by best practice agencies.

Provision of professional financial advice depends on two distinctive but complementary factors. The first is access to high calibre finance professionals, including professionally qualified chief financial officers. The second is the existence of financially astute line managers. Taking the second group first, when we asked Commonwealth division heads whether they thought they needed a business educational background to manage effectively, only just over 10 per cent

thought they did, compared to over 80 per cent of their counterparts in other jurisdictions.

What is worrying is that over 90 per cent of CEOs to whom these division heads report, thought that a business education would be a valuable asset. This expectation gap will require some managing if the performance of Commonwealth agencies is to meet new 'business-like' standards.

A vital driver and facilitator of good financial management practice is the CFO. The position of the CFO in the structure of the organisation impacts on how well an organisation manages overall, not just in a financial sense.

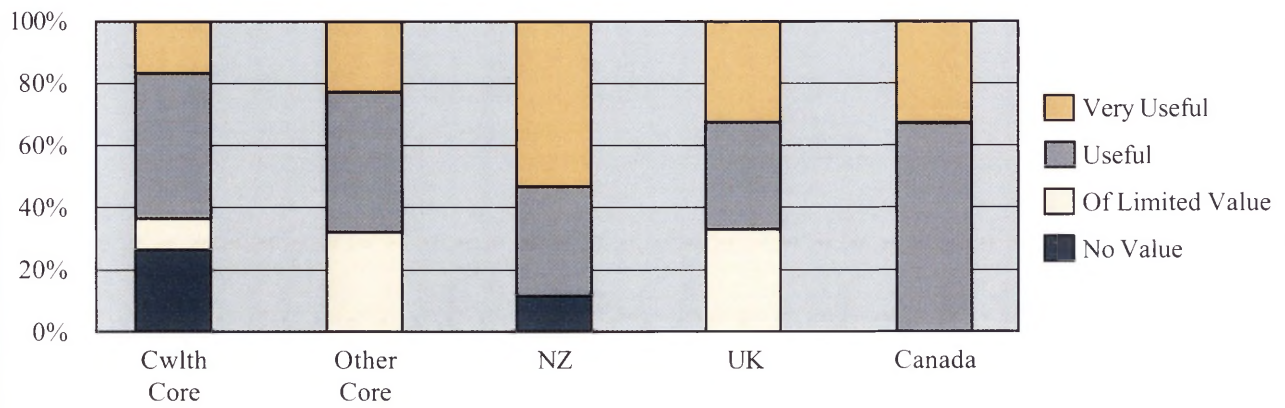
In my view the modern CFO, among other things, should:

- hold a professional accounting qualification, and have relevant experience at a senior management level, together with a demonstrated capacity to interpret, analyse and present information for use in solving complex problems;
- be included in the top management team;
- report directly to the CEO;

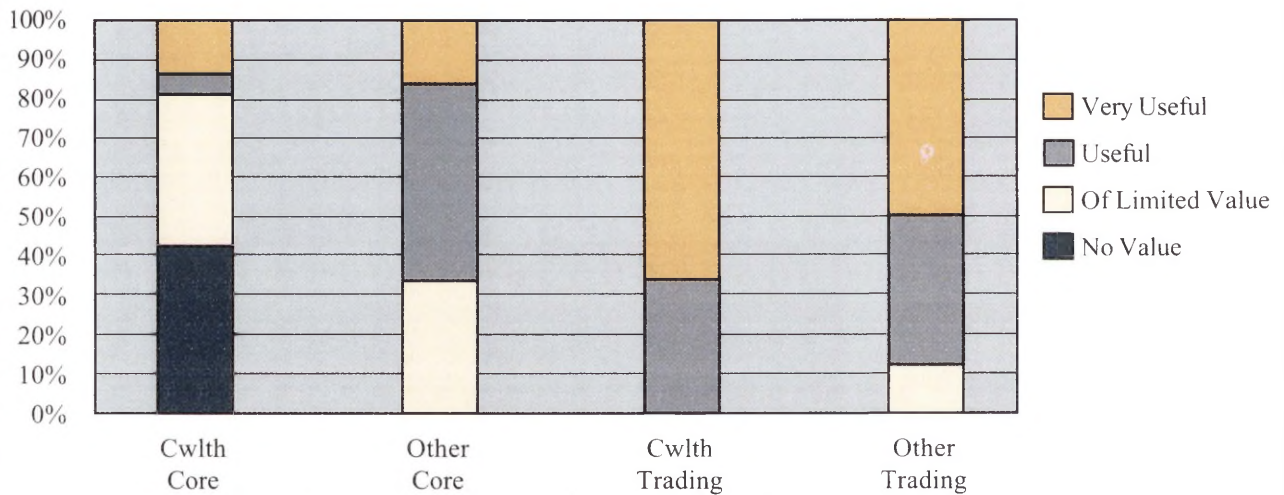
*Success of many
Government reforms will
rely on effective financial
management practice in
all agencies.*

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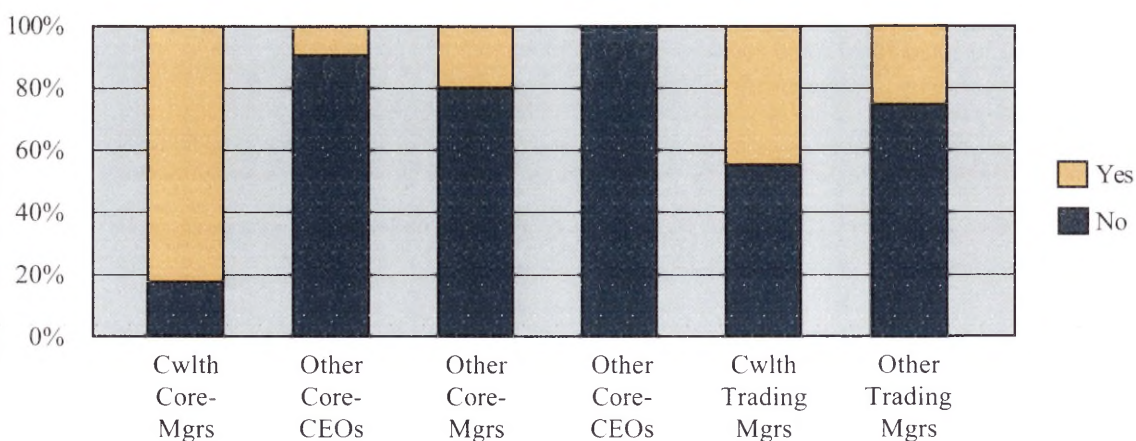
How Chief Financial Officers in Core Budget Agencies Value Accrual Information



How Line Managers Value Accrual Accounting



Do Line Managers need a Business Management Educational Background?



These graphs are reproduced from the 'Beyond Bean Counting' report with the permission of the Public Service and Merit Protection Commission.

- provide independent, high quality, professional advice;
- assist the CEO in providing a strategic view of the organisation; and
- ensure transparent and effective audit processes.

New, enhanced skills needed

The public service faces new accounting systems, new external and internal reporting arrangements, the need for full cost information, better performance monitoring and so on. It is clear that non-financial managers will need to gain financial management skills and financial managers will need to enhance their skills. The challenges are not insurmountable, but we need to find smart ways of addressing the change requirements. One suggestion is the outposting of finance staff to operational areas.

In organisations like the ABC, Qantas and even some local government offices, appropriately qualified and experienced finance staff have been outposted to senior line managers such as divisional general managers. This has two aims – to enhance financial performance and foster cultural change. Obviously, to be successful, the model is reliant on highly professional and credible outposted staff who are equipped to offer high quality professional advice. They also provide a consistent conduit to the central financial information providers.

To achieve the reform timetable, agencies will need to start now to plan their strategies for implementation. These strategies will need to cover issues ranging from skilling and recruitment of professional finance operatives, to communication and education throughout all levels of the organisation. The role of chief executives and senior managers in the implementation process cannot be underestimated. For agencies to reap the benefits of better financial management and information, the change process must be driven by the senior executive team.

While chief executives do not need to know everything about financial management, they do need to know what questions to ask to operate a high performing organisation. They must have professionally qualified financial advisers. They must also have a team of senior operational managers who are financially astute and who are held accountable for, among other things, financial results. *Beyond Bean Counting* helps to identify the challenges and implications of financial management reform for senior executives, and offers practical implementation solutions for all managers.

Jenny Peachey is Customs Regional Manager Commercial Services, Victoria.

Beyond Bean Counting. Effective Financial Management in the APS – 1998 & Beyond. Available at government book shops. Price \$16.95.

Background to the project

The Management Advisory Board (MAB) is charged under the Public Service Act with providing advice to the Commonwealth Government, through the Prime Minister, on significant issues relating to the management of the Australian public service.

The project team was asked by MAB to explore the extent of the gap, if any, between current Commonwealth practice and best practice, discover how best practice is actually applied in organisations, and suggest remedies for bridging gaps.

Project team members were:

Jenny Peachey (Project Leader) and Marisa Hewett, Australian Customs Service; Adrian Wayland, Department of Veterans' Affairs; Jenny Milward-Bason, Department of Communications and the Arts; Paul MacKenzie, Australian Bureau of Statistics; and Tracey Martin, Australian National Audit Office.

Dr Allan Hawke, Secretary of the Department of Transport and Regional Development, and a member of MAB, sponsored the project and also chaired the Steering Committee.

Other members of the steering committee were Peter Kennedy, Deputy Commissioner, Public Service and Merit Protection Commission; Ian McPhee, National Business Director, Australian National Audit Office; Mick Roche, Deputy Chief Executive, Australian Customs Service; Phil Bowen, General Manager, Government Accounts and Corporate Services, Department of Finance and Administration; Jane Halton, First Assistant Secretary, Aged and Community Care Division, Department of Health and Family Services; and Greg Harper, Assistant Secretary, Finance and Services, Department of Transport and Regional Development.