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Audit Report No.25 2000–2001
Information Support Services

Benchmarking the Finance Function

Australian National Audit Office

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Canberra ACT
22 December 2000

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a benchmarking study in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Benchmarking the Finance Function*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—
<http://www.anao.gov.au>.

Yours sincerely



P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Summary, Key Findings and Recommendations

Summary

1. This Report on the public sector finance function is part of a series of benchmarking studies being undertaken by the Australian National Audit Office (ANAO) into common business processes. The ANAO has recently published a report detailing a benchmarking study of the internal audit function.¹ and is currently undertaking a study relating to the human resource management function. The primary purpose of these studies is to obtain and report quantitative and qualitative data on aspects of performance of the function or business process. The benchmark studies are undertaken as part of the ANAO's Information Support Services which are also an important element of providing assurance to stakeholders.

2. The objective of the finance function benchmarking study was to obtain, and report on over time, quantitative and qualitative data relating to finance function activities as they operate in Commonwealth organisations.² This Report provides the results from the first year of the benchmarking study. This data can be utilised by all public sector organisations to develop appropriate measures of performance for their own finance function as part of continuous improvement programs or business re-engineering.

3. While the emphasis of the ANAO benchmarking studies is to make available public sector benchmarks for use as an organisational improvement tool, they also provide an opportunity for an across-the-board assessment of the Commonwealth public sector for particular functions. This assessment is based on a comparison of responses from participating Commonwealth organisations (the Commonwealth Group) and data from an international group (the Global Group).

4. Commonwealth organisations can compare their own performance against the benchmarks and use the information to detect and diagnose areas of concern in business processes in terms of the dimensions of cost, efficiency and quality and highlight opportunities for improvement.

¹ Australian National Audit Office, Audit Report No.14 of 2000–01, *Benchmarking the Internal Audit Function*, October 2000.

² In this Report organisations refers to agencies subject to the *Financial Management and Accountability (FMA) Act 1997* and statutory authorities subject to the *Commonwealth Authorities and Companies (CAC) Act 1997*.

5. The finance function benchmarking study examines aggregated benchmarking measures of cost, efficiency, quality and better practice reported by nineteen Commonwealth organisations for 1998–99 and provides aggregated benchmarking results. The Commonwealth public sector organisations participating in the benchmark study have been provided with a comprehensive report comparing their results with those of other organisations in the Commonwealth public sector group and with the global population.

6. Ten of the Commonwealth Group organisations are covered by the *Financial Management and Accountability Act 1997* (FMA) and nine by the *Commonwealth Authorities and Companies Act 1997* (CAC).

7. The Global Group used as a comparator throughout this Report is from the Arthur Andersen benchmarking database and comprises more than 500 organisations. The largest proportion of these organisations (45 per cent) is in the United States of America and over 95 per cent are in the private sector. Further information on the Commonwealth and Global benchmarking Groups is at Appendix 1.

8. The ANAO study collected benchmarking data on the following activities:

- overall cost of the finance function (chapter 2);
- financial budgeting and analysis (chapter 3);
- fixed assets (chapter 4);
- accounts payable (chapter 5);
- ‘close the books’ and financial reporting (chapter 6);
- accounts receivable (chapter 7);
- payroll (chapter 8);
- travel (chapter 9);
- billing (chapter 10); and
- tax (chapter 11)

9. The results are limited in scope to the extent that data in the study has been derived from self-assessments. The results do not take account of, or distinguish between, the different environments in which finance functions operate, such as the public and private sectors. As a result, the benchmark study can only provide a broad indication of differences in performance between the two Groups.

10. Although the report makes a number of comparisons between the two Groups, it is important to note that results against each of the benchmarks should not be assessed in isolation as this rarely provides insight into how different outcomes have been achieved. Discovering the specific practices responsible for high performance, and adapting and applying them within an organisation as a basis for process improvement is not the role of this study. Thus the Report does not provide reasons for differences in performance, however it does provide guidance on some of the factors that organisations may wish to consider when evaluating their results.

Key Findings and Recommendation

11. This finance function benchmarking study indicates that organisations in the Commonwealth Group perform equal to or better than the Global Group at the median in relation to:

- quality in terms of lower activity error rates (accounts payable, accounts receivable and payroll);
- level of staffing in the finance function;
- making greater use of shared services;
- number of actual budgets;
- number of days between invoicing and receipt of payment;
- processing cost per pay, higher utilisation of direct deposit and integrated/interfaced payroll/human resources systems;
- making greater use of reimbursement through payroll and direct deposit for travel payments; and
- some elements of activity cost ('close the books', accounts receivable, travel, billing and tax). It should be noted that the Commonwealth Group perform these activities to a lesser extent than the Global Group.

12. The benchmarking study also indicates that opportunities may exist in some organisations for progress to be made in areas where the Commonwealth Group reported less favourable results overall than the Global Group. The main areas included are those where, at the median, there were:

- higher costs for the finance function overall;
- higher activity costs overall (budgeting and analysis, fixed assets, accounts payable, payroll, travel, and tax);
- higher activity cost per transaction (fixed assets, accounts payable, travel and billing);
- lower efficiency (budgeting and analysis, fixed assets, accounts payable, accounts receivable, payroll and travel);
- shorter lengths of employee service and lower levels of qualifications for finance function staff; and
- higher error rates ('close the books' and billing).

13. As previously mentioned this benchmarking study involves making various comparisons between quantitative and qualitative data derived from the Commonwealth and Global Groups. The Report does not attempt to provide reasons for the results. The Report does however provide guidance as to the type of factors which organisations could consider when evaluating their results.

14. The nature of this benchmarking study precludes detailed recommendations—indeed, as discussed previously, that is not its primary purpose. However, one broad recommendation, directed to all Commonwealth organisations, can be made.

15. *The ANAO recommends that organisations compare their performance against the benchmarks in this Report (and any other relevant benchmarks) in order to assist in the identification and diagnosis of areas where improvements may be made in their business processes.*

Benchmark Study Findings and Conclusions

1 Introduction

Background to the benchmarking study

1.1 The adoption of accrual budgeting and accounting as part of the on-going government reforms affecting the Commonwealth public sector has necessitated, amongst other things, the introduction of new information systems and enhanced management reporting by many public sector organisations to meet the demands for better and more timely information for decision making. Various reports by the ANAO have drawn attention to the importance of having in place effective control structures to underpin the new budgeting and accounting framework³.

Introduction

1.2 The ANAO has undertaken a benchmarking study in relation to the finance function of public sector organisations. The study is based on data from the 1998–99 financial year, the year prior to the introduction of accrual budgeting. The results can then provide a baseline for organisations to assess their performance in the future. While recognising accrual budgeting will introduce some additional complexity to organisational budgeting, it would be reasonable to expect the current analysis to be improved over time as organisations streamline and improve the integrity of their processes.

1.3 This Report examines measures of cost, efficiency, quality and better practice across a range of activities undertaken as part of the finance function by Commonwealth government organisations. It is part of a series of benchmarking studies being undertaken by the ANAO into common business processes. The primary purpose of these studies is to obtain and report quantitative and qualitative data on aspects of performance of the function or business process.

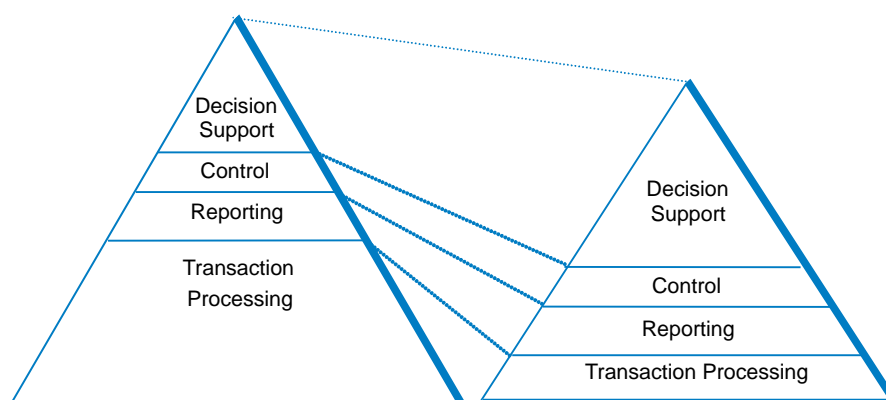
³ Australian National Audit Office Audit Report No.52 of 1999–2000 *Control Structures as Part of the Audits of Financial Statements of Major Commonwealth Agencies for the Period Ended 30 June 2000* and Audit Report No.21 of 1999–2000 *Audits of the Financial Statements of Commonwealth Government Agencies for the Period Ended 30 June 1999*.

1.4 Comparison against benchmarks alone however, rarely provides insight into how superior outcomes have been achieved. Discovering the specific practices responsible for high performance, and adapting and applying them within an organisation provides as a basis for process improvement is not the role of this study. Thus the Report does not provide reasons for differences in performance. The Report does however provide guidance as to some of the factors that organisations may wish to consider when evaluating their individual results. Where appropriate better practice observations, drawn from ANAO better practice guides, the Arthur Andersen global benchmarking database and from Reengineering Australia, are made throughout this Report to assist organisations in identifying opportunities for improvements.

1.5 Research from the private sector indicates that the operation of a finance function is regarded as expensive with significant scope for performance improvement. Research further indicates that the finance function in the private sector has been transformed over recent years, partly as a result of increasing cost pressures, but also in response to a growing demand from the users of financial information for more value-added information to assist in their decision-making.

1.6 As illustrated in the following diagram, better practice organisations are re-focussing their financial management function from a traditional base, where processing of transactions predominated, towards a lower cost, business management role.

Trends in financial management



Study objective

1.7 The objective of the benchmarking study was to obtain, over time, quantitative and qualitative benchmarks for the finance function as it operates in Commonwealth organisations.

1.8 While the emphasis of the ANAO benchmarking studies is to make available public sector benchmarks for use as an organisational improvement tool, they also provide an opportunity for an across-the-board assessment of the Commonwealth public sector for particular functions. This assessment is based on a comparison of responses from participating Commonwealth organisations and data from an international group.

Scope of the study

1.9 This Report includes aggregated benchmarking results from nineteen Commonwealth organisations (the 'Commonwealth Group') for 1998–99. Ten of the Commonwealth Group organisations are covered by the *Financial Management and Accountability Act 1997* (FMA) and nine by the *Commonwealth Authorities and Companies Act 1997* (CAC).

1.10 Information relating to organisational expenditure, finance function expenditure and the number of staff in the finance function are provided for the Commonwealth Group below.

Total organisation expenditure	Number of organisations	Finance function expenditure	Number of organisations
< \$100 million	5	< \$1 million	2
\$100—\$500 million	5	\$1—\$5 million	13
> \$500 million	9	> \$5 million	4
TOTAL	19	TOTAL	19

Staff in the finance section	Number of organisations
< 10	1
11–25	9
26–50	4
>50	5
TOTAL	19

1.11 The total expenditure of the Commonwealth Group was \$11.8 billion in 1998–99. The Commonwealth Group organisations allocate between 0.09 and 9.85 per cent of their total expenditure to the finance function. Other activities performed by the finance area that were not covered by the diagnostic instrument used to collect the data include

strategic management, financial policy development, treasury, cash management, devolved banking and finance help desk.

1.12 In order to provide the public sector organisations with benchmarking services, the ANAO formed a strategic alliance with Arthur Andersen enabling the ANAO to access diagnostic questionnaires, global benchmarks and information on better practices. Data processing and analysis was conducted jointly by the ANAO, Reengineering Australia and Arthur Andersen.

1.13 The Global Group used as a comparator throughout this Report is from the Arthur Andersen benchmarking database and comprises more than 500 organisations. The largest proportion of these organisations (45 per cent) are in the U.S. and over 95 per cent are in the private sector. Further information on the Commonwealth and Global benchmarking Groups is at Appendix 1.

1.14 The observations in this Report are based on the information provided by the Commonwealth Group in response to a questionnaire. Consequently, the standard of evidence relied on for the study must be considered persuasive, rather than conclusive, based as it is on self-assessment by organisations. These self-assessments were subject to quality assurance checks by the ANAO, but have not been audited by the ANAO. Thus the quality assurance processes undertaken by the ANAO on the data are not of themselves sufficient to guarantee its integrity.

1.15 In most organisations data was obtained for the 'central' finance area only. Moreover, the benchmark information cannot take account of, or distinguish between, the different environments in which finance functions operate, for example as between the public and private sectors. As a result, the benchmark study can only provide an insight into differences in performance and may raise further questions for investigation.

Evaluation criteria

1.16 The diagnostic questionnaires completed by each participating organisation capture a wide variety of information from which the ANAO determined a range of benchmarks across cost, efficiency and quality dimensions. These benchmarks—listed at Appendix 2—have been used as the evaluation criteria for this Report. In terms of the structure of this Report, the benchmarks have been categorised by the finance function overall and then each particular finance activity (e.g. financial budgeting and analysis, fixed assets). Detailed results for each benchmark are at Appendix 3.

Beyond Bean Counting 2000

1.17 In August 2000, the Public Sector Centre of Excellence of CPA Australia published *Beyond Bean Counting 2000 a benchmark of effective financial management in the Australian Public Sector*⁴. The intention of this report was to obtain the perspective of Chief Executive Officers (CEO) and the Chief Finance Officers (CFO) on financial management progress in their organisations since the survey conducted as part of the first Beyond Bean Counting report commissioned by the Management Advisory Board in 1997⁵. Some care needs to be taken in comparing the results of the *Beyond Bean Counting 2000* survey with the ANAO benchmark study because of the type of organisations that participated in it. The *Beyond Bean Counting 2000* survey included ACT, State and local government organisations and a private sector company and covered 12 Commonwealth organisations and indicates:

- a widespread acceptance of the value of accrual information by CEOs;
- CEOs and CFOs are taking a more dominant role and accountability for financial results;
- continuing strong demands for quality accounting and finance professionals;
- the emergence of revenue and profit/loss targets in the annual budget in place of a focus only on expenditure;
- a significant change in the budgetary control function;
- the widespread use of integrated financial management systems assisting the devolution of financial management authority to line managers; and
- a significant shift in the main focus of internal management accountability from individual budget line items (e.g. travel, salaries, etc) towards a focus on financial results (operating result, key ratios).

⁴ *Beyond Bean Counting 2000 A Benchmark of Effective Financial Management in the Australian Public Sector*, Public Sector Centre of Excellence, CPA Australia, August 2000.

⁵ *Beyond Bean Counting Effective Financial Management in the APS—1998 & Beyond*, Management Advisory Board, December 1997.

1.18 The perspective of the surveyed CEOs and CFOs provides an important insight into the current strategic and leadership trends in Australian Public Sector (APS) financial management. The ANAO benchmark study provides more detailed information on benchmarks for the cost, efficiency, quality and better practice of the individual activities of the finance function. Taken together these reports provide public sector managers with a wealth of information directed towards improving financial management in the APS and to improved financial decision making. Where appropriate, reference has been made to the *Beyond Bean Counting 2000* report in this benchmark study.

Previous audit coverage

1.19 The ANAO has undertaken significant research into how better practice organisations, in both the private and public sectors, approach the collection, analysis, production and use of financial information. A summary of relevant previous audit coverage and better practice guides is provided in Appendix 4.

1.20 This audit was conducted in conformance with ANAO auditing standards and cost approximately \$340 000.

2. Overall Finance Function Benchmark

Introduction

2.1 The primary business objective of the finance function is to provide accounting services and financial information in a low cost, accurate and timely manner.

2.2 The finance function includes the following activities:

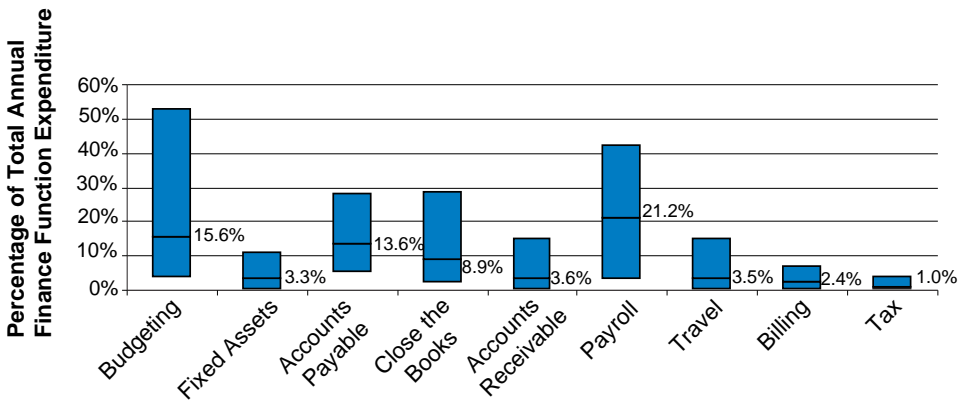
- financial budgeting and analysis;
- fixed assets;
- accounts payable;
- 'close the books' and financial reporting;
- accounts receivable;
- payroll;
- travel;
- billing; and
- tax.

2.3 This Report provides details of benchmarks relating to cost, efficiency, quality and better practice associated with the finance function in accordance with the activity categories listed above.

2.4 Figure 1.1 shows the range of costs, and the median cost, spent by the Commonwealth Group on each finance activity. As shown in Figure 1.1, payroll and budgeting account for the majority of the finance function cost in the Commonwealth Group with individual organisation percentages for each process varying considerably.

Figure 2.1

Benchmarked Commonwealth Group Finance Activity Cost



Formula Used: Total Annual Activity Cost/ Total Annual Finance Function Expenditure

2.5 On average, finance staff in the Commonwealth Group account for some 3.5 per cent of total staffing, with individual organisation’s staffing ranging between 6.3 and 165 full time equivalents (FTEs).

2.6 The overall finance function benchmarks provide a broad indication of relative cost by measuring the proportion of organisational expenditure required to pay finance and accounting related costs⁶ and finance function staffing as a proportion of total staffing. Benchmarks relating to the average length of employee service in the finance function within each organisation and finance employee education levels have been used to provide a broad indication of quality of information. The finance function benchmarks selected by the ANAO are summarised in Table 2.1.

Table 2.1

Overall Finance Function Benchmarks

<i>Dimension</i>	<i>Formula</i>
Cost—Overall	Total finance function expenditure/Total organisational expenditure
Cost—Staffing	Total finance function staffing/Total organisational staffing
Efficiency	No Benchmark ⁷
Quality	Average length of employee service in the finance function of the organisation
	Finance staff education levels as a percentage of total finance employees
Better practice	Shared services utilisation by activity

⁶ Total costs include direct labour, contracted labour, operating expenses (excluding rent, depreciation, or allocated overhead expenses), service bureau fees, and data processing costs related to support (direct labour, operating expenses, and vendor software licensing and maintenance costs).

⁷ No efficiency benchmarks are available for the overall finance function. However, the efficiency dimension is considered for most finance activities in subsequent chapters of this Report.

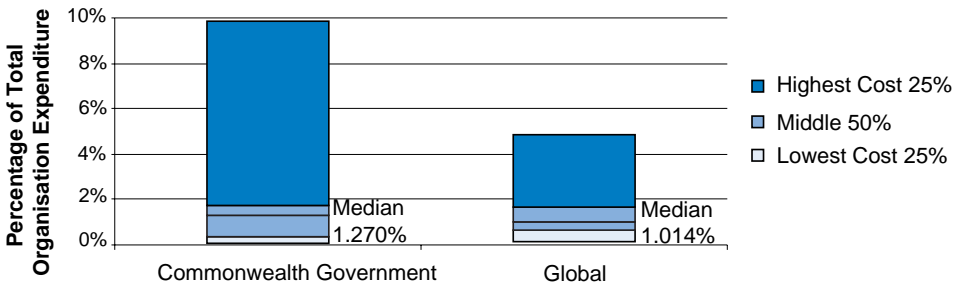
Cost Dimension Benchmarks

2.7 The ANAO used two measures of cost of the total finance function. The first captures cost at a global level and expresses total finance function cost as a percentage of total organisational expenditure⁸. The second cost measure captures the total finance function staffing and expresses it as a percentage of the total organisational staffing.

2.8 Figure 2.2 shows that the Commonwealth Group allocates between 0.09 and 9.85 per cent of total expenditure to the finance function compared with 0.11 and 4.83 per cent for the Global Group. The median allocation for the Commonwealth Group is 25 per cent higher than that of the Global Group.

Figure 2.2

Finance Function Cost Benchmark—Overall Cost



Formula Used: Total Finance Function Expenditure / Total Organisational Expenditure

2.9 It should be noted that nine of the Commonwealth organisations have some level of administered expenses included when determining total expenditure. Therefore, by their nature, these organisations would spend a lower percentage of their total (departmental plus administered) expenditure on the finance function relative to the other Commonwealth organisations and the Global Group who do not have an equivalent non-entirety expenditure⁹.

2.10 Six of the nineteen Commonwealth Group reported overall cost benchmarks which place them within the Global Group's least cost quartile. Six of the remaining Commonwealth Group reported benchmarks that placed them within the Global Group's highest cost quartile.

⁸ Total organisational expenditure for this benchmarking study is the operating expenditure of the organisation, including (where applicable) any administered budgets or expenditure.

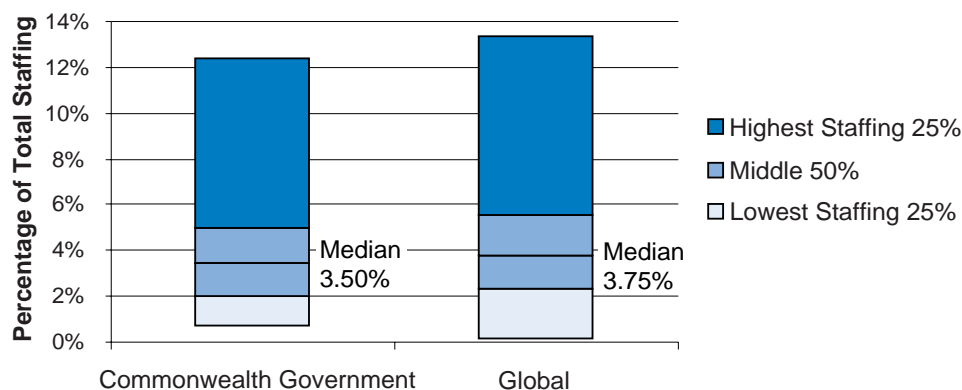
⁹ Departmental expenditure is controlled by the organisation, whereas administered expenditure is controlled by the Government and managed or oversighted by the organisation on the Government's behalf.

2.11 Two of the Commonwealth Group exceeded the Global Group highest overall cost benchmark. These were two of the smallest organisations within the Commonwealth Group, suggesting that the absence of economies of scale could be an issue in this respect.

2.12 An evaluation of cost benchmarks is provided in the following chapters of this Report for each of the activities that constitute part of the finance function. An estimate of potential expenditure reductions is made in these chapters on the basis that those organisations in the Commonwealth Group with costs above the Group median are moved to the median level. The potential reductions total some \$10.6 million, or 20.7 per cent of current expenditure on the benchmarked finance activities.¹⁰

2.13 In relation to the second overall finance function cost measure as illustrated in Figure 2.3, finance function staffing in the Commonwealth Group ranges between 0.72 and 12.38 per cent of total organisational staffing and from 0.17 and 13.33 per cent in the Global Group respectively.

Figure 2.3
Finance Function Cost Benchmark—Staffing



Formula Used: Total Finance Function Staffing / Total Organisational Staffing

¹⁰ Potential expenditure reduction calculations were determined as follows. The Commonwealth Group spent a total of \$66.1 million on the finance function of which \$51.3 million related to the benchmarked activities. When an individual Commonwealth organisation spent more (in percentage terms) on a benchmarked activity relative to the median of the Commonwealth Group, the ANAO calculated the difference and applied it to their reported 1998–99 expenditure for that activity. The difference between these two figures has been used to derive potential saving for each organisation. The total estimated expenditure reduction was calculated to be \$10.6 million or 20.7 per cent of current expenditure on benchmarked activities. All of the potential expenditure reduction figures used throughout this Report have been calculated using the same method.

2.14 Seven of the Commonwealth Group reported staffing benchmarks placing them in the lowest staff quartile of the Global Group with only two reporting benchmarks placing them in the highest staffing quartile of the Global Group. The ANAO noted that the Commonwealth Group organisation reporting the lowest percentage of finance staff was also the largest of the organisations in the Commonwealth Group, suggesting possible economy of scale benefits within the staffing of the function.

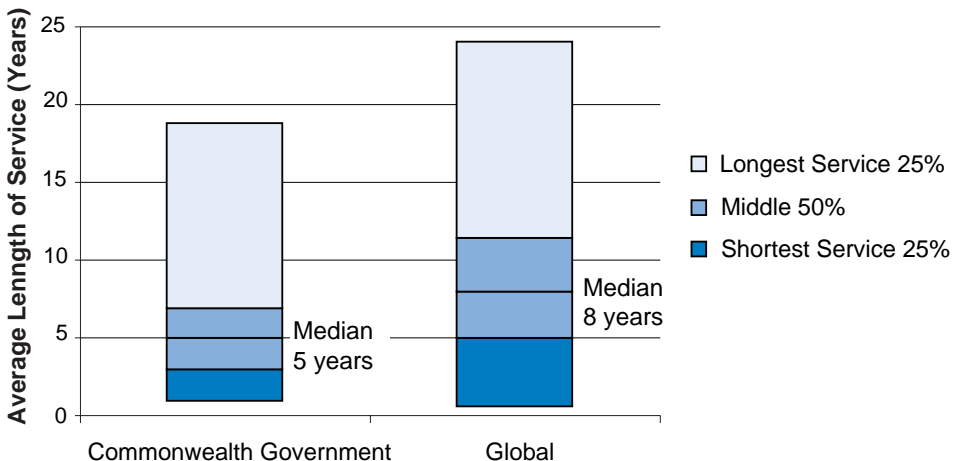
2.15 The results indicate that both the median and overall cost benchmark is higher in the Commonwealth Group than the Global Group while the median and overall staffing is higher in the Global Group. In subsequent chapters of this Report, the benchmarking analysis at the activity level provides a more detailed view of relative performance.

Quality Dimension Benchmarks

2.16 The first quality benchmark of the finance function overall measures the length of the employee service in the organisation's finance function as an indicator of stability and skill retention. As shown in Figure 2.4, the Global Group exhibits longer length of service, with the median at eight years compared with five years for the Commonwealth Group.

Figure 2.4

Finance Function Quality Benchmark—Staff Retention



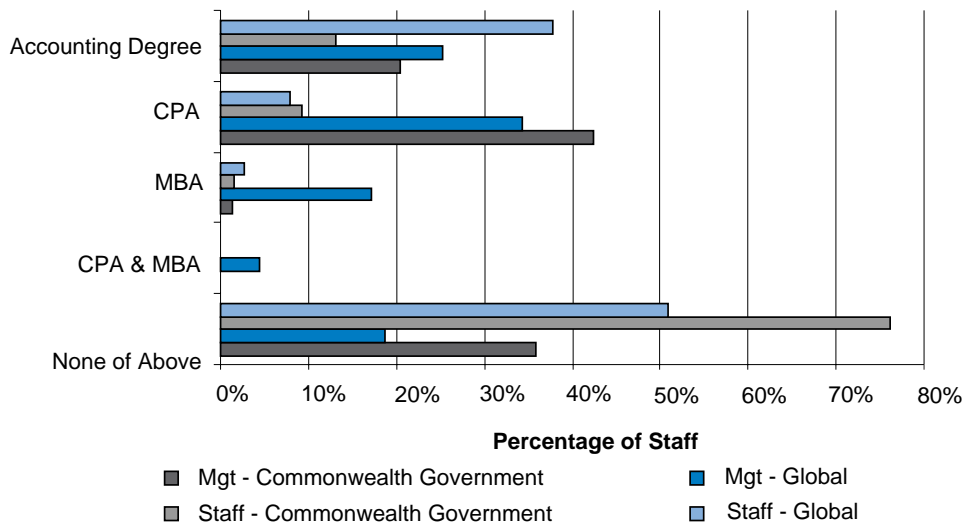
Formula Used: Average Length of Employee Service

2.17 This benchmark does not take into account the length of time staff have spent in the finance areas of other organisations. Although relevant to both groups, this could particularly effect the Commonwealth Group where until recently many organisations had the same finance management systems and the same financial directions and regulations.

2.18 The shorter average length of service for the Commonwealth Group in comparison with the Global Group may manifest itself in some of the activity benchmarks in the following chapters.

2.19 The second overall benchmark which can provide a broad indication of quality relating to the finance function measures the educational levels of finance employees—which can be a determinant of the roles these employees will fulfil within the organisation. Figure 2.5 reveals that both staff and management in the Commonwealth Group have fewer qualifications than those in the Global Group. Seventy six per cent of finance function staff and 35 per cent of finance function management within the Commonwealth Group do not have any of the specified qualifications.

Figure 2.5
Finance Function Quality Benchmark—Staff Qualifications



Formula Used: Finance Staff Education as a Percentage of Total Finance Staff

2.20 The effect of having different levels of staff with relevant qualifications within the organisations with the Commonwealth and Global Groups cannot be ascertained from these results. The ANAO notes, however, that finance education levels and years of service should be viewed as only two factors shaping the overall finance skill set. Other factors—such as types of education not considered by the qualifications benchmarking measure, employee training, and related work experience—are relevant when evaluating the overall skill set of the finance workforce.

2.21 The CPA Australia Report *Beyond Bean Counting 2000*, which surveyed some 12 Commonwealth organisations, reported that the number of professionally qualified staff had increased over the past two years. The survey indicated that there has been a focus by the public sector to recruit and promote professionally qualified staff to financial management positions. Eighty two per cent of organisations surveyed have a professionally qualified accountant as their senior finance manager and 95 per cent of CEOs rated their CFO's skills as very good or excellent. Although there has been significant effort in training staff to operate in the new environment, the CPA Australia survey results suggest that this training is not yet effective with significantly lower levels of satisfaction with line managers' financial management skills than in 1997.¹¹

2.22 This suggests that, as mentioned above, that finance education levels are only one factor contributing to the overall skills and quality of staff involved in the finance function.

Better Practice Benchmark

2.23 A benchmark used as an indicator of the adoption of generally recognised better practice is the utilisation of shared services within the organisation. Shared services is a term that describes the consolidation, standardisation and reengineering of a support process into one or more units that serve the entire organisation. Better practice organisations implement a shared services strategy to:

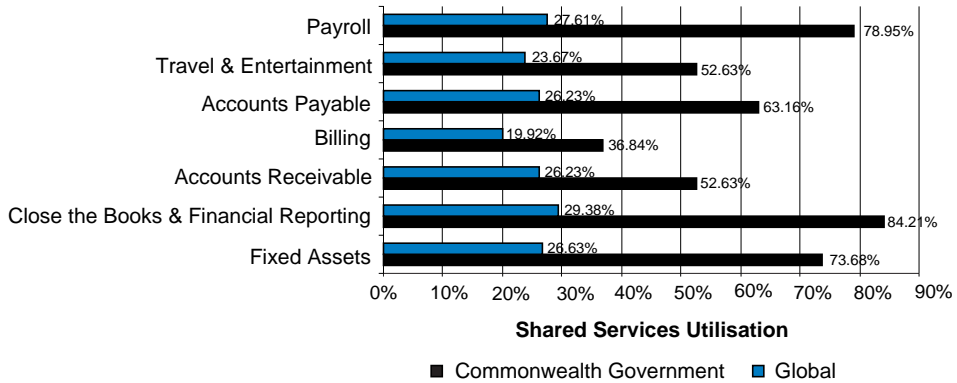
- standardise work policies;
- employ and consolidate common systems;
- take advantage of economies of scale; and
- eliminate duplication of efforts

2.24 Figure 2.6 shows that the Commonwealth Group has a considerably higher shared services focus than the Global Group. This may be a consequence of the subsidiary company structure seen in many private sector entities.

¹¹ Op. cit, *Beyond Bean Counting 2000 A Benchmark for Effective Financial Management in the Australian Public Sector*, p. 20.

Figure 2.6

Finance Function Efficiency Benchmark—Shared Services



Conclusion

2.25 The benchmarking results indicate that the Commonwealth organisations’ finance functions have a higher overall cost and lower overall staffing than the Global Group. In addition, Commonwealth Group staff exhibit shorter lengths of service in the finance function and have fewer qualifications than their global counterparts. The Commonwealth Group does however make greater use of shared services which is considered better practice.

3. Financial Budgeting and Analysis Activity Benchmarks

Introduction

3.1 A budget is a systematic method of allocating financial, physical and human resources in order to monitor progress toward organisational goals, help control spending and predict cash flow¹². A primary business objective of financial budgeting and analysis is to effectively allocate resources among various activities and monitor the use of those resources.

3.2 Financial budgeting and analysis is, with payroll, one of the most significant of the Commonwealth Group financial activities. It accounts for a median 15.6 per cent of the total finance operating budget in the Commonwealth Group. Financial budgeting and analysis staff in the Commonwealth Group account for a median 12.2 per cent of the total finance function staffing, ranging between 0.65 and 27.32 FTEs in individual organisations.

3.3 The cost, efficiency and better practice benchmarks selected by the ANAO for the financial budgeting and analysis activity are set out in Table 3.1.

Table 3.1
Budgeting and Analysis Activity Benchmarks

<i>Dimension</i>	<i>Formula</i>
Cost—Overall	Total budgeting and analysis activity cost / Total organisational expenditure
Efficiency	Total elapsed days to prepare budget
Better Practice	Total number of budgets developed annually

Cost Dimension Benchmark

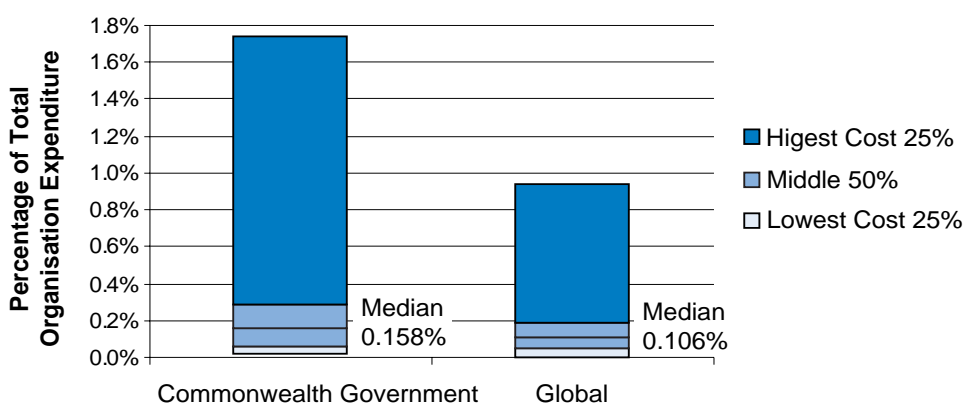
3.4 The cost benchmark captures the cost of budgeting and analysis at a global level and expresses this as a percentage of total organisational expenditure.

¹² The public sector is required to prepare budget documents for the Parliament, including for Additional Estimates as well as for internal management purposes. In contrast the private sector prepares budgets for internal purposes only.

3.5 As shown in Figure 3.1, the Commonwealth Group allocates between 0.019 and 1.739 per cent of total organisational expenditure to financial budgeting and analysis activity, with the lowest cost quartile ranging between 0.019 and 0.061 per cent. In comparison, the Global Group allocates between 0.004 and 0.941 per cent of total organisation expenditure. However, the highest result in Commonwealth Group range is significantly greater than the rest of the Commonwealth Group. If this result is removed, the Commonwealth Group range becomes 0.019 to 0.502 per cent, which is on par with the Global Group.

Figure 3.1

Budgeting and Analysis Activity Cost Benchmark—Overall Cost



Formula Used: Total Budgeting and Analysis Activity Cost / Total Organisational Expenditure

3.6 At the median the Commonwealth Group spends some 50 per cent more on budgeting and analysis than the Global Group. The relatively high cost of budgeting and analysis in the Commonwealth Group may be a reflection of a more complex budgeting process which includes, for example:

- involvement of other agencies and Ministers in the budgeting process; and
- high levels of transparency required by government and parliamentary accountability frameworks.

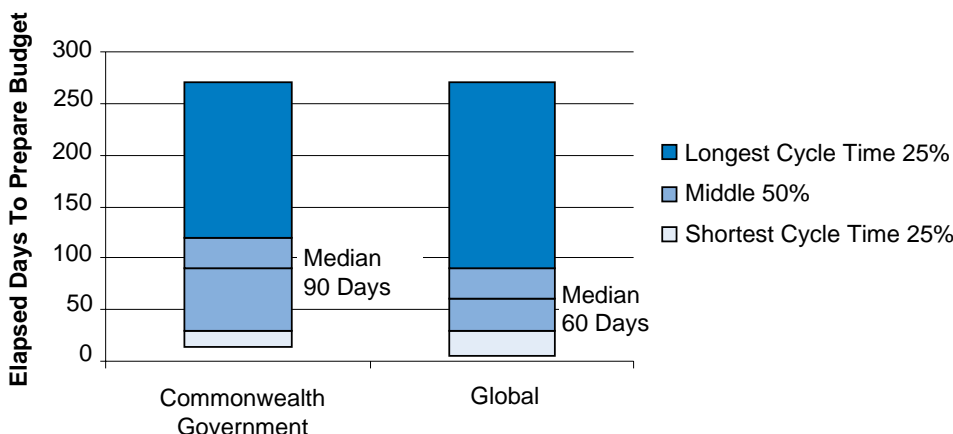
3.7 However, the benchmark data suggests a potential for improvement in cost-efficiency. If the budgeting and analysis costs of the finance function activity of those organisations in the Commonwealth Group above the Group median were reduced only to the median level, then expenditure reductions of some \$3.4 million (29 per cent) would result. The introduction of accrual budgeting with effect from 1 July 1999, the year after the benchmarking data was collected, may add further to Commonwealth budgeting costs.

3.8 The difference in performance against cost benchmarks may be a reflection of the significant nature of the financial budgeting and analysis activity and the high levels of transparency required as part of the budget process and accountability framework within government.

Efficiency Dimension Benchmark

3.9 The ANAO selected the efficiency measure of the cycle time to prepare the budget. This measure illustrates the average elapsed time (in calendar days) to prepare the annual budget, from the release of the preparation materials to the final budget approval. The benchmarking results, showing a median budget cycle time of 90 days for the Commonwealth Group, compared with 60 days for the Global Group, are set out in Figure 3.2.

Figure 3.2
Budgeting and Analysis Activity Efficiency Benchmark—Budget Cycle Time



Formula Used: Total Elapsed Days to Prepare Budget

3.10 With cycle times ranging between 14 and 270 days, the Commonwealth Group takes longer than the Global Group to prepare budgets—the cycle time is 50 per cent greater at the median. The ANAO notes that public sector accountability arrangements may result in more budgeting review, refinement and approval processes than in the predominantly private sector Global Group, giving rise to the potential for longer cycle times.

3.11 The ASCPA survey found that the demands of the budgeting process are increasingly being seen as a drain on an organisation’s resources and a constraint on its ability to react quickly to changing circumstances. There is a growing trend among private sector organisations towards reducing the impact of the budget on corporate activities, while in government the budget is becoming more

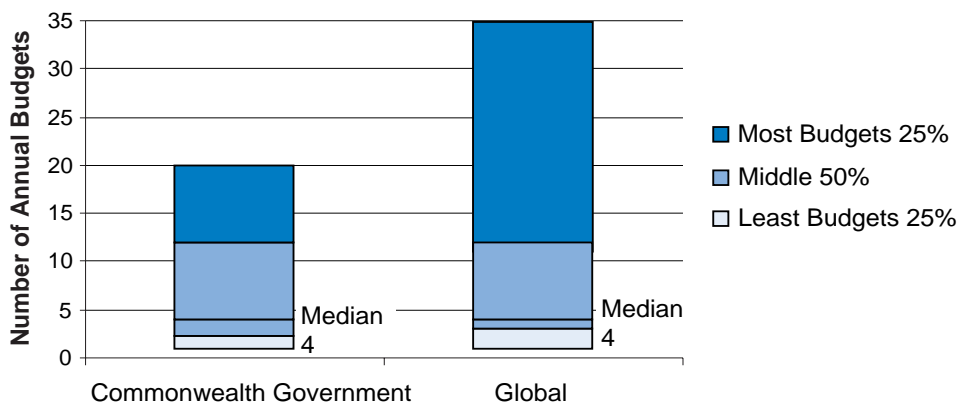
comprehensive in its coverage. The survey also found that 26 per cent of organisations indicated that they spend five months or more on external budgeting, while a further 26 per cent spend three to four months¹³. The demand on resources is further increased as a result of many organisations reporting budget information on both a cash and accrual basis¹⁴.

Better Practice Benchmark

3.12 The ANAO utilised a measure of the number of financial budgets developed annually as an indicator of better practice. This includes the number of separate financial budgets prepared in a year, including forecasts. As shown in Figure 3.3, the benchmarking results indicate similar performance between the Commonwealth and Global Groups, both Groups having a median of four budgets per annum. The ANAO notes that four of the Commonwealth organisations with a number of annual budgets in excess of the median underwent significant change in the assessment period, including outsourcing of some functions.

Figure 3.3

Budgeting and Analysis Activity Better Practice Benchmark—Number of Annual Budgets



Formula Used: Total Number of Budgets Developed Annually

¹³ Op. cit., *Beyond Bean Counting 2000 A Benchmark of Effective Financial Management in the Australian Public Sector*, p. 14.

¹⁴ Op. cit., *Beyond Bean Counting 2000 A Benchmark of Effective Financial Management in the Australian Public Sector*, p. 13.

Conclusion

3.13 The benchmarking results indicate that the Commonwealth Group spends more on budgeting and analysis activity component of the finance function and, at the median, takes longer to prepare budgets relative to the Global Group. Overall the Commonwealth Group develops a lower number of budgets annually but at the median has the same result as the Global Group.

Better Practice Observations¹⁵

3.14 The following paragraphs outline some of the better practices that have been adopted by organisations to deliver overall improvement in the efficiency and effectiveness of the financial budgeting and analysis activity.

3.15 Budgets should link to strategic and tactical planning, aligning the budgeting process with the strategic direction of the organisation and enabling managers to understand how their day to day efforts move the organisation toward its goals, leading to better coordination of tactics, better feedback about obstacles and opportunities and, ultimately, better performance.

3.16 To develop a strong link between budget development and corporate strategy, better practice organisations take a series of steps, including:

- clearly defining the strategic goals before budgeting begins;
- establishing and fostering formal and informal channels of communication;
- improving procedures and information systems; and
- providing training for budget developers and other employees so that they recognise how their efforts affect the organisational strategy.

3.17 Large organisations often use budget modelling systems, linking cost management approaches and other data sources with budgeting. This improves the quality of information available for managers' use in developing budgets and consequently the depth, accuracy and speed of the process.

¹⁵ Arthur Andersen Global Best Practices® KnowledgeBase and Reengineering Australia.

3.18 Budget preparation performance can be further improved by:

- implementing or improving standardisation of budget guidelines;
- reviewing the appropriate level of detail in budget preparation;
- improving allocation issue resolution procedures and timeframes; and
- reducing the number of budget centres and levels of decentralised authority.

3.19 Budgets should be developed to accommodate change, for example by including materiality levels for budget revisions. This enables business units to respond to changing conditions and can obviate the need to overstate their budgets to cover unforeseen developments.

4 Fixed Assets Activity Benchmarks

Introduction

4.1 Fixed assets are physical resources used for production of an organisation’s goods and services. They are long-term in nature and usually subject to depreciation. Such assets include equipment (machinery, furniture, tools), building structures (offices, factories, warehouses) and land.

4.2 Accurate and timely acquisition, tracking, maintenance and disposal of fixed assets are aims of asset management. This entails recording, adding, updating, depreciating and disposing of fixed assets in the accounting records in a timely and accurate manner.

4.3 The fixed assets activity in the Commonwealth Group accounts for a median 3.3 per cent of the total finance operating budget. At median, fixed assets staff in the Commonwealth Group accounts for 2.86 per cent of the total finance function staffing, with staffing in individual organisations ranging between 0.08 and 16.75 FTEs.

4.4 The cost, efficiency, quality and better practice benchmarks selected by the ANAO for the fixed assets activity are set out in Table 4.1.

Table 4.1
Fixed Assets Activity Benchmarks

<i>Dimension</i>	<i>Formula</i>
Cost—Overall	Total fixed assets activity cost / Total organisational expenditure
Cost—Per Activity	Total fixed assets activity cost / Annual number of fixed assets transactions
Efficiency—Per Resource	Total number of fixed assets tracked / Total fixed assets full time equivalent
Quality	Percentage of fixed assets that are misallocated or misclassified
Better Practice	Capitalisation threshold for fixed assets

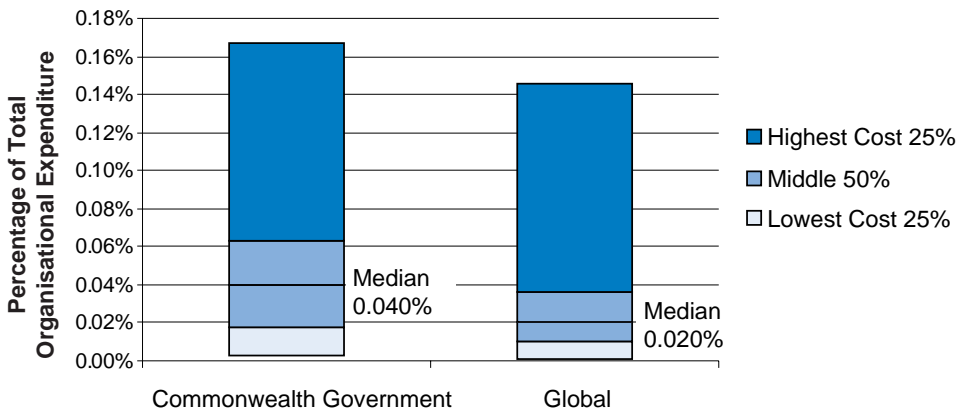
Cost Dimension Benchmarks

4.5 The ANAO used two measures of cost related to fixed asset accounting. The first captures fixed assets cost at a global level and expresses this as a percentage of total organisational expenditure. The second fixed assets cost benchmark measures costs per transaction.

4.6 As shown in Figure 4.1, the Commonwealth Group allocates between 0.003 and 0.167 per cent of total organisational expenditure to fixed assets activity, with the lowest cost quartile ranging between 0.003 and 0.018 per cent. In comparison, the Global Group allocates between 0.001 and 0.146 per cent of total organisational expenditure to fixed assets activity.

Figure 4.1

Fixed Assets Activity Cost Benchmark—Overall Cost

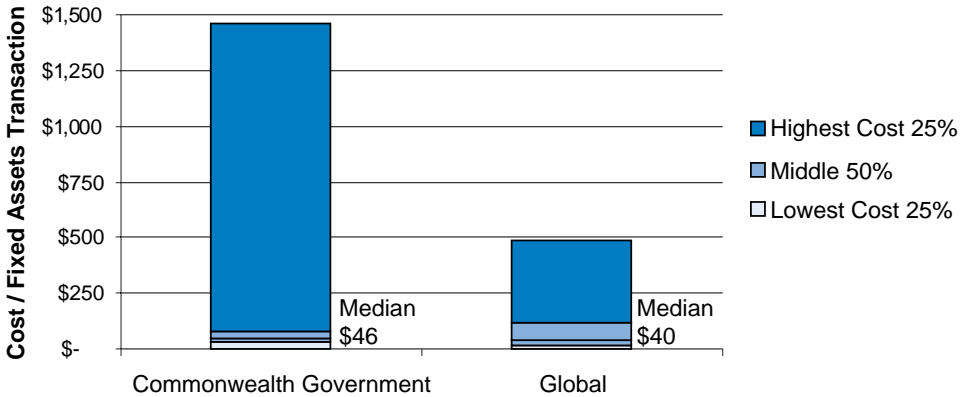


Formula Used: Total Fixed Assets Activity Cost / Total Organisational Expenditure

4.7 The Commonwealth Group total fixed assets activity cost, at the median, is twice that of the Global Group. Two of the Commonwealth Group have benchmarks which place them within the lowest cost quartile of the Global Group and eleven of the remaining organisations are within the Global Group’s highest cost quartile.

4.8 If the fixed assets activity costs component of the finance function of those organisations in the Commonwealth Group above the Group median were reduced to the median level, then expenditure reduction of some 31 per cent could result.

4.9 The second fixed assets cost benchmark measures costs per transaction. The benchmarking results—which show the Commonwealth Group’s median cost per transaction as \$46, compared with the Global Group’s \$40—are illustrated in Figure 4.2.

Figure 4.2**Fixed Assets Activity Cost Benchmark—Cost / Fixed Asset Transaction**

Formula Used: Total Fixed Assets Activity Cost / Annual Number of Fixed Assets Transactions

4.10 Although there is a higher median cost per fixed asset transaction in the Commonwealth Group, four of the Commonwealth Group have cost per activity benchmarks which place them within the lowest cost quartile of the Global Group. Only three of the Commonwealth Group are placed within the highest cost per activity quartile of the Global Group. It should also be noted that the highest result in the Commonwealth Group (\$1464) was substantially higher than the rest of the group which adversely affects the result of the Commonwealth Group. The next highest cost per fixed asset transaction was \$310, which is lower than the worst result in the Global Group (\$487).

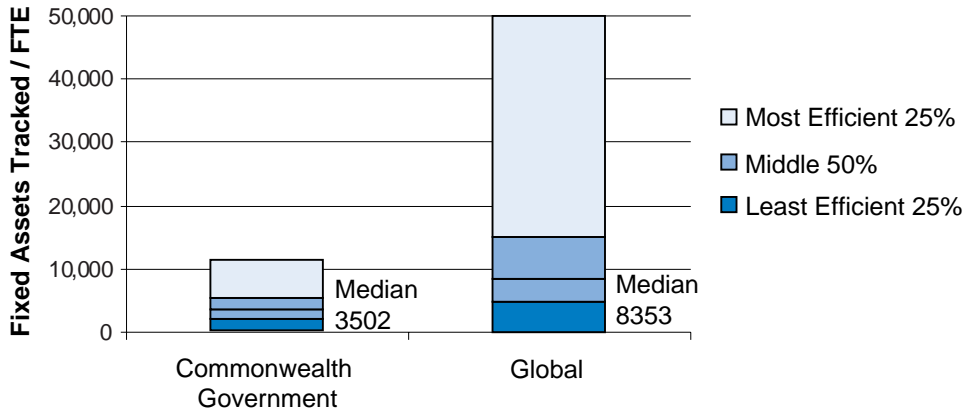
4.11 The ANAO notes that the four of the Commonwealth Group with benchmarks within the lowest cost per activity quartile of the Global Group were all placed within the Global Group highest overall cost quartile. This could indicate that these organisations are relatively capital intensive, or that they are processing more assets transactions than their Global Group counterparts.

Efficiency Dimension Benchmark

4.12 The ANAO selected the benchmark of annual volume of fixed assets tracked per full-time equivalent (FTE) which provides a measure of employee output and productivity and can be used as a broad indicator of efficiency. The benchmarking results are summarised in Figure 4.3, which shows a median efficiency level in the Global Group 2.4 times that of the Commonwealth Group.

Figure 4.3

Fixed Assets Activity Efficiency Benchmark—Fixed Assets Tracked / FTE



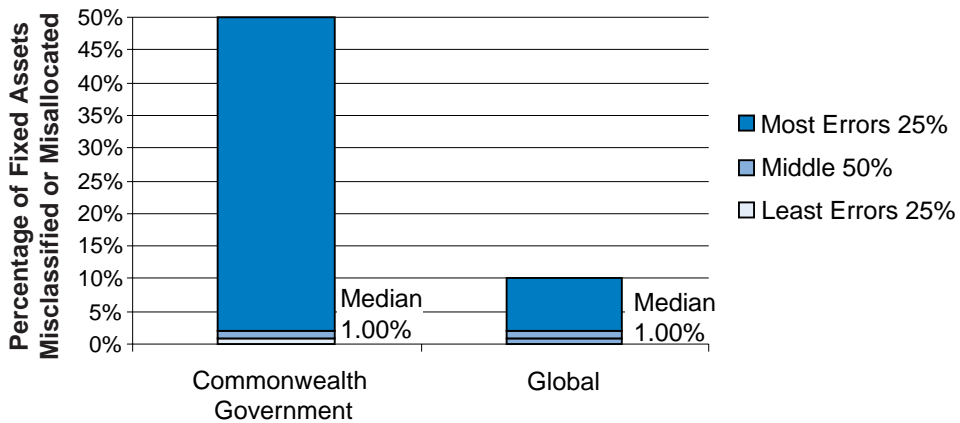
Formula Used: Total Number of Fixed Assets Tracked / Total Fixed Assets FTEs

4.13 None of the Commonwealth Group has a fixed assets tracked efficiency benchmark which would place it within the Global Group’s most fixed assets tracked/FTE quartile; whereas 60 per cent of the Commonwealth Group fall within the Global Group least fixed assets tracked/FTE quartile.

4.14 The reason for the low ratio in the Commonwealth Group may lie in public sector accountability and risk management practices resulting in more extensive processes for recording, tracking and accounting for assets.

Quality Dimension Benchmark

4.15 As an indicator of quality relating to the asset activity undertaken within the finance function, the ANAO used an error rate—defined as the proportion of misallocated or misclassified fixed assets which provides an indicator of the accuracy and integrity of the fixed asset ledger. Misallocations may include incorrect computation of depreciation and incorrect implementation of revisions due to changes in asset conditions. Misclassifications may include assignment of assets to an inappropriate fixed asset category or cost centre. The error rates benchmarking results are illustrated in Figure 4.4, showing the same median error rate in the Commonwealth and Global Groups. The highest error rate within the Commonwealth Group was 50 per cent but this result is unusual within the Commonwealth Group, as the remaining organisations had an error rate of between 0.00 and 2.20 per cent. The effect of this outlying result should be taken into account when reviewing the figure below.

Figure 4.4**Fixed Assets Activity Quality Benchmark—Error Rates**

Formula Used: Percentage of Fixed Assets Misallocated or Misclassified

4.16 Three of the Commonwealth Group have benchmarks which would place them within the Global Group least errors quartile. The ANAO notes that these particular organisations also have a relatively high cost per fixed assets transaction. Individual organisations need to consider the appropriate risk management profile to minimise costs while keeping error rates within acceptable limits.

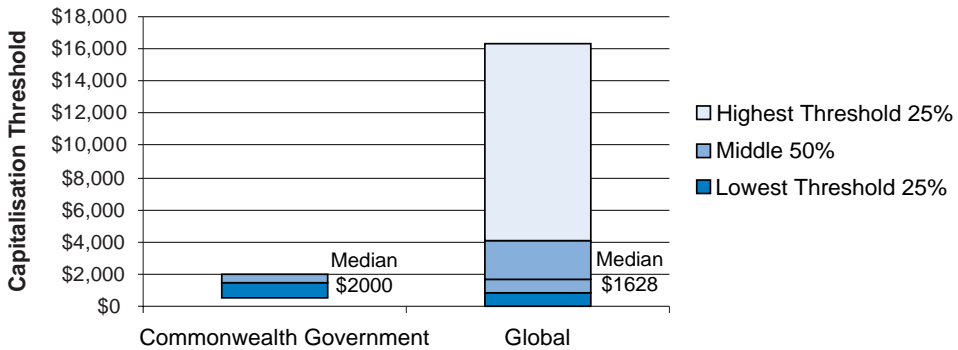
Better Practice Benchmark

4.17 The ANAO also benchmarked the value at which assets are capitalised within the organisations within the two Groups. The asset capitalisation threshold is a monetary reporting threshold that organisations establish in order to reduce the number of assets reported in the financial statements to only those which are significant in value. Generally the threshold is set to ensure that at least 95% of the total value of non-current assets is reported in the financial statements. The establishment of such a threshold is an attempt to weigh the cost of gathering data against its usefulness or significance to the readers of the financial statements. The asset capitalisation threshold does not relate to whether organisations need to record the existence of assets. This is an asset management decision based on the importance of the asset or group of assets to an organisation and accountability criteria.

4.18 The benchmarking results are shown in Figure 4.5, with median capitalisation thresholds of \$2000 and \$1628 in the Commonwealth and Global Groups.

Figure 4.5

Fixed Assets Activity Better Practice Benchmark—Capitalisation Threshold



Formula Used: Capitalisation Threshold for Fixed Assets

4.19 In almost all of the Commonwealth Group, the minimum capitalisation threshold is set at \$2000, somewhat below the Global Group highest threshold quartile which ranges between \$4071 and \$16 284, but above the Global median. The ANAO notes that an asset capitalisation threshold of \$2000 had been mandatory for the majority of Commonwealth public sector organisations until recently.

Conclusion

4.20 The Commonwealth Group overall fixed assets activity costs more when compared with the Global Group and the Global Group performed better on the selected efficiency benchmark. Quality as measured by reported error rates was equal at the median.

4.21 Accountability requirements, risk management practices and use of technology or other means to enhance process efficiency may be appropriate areas for consideration by organisations wishing to investigate differences in the benchmark results.

Better Practice Observations¹⁶

4.22 The ANAO has undertaken two recent audits of asset management: the first—in 1995–96¹⁷—was followed up in 1997–98¹⁸. In conjunction with the 1995–96 Audit Report the ANAO produced an Asset

¹⁶ Australian National Audit Office Audit Report No.27 of 1995–96 *Asset Management*, Australian National Audit Office Audit Report No.41 of 1997–98, *Asset Management* and Arthur Andersen Global Best Practices® KnowledgeBase.

¹⁷ Australian National Audit Office Audit Report No. 27 of 1995–96 *Asset Management*.

¹⁸ Australian National Audit Office Audit Report No. 41 of 1997–98 *Asset Management*.

Management Better Practice Guide¹⁹ and the Asset Management Handbook²⁰ which was designed to assist managers interpret and implement the assets management principles developed in the Report. In the 1997–98 Report the ANAO noted that, while there had been significant acceptance by public sector organisations of the recommendations of Audit Report No.27, 1995–96, many organisations reviewed had not fully adopted a strategic assets management approach to maximise performance and accountability for outputs and outcomes.

4.23 The following paragraphs outline some of the better practices that have been adopted by organisations to deliver overall improvement in the efficiency and effectiveness of the fixed assets activity.

Principles

4.24 Five principles which underpin better practice asset management are:

- **Integrated Planning**—Asset management decisions are integrated with strategic planning. This is achieved by establishing clear links between assets, corporate objectives and program or service delivery standards.
- **Acquisition Planning**—Asset planning decisions are based on an evaluation of alternatives to ownership, including non-asset solutions and demand management. The evaluations should include a comparison of life-cycle costs, benefits and risks.
- **Accountability**—An effective framework is established to identify those responsible for assets. In particular, the framework should include mechanisms which establish accountability for asset condition, use and performance.
- **Disposal Planning**—A framework for the disposal process should be in place. In particular, disposal decisions should be based on an analysis of the methods which achieve the best net return; and disposal performance should be monitored for effectiveness.
- **Control Framework**—An effective internal control structure is established for asset management, including asset policies and procedures and use of appropriate information systems.

¹⁹ Australian National Audit Office *Asset Management Better Practice Guide* June 1996.

²⁰ Australian National Audit Office *Asset Management Handbook* June 1996.

Technology

4.25 Integration of the fixed asset system with the human resource management information system allows the tracking of employee possession of attractive and portable items.

4.26 Integration of the asset register with the purchasing, capital planning, preventative maintenance, accounts payable (to capture acquisitions) and general ledger (to validate cost centre coding) systems eliminates potential for errors, duplicate data entry and processing.

4.27 Electronic marking (bar codes or electronic markers) and scanning can enhance the efficiency of identifying the inventory and location of assets.

Policies

4.28 Raising the capitalisation threshold (in accordance with organisational accounting, risk management and the business requirements) can decrease the total number of fixed assets that have to be recorded and tracked.

4.29 Establishment of standards and policies maintenance of fixed assets, including preventative maintenance, can result in reduced equipment failure, reduced costs and increased utilisation.

5. Accounts Payable Activity Benchmarks

Introduction

5.1 For most organisations, accounts payable is a linear process that begins with receiving an invoice and ends with issuing payment to the supplier. Organisations generally follow a standard set of activities for processing an invoice for payment, including:

- receiving the invoice via mail, fax, e-mail or electronic data interchange (EDI);
- categorising the invoice, entering it into a system, and scheduling it for further processing;
- reviewing the invoice for authenticity and arithmetic accuracy;
- documenting the invoice by attaching receiving paperwork and the purchase order;
- obtaining the required approval to pay the invoice;
- scheduling the invoice for payment, taking into consideration the organisation's priorities for payment, the invoice due date and possible prompt-payment discounts; and
- on the appropriate day, paying the invoice via cheque or electronic means and notifying the supplier of payment.

5.2 Additional tasks include responding to inquiries from suppliers and others within the organisation; resolving payment issues and disputes; keeping the master file of suppliers up-to-date; and managing accounting policies that affect supplier relationships and cash management.

5.3 The increasing use of 'electronic commerce' (e-commerce) will change the payment processes employed by organisations. E-commerce is regarded as the execution of business transactions using electronic communications networks and is used by organisations to streamline business processes.

5.4 Next to payroll and budgeting, accounts payable is one of the more significant activities conducted within the finance function activity area of the Commonwealth Group, accounting for a median 13.6 per cent of the total finance budget.

5.5 In the Commonwealth Group, the median accounts payable processing staff is 14.45 per cent of the total finance function staffing, with individual organisation staffing ranging between 1 and 32 FTEs.

5.6 The quality of design of the accounts payable process—and how well the process is executed—has an impact on two areas important to the organisation: supplier relationships and cash flow. The primary business objective of accounts payable is to be an efficient, low-cost contributor to the “obtain materials and supplies” process. This can be accomplished by making timely and accurate payments for goods and services purchased and thereby optimising cash flow through effective management of disbursements, credit terms and discounts.

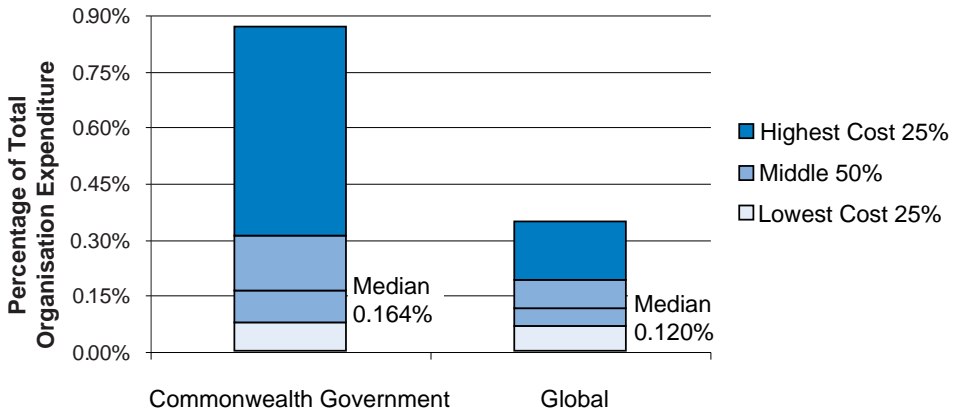
5.7 The accounts payable benchmarks selected by the ANAO address dimensions of cost, efficiency, quality and better practice as set out in Table 5.1.

Table 5.1
Accounts Payable Activity Benchmarks

<i>Dimension</i>	<i>Formula</i>
Cost—Overall	Total accounts payable activity cost / Total organisational expenditure
Cost—Per Activity	Total accounts payable cost / Number of annual invoices
Efficiency—Per Resource	Total accounts payable invoices / Total accounts payable FTEs
Efficiency—Size	Total accounts payable payments / Number of invoices processed
Quality—Error Rate	Total accounts payable errors / Number of invoices processed
Better Practice	Total number of active vendors to organisation

Cost Dimension Benchmarks

5.8 The ANAO selected two benchmarks to gain an indication of the cost of the accounts payable activity within the finance function. The first captures the accounts payable cost at a global level and expresses it as a percentage of total organisational expenditure, and is illustrated in Figure 5.1. The Commonwealth Group allocates between 0.007 and 0.870 per cent of their total organisational expenditure on their accounts payable activity, with the lowest cost quartile ranging between 0.007 and 0.080 per cent. These results indicate a higher proportion of expenditure by the Commonwealth Group than the Global Group, with the Global Group benchmarks ranging between 0.005 and 0.350 per cent of total organisational expenditure.

Figure 5.1**Accounts Payable Activity Cost Benchmark—Overall Cost**

Formula Used: Total Accounts Payable Activity Cost / Total Organisational Expenditure

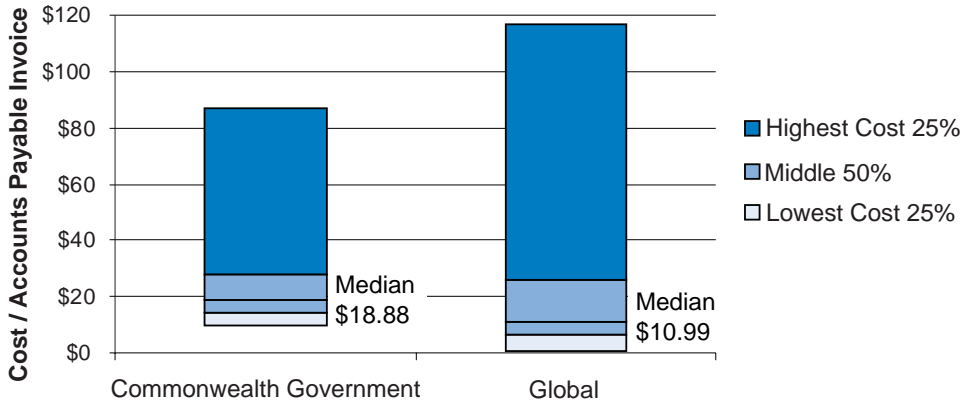
5.9 Although four of the Commonwealth Group are in the lowest cost quartile of the Global Group, nine are placed within the Global Group highest cost quartile. At the median, organisations in the Commonwealth Group are spending 37 per cent more on the accounts payable activity than the Global Group.

5.10 The ANAO notes that higher than normal costs may have been incurred by some of the Commonwealth Group because of the implementation of new information technology systems during the benchmark survey year. The benchmark data highlights that there may be opportunities to investigate reasons for the differences and possibly reduce cost. If the accounts payable cost component of the finance function of those organisations in the Commonwealth Group above the Group median was reduced to the median level, then expenditure reductions of some \$1.3 million (15 per cent) would result.

5.11 The second cost dimension benchmark utilised by ANAO measures the accounts payable activity cost per invoice processed. As displayed in Figure 5.2, none of the Commonwealth Group are in the lowest cost quartile of the Global Group. At the median, the Commonwealth Group processing cost per invoice is 72 per cent higher than the Global Group.

Figure 5.2

Accounts Payable Activity Cost Benchmark—Cost / Invoice



Formula Used: Total Accounts Payable Activity Cost / Number of Annual Invoices

5.12 A contributing factor to the higher accounts payable cost in the Commonwealth Group may be that the Commonwealth Group undertakes more extensive checking to detect errors before payments are processed. The lower error rates in the Commonwealth Group are reviewed later in this chapter.

5.13 The ANAO notes that previous ANAO audit reports determined a benchmark for Commonwealth agencies relating to cost per invoice processed (for direct labour cost only) at \$10 in 1987²¹ and \$11 in 1996²². Adjusted for inflation the figures at 30 June 1999 are \$14.64 and \$11.62 respectively²³. The data from this benchmarking exercise indicates a figure of \$14.54 (30 June 1999) for the direct labour cost component of cost per invoice processed.

²¹ Department of Finance, 1987, *Efficiency Scrutiny on Processing of Accounts—A Report for the Minister of Finance*.

²² Australian National Audit Office Audit Report No.16 of 1996–97 *Payment of Accounts*.

²³ Figures have been adjusted using the “General Government Final Consumption Expenditure—Other” price index from the Australian Bureau of Statistics publication *Australian System of National Accounts* (ABS Catalogue No. 5204.0). The 1987 figure was calculated as follows: $\$10/68.3 * 100 = \14.64 and the 1996 figure was calculated as: $\$11/94.6 * 100 = \11.62 .

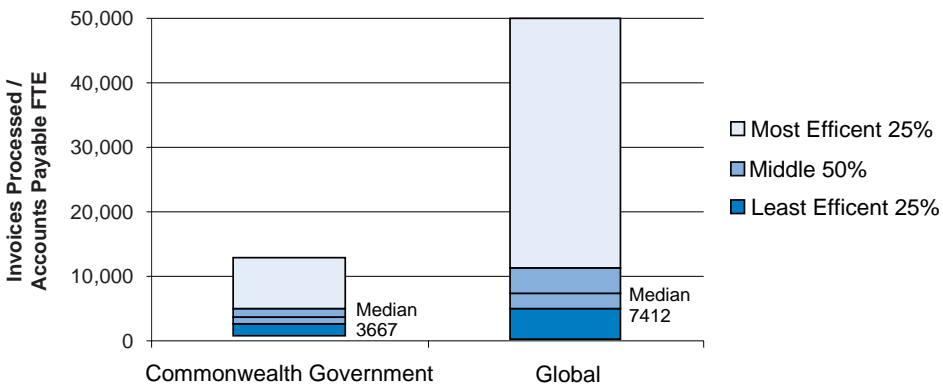
Efficiency Dimension Benchmarks

5.14 The ANAO used two benchmarks to provide a broad indicator of efficiency for the accounts payable activity. The first measures the number of accounts payable invoices processed per FTE, providing a reflection of employee output and productivity. The results are provided in Figure 5.3. The second accounts payable efficiency benchmark used by the ANAO measures the average accounts payable payment size. These results are presented in Figure 5.4.

5.15 In Figure 5.3, only one of the Commonwealth Group has a number of invoices per accounts payable/FTE ratio which places it in the most efficient quartile of the Global Group. Seventy five per cent of the organisations in the Commonwealth Group have ratios that place them within the least efficient quartile of the Global Group.

Figure 5.3

Accounts Payable Activity Efficiency Benchmark—Processed Invoices / FTE



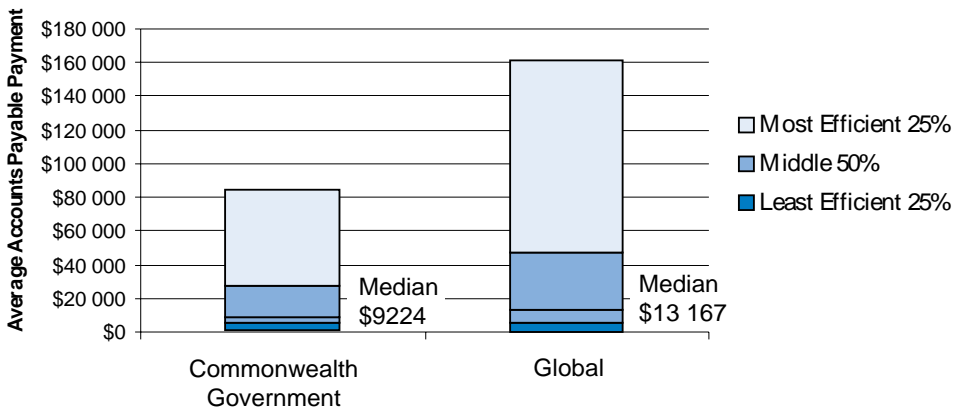
Formula Used: Total Accounts Payable Invoices / Total Accounts Payable FTEs

5.16 The ANAO notes that the relatively high cost may also be attributed, in part, to more thorough checking of invoices resulting in lower error rates. In this (and all other activities), organisations need to consider the balance of cost, efficiency and quality dimensions.

5.17 The second accounts payable efficiency benchmark used by the ANAO measures the average accounts payable payment size. Optimising the size of individual payments—for example by rationalising the number of vendors or consolidating a number of invoices into one payment—can lead to more efficient accounts payable processes through reduced transaction volumes and costs. As illustrated in Figure 5.4, the Commonwealth Group has a substantially smaller average payment size profile than the Global Group.

Figure 5.4

Accounts Payable Activity Efficiency Benchmark—Average Payment



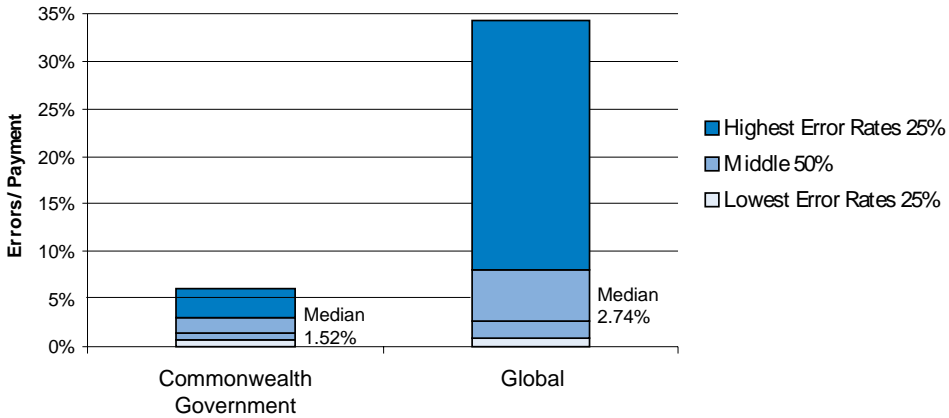
Formula Used: Total Accounts Payable Payments / Number of Invoices Processed

Quality Dimension Benchmark

5.18 The ANAO used a measure of the total number of errors as a percentage of total accounts processed to supplement the accounts payable cost and efficiency benchmarks.

5.19 Accounts payable errors include incoming voucher errors, voucher processing errors and cheque errors. Incoming voucher errors relate to the completeness, accuracy and proper authorisation of vouchers. This includes missing documentation, lack of required approvals, missing or inaccurate information (eg. account coding) or discrepancies in information between various documents. Voucher processing errors are errors rejected by the accounts payable system in relation to the validity of account distribution coding, vendor account numbers etc. Cheque errors are errors related to the production and dissemination of payments.

5.20 The error rates benchmark indicates (as illustrated in Figure 5.5) that, while the accounts payable costs of the Commonwealth Group may be relatively high in comparison with the Global Group, the quality of the outcomes in respect of error rates is better. Seven of the Commonwealth Group have error rates within the best quartile of the Global Group, and none of the Commonwealth Group are ranked next to the Global Group highest error rates quartile. The median error rate of the Commonwealth Group is some 45 per cent lower than that of the Global Group.

Figure 5.5**Accounts Payable Activity Quality Benchmark—Error Rates**

Formula Used: Total Accounts Payable Errors / Number of Invoices Processed

5.21 There is a correlation between the cost of processing and error rates and this information may indicate that the Commonwealth Group is investing more time and effort in checking payments. The ANAO notes that the organisation in the Commonwealth Group that had the best performance in respect of the two accounts payable cost dimension benchmarks and the efficiency benchmark, had the second highest error rate, indicating that the potential trade-off between cost and quality may be a factor in the results.

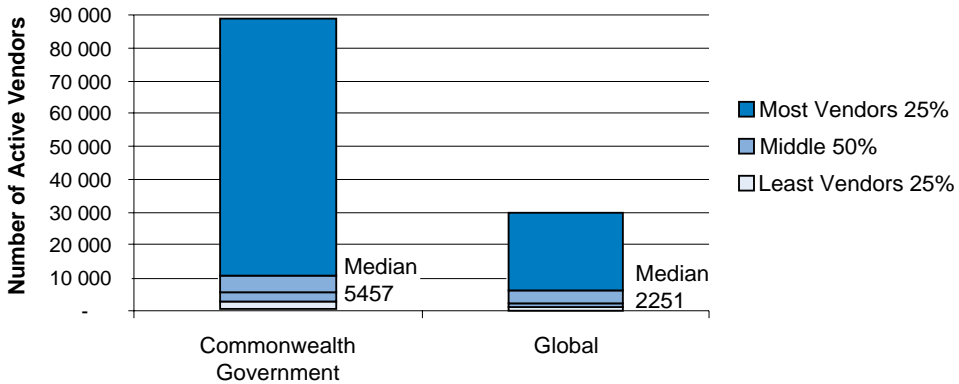
Better Practice Benchmark

5.22 Optimising the number of vendors is often implemented to develop closer working relationships and improve the efficiency of the accounts payable process. The ANAO used a benchmark based on the number of active vendors to provide an indication of the adoption of better practices within the two groups.

5.23 The results of benchmarking the number of active vendors are shown in Figure 5.6.

Figure 5.6

Accounts Payable Activity Better Practice Benchmark—Number of Active Vendors



Formula Used: Total Number of Active Vendors to Organisation

5.24 One of the Commonwealth Group has a benchmark which places it in the Global Group least vendors quartile. However, of the remaining Commonwealth Group, half have benchmarks which place them in the Global Group most vendors quartile. At the median, the Commonwealth Group has 2.4 times as many active vendors than the Global Group. This suggests that organisations in the Commonwealth Group may benefit from reviewing their accounts payable operations to ascertain whether there is scope to take advantage of any benefits associated with reducing the number of active vendors.

5.25 From the data examined, the ANAO noted that the number of active vendors is not necessarily a function of the size of the organisation but may be connected to the role of the organisation within the Commonwealth. Several large benchmarking participants having fewer active vendors than some of the smaller Commonwealth organisations.

Conclusion

5.26 At the median, the Commonwealth Group generally reported lower performance across the range of cost and efficiency benchmarks of the accounts payable process. Increases in the number of payments processed per accounts payable FTE and the average size of payments and a reduction in the number of vendors could result in a reduction in expenditure. However, it should be noted that the Commonwealth Group achieved substantially fewer errors, highlighting the trade off between cost and quality.

Better Practice Observations²⁴

5.27 The ANAO conducted an audit in 1996 of the accounts payable activity²⁵ within the Commonwealth and issued an accompanying handbook²⁶ to the audit. As noted in the ANAO's Paying Accounts Accompanying Handbook, the overriding principle to be adopted in accounts payable is to "pay the supplier" not "process the paper". In this regard significant improvements and efficiencies can be achieved by forming alliances with strategic suppliers and establishing business rules for both parties. Technology is the key enabler that permits implementation of an appropriate structure and efficient processes.

Strategic Alliances

5.28 Better practice is to sole source where possible and to enter into a medium to long term contractual relationship with that supplier. This approach provides the opportunity to develop and extend existing clustering arrangements (for example in areas such as travel and information technology infrastructure) to other goods and services and to make greater use of the economic leverage implicit in such relationships.

5.29 Vendors with whom strategic alliances are formed may be involved in developing better ways to process accounts payable. This could include:

- the use of summary invoicing;
- transfer of responsibility for accuracy to suppliers;
- agreement of performance standards (cost, quality and delivery) and performance guarantees;
- alignment of supplier and buyer databases to allow simplified update of information;
- parallel development of electronic data/document interchange;
- development of supplier procedures to cover delivery requirements and handling of exceptions to allow redesigned payment processes to be implemented; and
- involvement of payment of accounts staff in the development and negotiation of standard terms and conditions and customised terms and conditions for large contracts.

²⁴ Australian National Audit Office *Paying Accounts Accompanying Handbook*, November 1996, Arthur Andersen Global Best Practices® KnowledgeBase and Reengineering Australia.

²⁵ Australian National Audit Office Audit Report No.16 of 1996–97 *Payment of Accounts*.

²⁶ Australian National Audit Office *Paying Accounts Accompanying Handbook*, November 1996.

Organisational Structure

5.30 Centralised processing benefits include achievement of a higher degree of specialist expertise, establishment of centres of excellence that develop and enforce common practices and standards and the achievement of cost efficiencies through co-locating of systems and staff. It also provides other benefits such as the ability to consolidate payments to suppliers.

5.31 Better practice suggests that the authority to approve and the responsibility for expenditure should be as close as possible to the decision-maker committing the organisation to the payment. This approach follows through to certification for payment once the goods and services are received.

5.32 Benefit can also be achieved through the co-location of accounts payable and purchasing staff. Through a multi-function approach achieved by cross training, staff are made more aware of the independencies of these two activities. They also provide a more flexible workforce which is more responsive to peak workload periods.

Technology

5.33 A common feature of changes in payment of accounts practices is the increasing reliance on technological solutions to make value-added processes more efficient and to eliminate non-value added processes altogether. The two principal innovations in this area have been the move toward the full integration and/or interfacing of financial systems and the increasing use of electronic commerce—primarily electronic data/document exchange and electronic payment.

5.34 A fully integrated/interfaced system could exhibit some or all of the following features:

- electronic purchase order which extracts details from database of approved suppliers and which is authorised electronically;
- quantity, price and account code entered once only, on the purchase order;
- electronic notification of receipt of goods/services;
- automated three-way matching of invoice, purchase order and notification of receipt;
- supplier and account code details extracted automatically from purchase order for payment;
- automatic check for duplicate payment; and

- cheque payment/direct credit automatically scheduled based on terms of trade taken from supplier database.

Payment Process

5.35 The emphasis in review of payment processes is to reduce the number of steps in paying accounts. Better practice has been between three and five steps for the entire process. A range of innovations have contributed to this, including:

- **Evaluated Receipt Settlement**—agreements with suppliers to pay for goods upon receipt, thus eliminating the need for invoices. This involves the suppliers shipping document (or telecommunicated shipping advice) being used to determine the quantity of goods supplied. The quantity data (subject to verification by the receiving section) is extended at the purchase contract price and terms in effect at the time of shipment to calculate the amount owed and payment due date.
- **Standing Payments**—establishment of regular (usually monthly) or lump-sum payments for recurring transactions based on expected usage levels, with periodic adjustments. This approach is particularly relevant to suppliers that provide goods or services on a regular basis, such as utility providers and fleet managers.
- **Differentiated payment**—adopting effective abbreviated certification procedures, particularly for low-dollar-value claims, has the potential to significantly reduce the amount of time spent on payments of accounts.

6. ‘Close the Books’ and Financial Reporting Activity Benchmarks

Introduction

6.1 ‘Close the books’ and financial reporting is the process through which an organisation generates and distributes reports on a periodic basis to meet regulatory requirements and internal information needs. Accuracy and timeliness are critical.

6.2 Possible tasks include:

- ensuring validity and consistency in the organisation’s charts of accounts;
- completing journal entries;
- consolidating data from outlying business units;
- running trial balances;
- correcting errors;
- reconciling and analysing accounts;
- calculating taxes;
- preparing and distributing reports; and
- supervising closing tasks and reviewing key accounts and reports.

6.3 The closing of the books and financial reporting process is one of the more significant activities in the Commonwealth Group’s financial operations. It accounts at the median for 8.9 per cent of the total finance operating budget.

6.4 At the median, the Commonwealth Groups ‘close the books’ accounts for 6.1 per cent of the total finance function staffing, with individual organisation staffing ranging between 0.48 and 9.4 FTEs.

6.5 The cost, quality and better practice benchmarks identified by the ANAO for the ‘close the books’ activity are shown in Table 6.1.

Table 6.1
‘Close the Books’ Activity Benchmarks

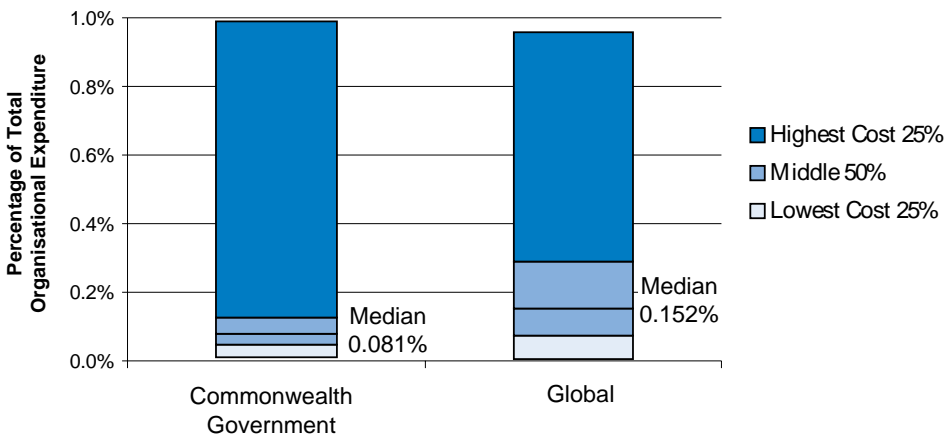
<i>Dimension</i>	<i>Formula</i>
Cost—Overall	Total ‘close the books activity cost / Total organisational expenditure
Quality—Error Rate	Total number of error correction journals / Total number of journals
Better Practice	Number of hard closes in excess of requirements

Cost Dimension Benchmark

6.6 The overall cost benchmark captures 'close the books' cost at a global level and expresses this as a percentage of total organisational expenditure. The benchmarking results are summarised in Figure 6.1. The Commonwealth Group allocates between 0.013 and 0.990 per cent of total organisational expenditure to the 'close the books' activity, with the lowest cost quartile ranging between 0.013 and 0.050 per cent. In comparison, the Global Group allocates between 0.005 and 0.957 per cent of total organisational expenditure.

Figure 6.1

'Close the Books' Activity Cost Benchmark—Overall Cost



Formula Used: Total 'Close The Books' Activity Cost / Total Organisational Expenditure

6.7 The median cost of the Commonwealth Group is approximately half of the Global Group. Eight of the Commonwealth Group have benchmarks which place them within the Global Group lowest cost quartile. The Commonwealth Group, with the recent introduction of accrual accounting, tighter Parliamentary reporting timetables and increasing emphasis on internal accrual reporting has only just begun to recognise the value of regular 'close the books' processes.

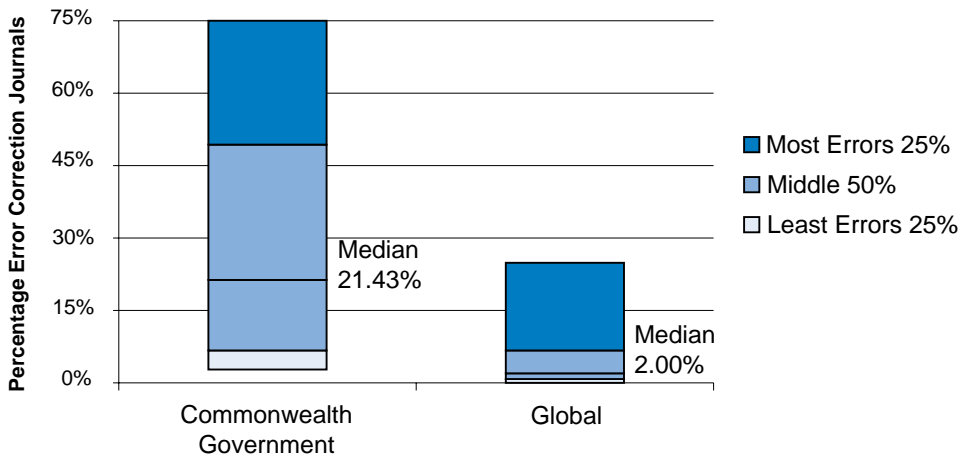
6.8 If the 'close the books' cost component of the finance function of those organisations in the Commonwealth Group above the Group median were reduced only to the median level, then expenditure reductions of some 17 per cent would result.

Quality Dimension Benchmarks

6.9 The ANAO used error rate (through the total number of error correction journals as a percentage of total journals) as a measure of ‘close the books’ and financial reporting quality. The error correction benchmark, as shown in Figure 6.2, indicates higher error rates for the organisations within the Commonwealth Group, in comparison to the Global Group.

Figure 6.2

‘Close the Books’ Activity Quality Benchmark—Error Rates



Formula Used: Total Number of Error Correction Journals / Total Number of Journals

6.10 All of the Commonwealth Group reported error rates greater than the Global Group median, with all but four of the Commonwealth Group having error rates placing them in the most errors quartile of the Global Group.

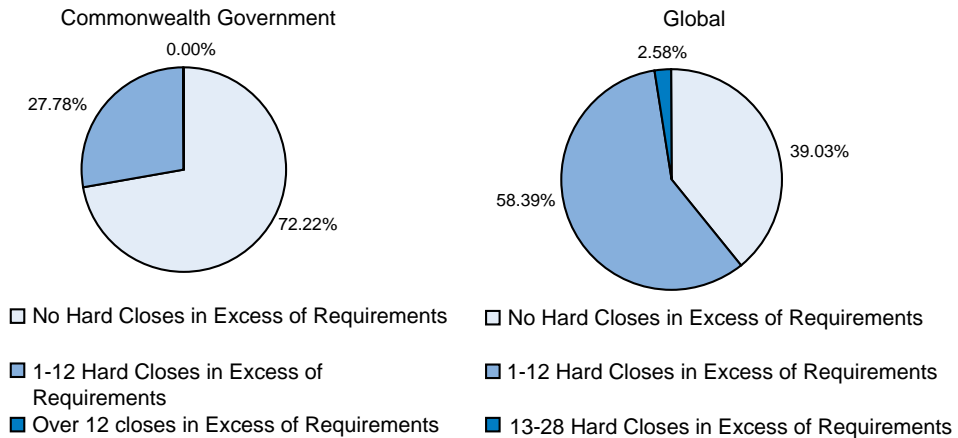
6.11 The ANAO noted no apparent correlation between the cost of the ‘close the books’ and financial reporting activity within the Commonwealth Group and the error rates.

Better Practice Benchmark

6.12 The ANAO used the number of 'hard closes'²⁷ that an organisation conducts in excess of requirements as an indicator of better practice. For the purpose of this benchmark, it is assumed that only one hard close is required of the public sector, at the end of each financial year. The results of the number of hard closes in excess of requirements benchmarking are illustrated in Figure 6.3.

Figure 6.3

'Close the Books' Activity Better Practice Benchmark—Hard Closes



Formula Used: Number of Hard Closes in Excess of Requirements

6.13 With the exception of five, organisations in the Commonwealth Group have hard close benchmarks which place them in the least hard close quartile of the Global Group.

Conclusion

6.14 The 'close the books' activity for the Commonwealth Group is a less frequent, and lower cost (at the median), activity than in the Global Group. The notion of 'closing the books' and particularly 'hard closes' is relatively new to a number of participants in the Commonwealth Group, and the overall cost benchmark may reflect this inexperience. Errors appear to be frequent and may make the process unnecessarily expensive.

²⁷ A hard close is performed each time a detailed cut-off is performed and financial reports are produced. It includes analysis of accounts receivable, inventory, payables, revenues and expenses. The hard close also involves the process of making necessary accruals, adjustments and combining and consolidating entries for reporting purposes. In addition to the end of year financial statements, many organisations perform a hard close during the year for both internal and external reporting. A hard close is distinguished from a soft close where the books are closed with just enough precision to satisfy internal management reporting requirements.

Better Practice Observations²⁸

6.15 The following paragraphs outline some of the better practices that have been adopted by organisations to deliver overall improvement in the efficiency and effectiveness of the 'close the books' and financial reporting activity.

6.16 Better practice organisations shift tasks away from period-end to simplify closing the books. Tasks that are performed as part of the close cycle, such as reconciling accounts and journalising accruals, may be done at that time simply out of habit.

6.17 These organisations also provide line managers with the financial information needed for decision support. Rather than provide generic information, reports provide key performance indicators relevant for management review and analysis. A well-honed set of standardised reports can also be designed to not only meet the needs of managers but save time on the close as well.

6.18 Minimising errors enhances the speed and reporting accuracy of the closing. Quality in the process is supported by the quality of information provided by each unit in the organisation. Errors may reduce when quality initiatives extend to reporting units and accountability for error correction is assigned to the originating department.

²⁸ Australian National Audit Office *Building Better Financial Management* Support Guide, November 1999, Arthur Andersen Global Best Practices® KnowledgeBase and Reengineering Australia. Australian National Audit Office *Paying Accounts* Accompanying Handbook, November 1996, Arthur Andersen Global Best Practices® KnowledgeBase and Reengineering Australia

7 Accounts Receivable Activity Benchmarks

Introduction

7.1 Accounts receivable is among the largest and most liquid assets on the books of many organisations and a properly managed accounts receivable portfolio can expedite cash flow and support corporate cash requirements. A primary objective of the accounts receivable activity is to ensure that customers who are granted credit pay according to terms and that funds are available as soon as payment is received. However, in the Commonwealth Group accounts receivable is not a significant finance activity.

7.2 The three basic processes that make up the accounts receivable activity are:

- remittance processing—including payment methods and automated processing;
- credit management—including communication of credit policies, credit checks and approvals, and credit maintenance; and
- collections—including methods to monitor and motivate internal and external collections agents, collections techniques, and technology.

7.3 As with the billing activity, the accounts receivable activity's relative low significance in the Commonwealth Group's financial operations is illustrated by the benchmarking data. The accounts receivable activity within the Commonwealth Group at the median only accounts for 3.6 per cent of the total finance operating budget. Accounts receivable processing staff in the Commonwealth Group, represent only 4.23 per cent of the total finance function staffing, with individual organisation staffing ranging between 0.08 and 9.03 FTEs.

7.4 The ANAO noted that while five of the Commonwealth Group indicated they did not have a billing activity, only one indicated it did not have an accounts receivable activity. This may result in some inconsistency in the data between billing and accounts receivable benchmarks as some organisations were unable to structurally distinguish between the two activities.

7.5 The ANAO also notes that there are a number of Commonwealth organisations which were not benchmarked as part of this study, but do undertake substantial accounts receivable activity and therefore the Global Group benchmarks are relevant to these organisations.

7.6 Table 7.1 shows the cost, efficiency, quality and better practice benchmarks selected by the ANAO for the accounts receivable activity.

Table 7.1
Accounts Receivable Activity Benchmarks

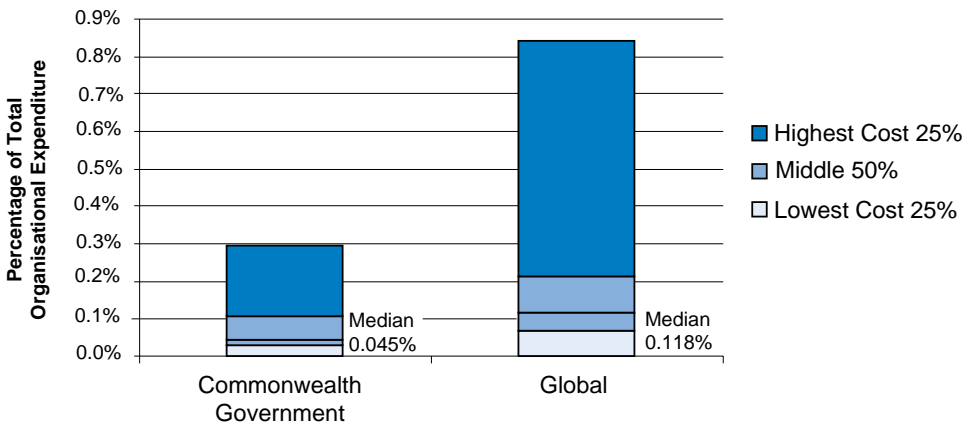
<i>Dimension</i>	<i>Formula</i>
Cost—Overall	Total accounts receivable activity cost / Total organisational expenditure
Cost—Per Activity	Total accounts receivable activity cost / Total credit activity
Efficiency—Per Resource	Total number of remittances / Total accounts receivable FTEs
Quality—Error Rate	Total remittance errors / Total number of journals
Quality—Error Rate	Total remittances matched first time / Total remittances
Better Practice	Elapsed days between customer invoicing and receipt of payment.

Cost Dimension Benchmarks

7.7 The ANAO used two measures of cost of the accounts receivable accounting activity. The first captures the accounts receivable cost at a global level, expressing this as a percentage of total organisational expenditure while the second captures the total accounts receivable cost and expresses this as a percentage of total credit activity.

7.8 As shown in Figure 7.1, the Commonwealth Group allocates between 0.002 and 0.293 per cent of total organisational expenditure on accounts receivable activity, with the lowest cost quartile ranging between 0.002 and 0.029 per cent. In comparison, the Global Group allocates between 0.002 and 0.840 per cent of total organisational expenditure.

Figure 7.1
Accounts Receivable Activity Cost Benchmark—Overall Cost



Formula Used: Total Accounts Receivable Activity Cost / Total Organisational Expenditure

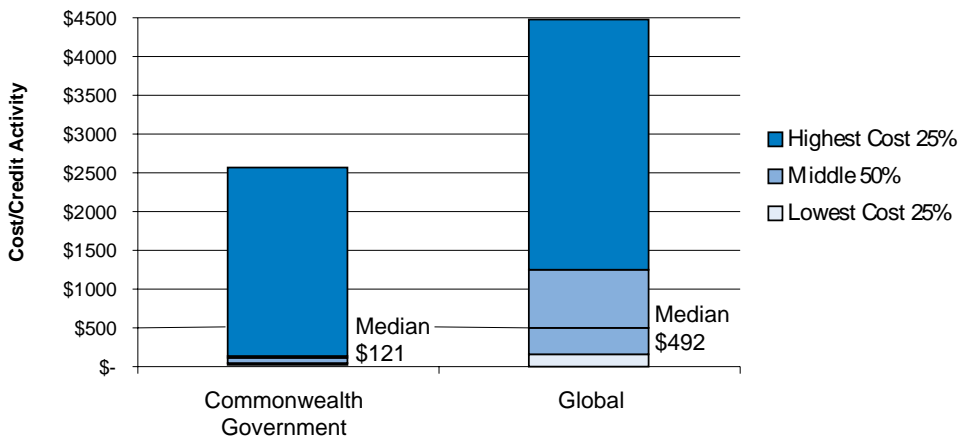
7.9 Some 70 per cent of the Commonwealth Group reported accounts receivable overall cost benchmarks which fall within the Global Group lowest cost quartile.

7.10 If the accounts receivable component of the finance function costs of those organisations in the Commonwealth Group above the Group median were reduced only to the median level, this would result in expenditure reductions of some 25 per cent.

7.11 Due to the low overall significance of accounts receivable activities in the Commonwealth Group, a more appropriate measure of cost performance may be found in the cost per activity benchmark which is the second of the accounts receivable cost measures benchmarks. Figure 7.2 shows the results of the accounts receivable cost per activity benchmarking with the Commonwealth Group's costs well below those of the Global Group.

Figure 7.2

Accounts Receivable Activity Cost Benchmark—Cost/Credit Activity



Formula Used: Total Accounts Receivable Activity Cost / Total Credit Activity

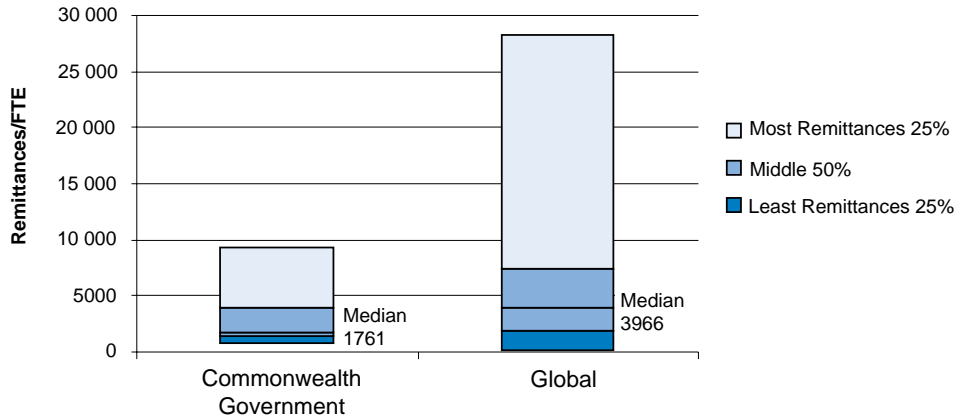
7.12 In the Commonwealth Group, only nine organisations were able to provide information against this benchmark. Of the nine, seven have accounts receivable cost per activity benchmarks which place them in the Global Group lowest cost quartile, and the median cost per credit activity in the Commonwealth Group is around 25 per cent of that in the Global Group. There was a wide range of results within the Commonwealth Group for this benchmark. The highest cost per activity was \$2576, this then dropped to \$599 and then \$136. The sizeable difference in results may be a further reflection of the varied degree to which Commonwealth organisations perform the accounts receivable activity.

Efficiency Dimension Benchmark

7.13 The ANAO selected the efficiency measure of the number of remittances processed per FTE, as it provides an insight into employee output and productivity. The benchmarking results—showing the median performance level of the Commonwealth Group at less than half that of the Global Group—are illustrated in Figure 7.3.

Figure 7.3

Accounts Receivable Activity Efficiency Benchmark—Remittances/FTE



Formula Used: Total Number of Remittances / Total Accounts Receivable FTEs

7.14 In the Commonwealth Group, 17 organisations had results for this benchmark. Four of the Commonwealth Group reported efficiency (number of remittances per accounts receivable FTE) results which place them within the Global Group most efficient quartile. However, over half of the Commonwealth Group reported benchmarks placed in the Global Group least efficient quartile.

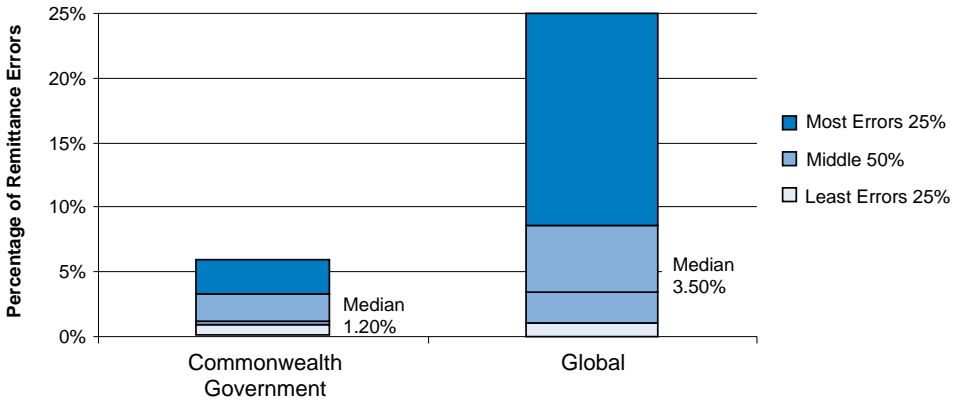
7.15 The ANAO notes that while organisations in the Commonwealth Group reported relatively low cost per transaction benchmarks, they also reported relatively low efficiency per FTE compared with the Global Group. This may require further investigation, but may be a result of the incompatible data samples between the two benchmarks (although all but one of the Commonwealth Group indicated they had an accounts receivable activity, ten organisations were unable to produce an accounts receivable cost per credit activity ratio).

Quality Dimension Benchmarks

7.16 The ANAO used two measures of accounts receivable quality. The first assesses the error rate through the total number of remittance errors as a percentage of total remittances. The results are illustrated in Figure 7.4, with the median Commonwealth Group error rate being around one third that of the Global Group.

Figure 7.4

Accounts Receivable Activity Quality Benchmark—Error Rates



Formula Used: Total Remittance Errors / Total Number of Remittances

7.17 Eight of the Commonwealth Group reported quality benchmarks which place them within the least errors quartile of the Global Group and the median error rate in the Commonwealth Group is well below the Global level. None of the benchmarked Commonwealth Group had a benchmark which placed it next to the most errors quartile of the Global Group.

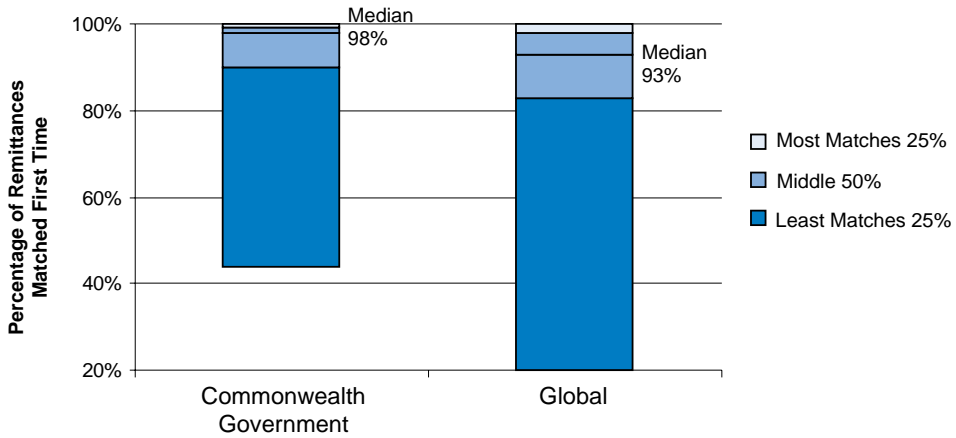
7.18 There does not appear to be a trade off between cost and quality in the benchmarking results of the Commonwealth Group, with relatively low costs and low error rates being reported. The ANAO noted that the Commonwealth Group reporting the highest cost per activity for accounts receivable also had amongst the highest error rates, suggesting some process issues requiring investigation.

7.19 The second accounts receivable quality benchmark measures the percentage of remittances matched first time, reflecting the accuracy of automated posting or the accuracy of remittance processing staff in gleaning payment information from remittances. Items that may prevent a 'first-time match' include discrepancies in the amount paid, problems matching invoices to the payment, and errors that are outside of organisational predefined tolerance levels.

7.20 Figure 7.5 shows the benchmarking results of remittances matched first time. The median level of first time matches in the Commonwealth Group is 98 per cent, compared with 93 per cent for the Global Group.

Figure 7.5

Accounts Receivable Activity Quality Benchmark—Remittance First-time Matches

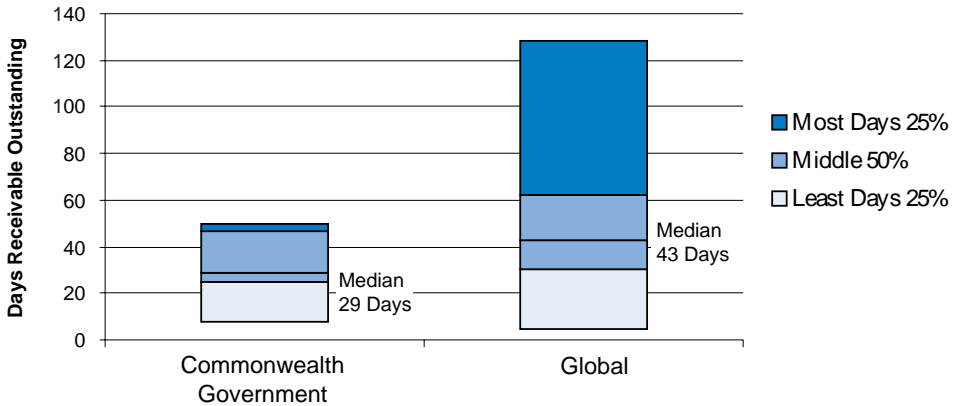


Formula Used: Total Remittances Matched First Time / Total Remittances

7.21 The Commonwealth Group compares favourably with the Global Group on this benchmarking measure. Half of the Commonwealth Group reported first time match ratios that placed them within the Global Group’s highest quality quartile. The Commonwealth Group result is further improved by the fact that only one outlying organisation had a match rate lower than 77 per cent. The remainder of the Commonwealth Group had a first time match rate of between 77 to 100 per cent.

Better Practice Benchmark

7.22 The accounts receivable better practice benchmark assessed the number of days that receivables were outstanding, indicating the average length of time it took to collect a bill. A low number of days outstanding could, amongst other things, indicate effective billing and collecting practices, highly satisfied customers, or both. The benchmarking results are shown in Figure 7.6, with Commonwealth Group reporting a median receivables days outstanding of 29 days, compared with 43 days for the Global Group.

Figure 7.6**Accounts Receivable Activity Better Practice Benchmark—Days Receivable Outstanding**

Formula Used: Elapsed Days between Customer Invoicing and Receipt of Payment

7.23 The Commonwealth Group generally reported lower number of receivable days outstanding than the Global Group with the median at 67 per cent of that of the Global Group. Half of the Commonwealth Group that reported against this benchmark, reported days receivables performance placing them next to the Global Group’s highest quality (least days outstanding) quartile.

7.24 The ANAO noted that, generally, those of the Commonwealth Group that reported the lowest cost per transaction benchmarks for accounts receivables, also reported the longest days receivables. This may be reflective of a cost-quality trade off in those organisations.

7.25 The small size of the accounts receivable activities within the Commonwealth Group may indicate less complexity in the accounts receivable activity, which could affect the interpretation of the cost, efficiency, quality and better practice benchmarking outcomes.

7.26 The ANAO 1997 Accounts Receivable Audit²⁹ found that the average time to collect receivables amongst the ten Commonwealth organisations surveyed was 39 days. It was noted that this result was better than that achieved in the whole general government sector when average days to collect receivables on sales of goods and services during 1995–96 was calculated to be 57 days. The current benchmarking of the Commonwealth Group reveals a median of 29 days to collect receivables, continuing the trend of improvement since 1995–96.

²⁹ Australian National Audit Office Audit Report No.29 of 1997–98 *Management of Accounts Receivable*.

Conclusion

7.27 Accounts receivable is not a significant finance activity for the Commonwealth Group. While the relatively small size of the receivables activities could indicate less complexity in those activities—and could therefore affect interpretation of the cost, efficiency, quality and better practice benchmarking outcomes—the benchmarking results show the Commonwealth Group activities to be relatively low in cost and high in quality when compared with the Global Group.

7.28 At the median, the efficiency indicator, however, produces an unfavourable comparative view of the Commonwealth Group's performance and this anomaly may require further investigation.

Better Practice Observations³⁰

7.29 The ANAO undertook an audit of the accounts receivable activity in 1997³¹ and concluded that at both the strategic and operational level, improvements could be made in the management and administration of the accounts receivable function in the general government sector.

7.30 As noted in the ANAO's Management of Accounts Receivable Better Practice Guide³², effective management of accounts receivable presents important opportunities for Commonwealth organisations to achieve strategic advantage through improvements in customer service, cash management and reduction in costs.

7.31 The following paragraphs outline some of the better practices that have been adopted by organisations to deliver overall improvement in the efficiency and effectiveness of the accounts receivable activity.

7.32 The ANAO notes that some Commonwealth organisations have already adopted better practices in the accounts receivable activity but the discussion is provided for the benefit of all organisations wishing to implement higher performing internal finance functions.

7.33 The adoption of better practices in Commonwealth organisations may lead to substantial improvement in the accounts receivable activity, particularly in the areas of organisational structure, centralised processing and appropriate technology utilisation.

³⁰ Australian National Audit Office *Management of Accounts Receivable* Better Practice Guide, December 1997, Arthur Andersen Global Best Practices® KnowledgeBase and Reengineering Australia.

³¹ Australian National Audit Office Audit Report No.29 of 1997–98 *Management of Accounts Receivable*, December 1997.

³² Australian National Audit Office *Management of Accounts Receivable* Better Practice Guide, December 1997.

Organisational Structure

7.34 Centralised processing benefits include achievement of a high degree of specialist expertise, establishment of centres of excellence that develop and enforce common practices and standards and the achievement of cost efficiencies through co-locating of systems and staff.

7.35 Outsourcing of the collection activity and monitoring of the vendor's performance affords the opportunity to focus on core competencies and leveraging the provider's expertise in non-core areas. It also releases financial resources that might otherwise have been used to construct and maintain infrastructure.

7.36 Effective credit and collections policies and practices should lead to a days sales outstanding that approximates the credit terms. Improved performance may be achieved through:

- review of the collection efforts to make them more efficient;
- review of the current credit terms for their appropriateness; and
- restructuring the billing process to remove inefficiencies and inaccuracies causing delays in invoicing and payment.

Technology

7.37 Accounts receivable processing efficiency and effectiveness can be enhanced by utilisation of electronic commerce, in particular electronic data interchange (EDI), electronic mail, electronic funds transfer (EFT) and electronic catalogue systems to allow buyer and supplier to transact business by exchanging information between computer systems.

7.38 Automated remittance processing results in minimal employee intervention, directing resources toward working with customers to collect payment rather than processing paperwork. Technology can be used to identify and track accounts that require follow up and to analyse variables such as average days to pay, days sales outstanding and discounts earned on each account.

7.39 Integration and/or interfacing of revenue and accounts receivable systems allows remittances to be automatically credited against a customer account with simultaneous updating of the general ledger. Other features of a fully integrated system could include:

- electronic invoicing through extraction of details from a database of approved customers and credit terms and on-line authorisation;
- quantity, price and account code for sales entered once only, on the invoice;

- electronic notification of delivery of goods/services;
- customer and account code details extracted automatically from customer order;
- automation of reminder letters; and
- automatic triggering of write-off or waiver action.

8. Payroll Activity Benchmarks

Introduction

8.1 The payroll activity includes all processes required to pay salaries and wages in accordance with organisation policies and government regulations. A primary business objective of payroll is to be an efficient and effective processor of employee wages, benefits and reimbursable expenses.

8.2 Payroll processes include:

- monitoring employee time and attendance;
- calculating gross and net pay;
- distributing net pay;
- disbursing withholdings or deductions from gross pay;
- maintaining and updating all payroll-related data;
- processing payroll accounting entries; and
- resolving payroll inquiries.

8.3 The payroll activity is the most significant of the finance functions, accounting for a median 21.2 per cent of the total finance function operating cost of the Commonwealth Group. Payroll staff account for a median 23.81 per cent of the total finance function staffing, varying between 0.55 and 81 FTEs in the Commonwealth Group. However, outsourcing in some Commonwealth organisations makes it difficult to compare indicators based on FTEs.

8.4 The payroll activity benchmarks selected by the ANAO address dimensions of cost, efficiency, quality and better practice as set out in Table 8.1.

Table 8.1
Payroll Activity Benchmarks

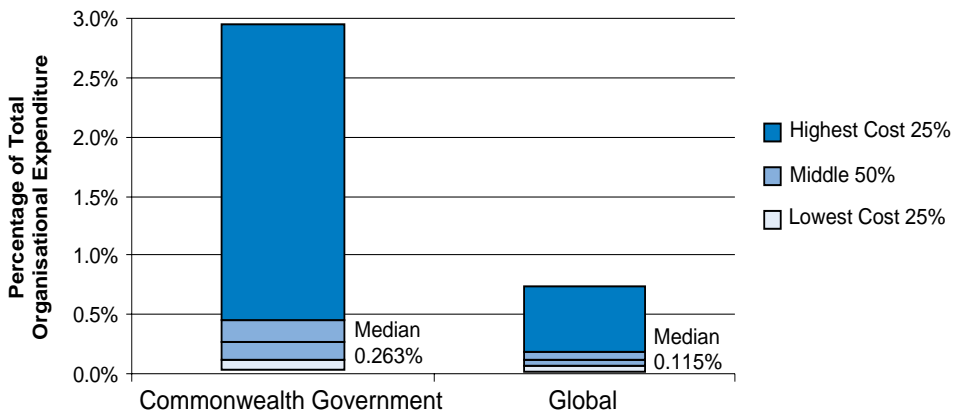
<i>Dimension</i>	<i>Formula</i>
Cost—Overall	Total payroll activity cost / Total organisational expenditure
Cost—Per Activity	Total payroll activity cost / Annual number of pays
Efficiency—Per Resource	Total number of pays annually / Payroll activity FTEs
Quality—Error Rate	Total number of pays with errors / Total number of pays annually
Better Practice	Payroll/Human Resources System Integration/Interface Total staff using direct debit / Total staff

Cost Dimension Benchmarks

8.5 The ANAO used two measures of cost of the payroll activity. The first captures cost at a global level and expresses total payroll cost as a percentage of total organisational expenditure, and the second assesses the payroll cost per pay processed.

8.6 Figure 8.1 indicate the Commonwealth Group allocates between 0.031 and 2.955 per cent of total organisational expenditure on payroll activity, with the lowest cost quartile ranging between 0.031 and 0.121 per cent. The Global Group allocates between 0.010 and 0.745 per cent. One organisation within the Commonwealth Group had a result significantly higher than the rest of the Group. If this outlying result (2.955%) is excluded from the Commonwealth Group then the range is now between 0.031 and 0.789 which is similar to the Global Group.

Figure 8.1
Payroll Activity Cost Benchmark—Overall Cost



Formula Used: Total Payroll Activity Cost / Total Organisational Expenditure

8.7 Three of the Commonwealth Group have payroll costs falling within the lowest cost quartile of the Global Group. However, overall, organisations in the Commonwealth Group have a higher total cost ratio than the Global Group, as indicated by the fact that some 75 per cent of these organisations have a ratio which is higher than the median of the Global Group.

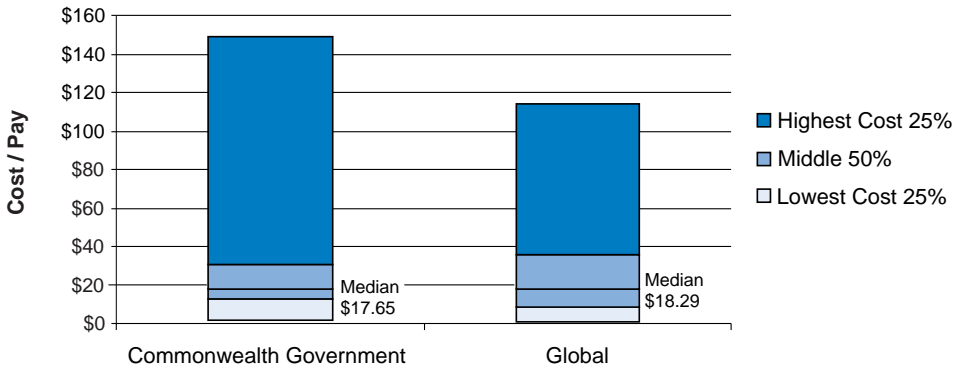
8.8 The benchmark data suggests a potential for improvement in cost-efficiency. If the payroll cost component of the finance function of those organisations in the Commonwealth Group above the Group median was reduced only to the median level, then expenditure reductions of some \$2.5 million (16 per cent) would result.

8.9 The ANAO notes that benchmark results do not provide reasons for the differences in performance, and consideration needs to be given to the type of organisation and its business.

8.10 The second payroll cost benchmark—shown in Figure 8.2—assesses the payroll cost per pay processed. The Commonwealth Group results are similar with those of the Global Group.

Figure 8.2

Payroll Activity Cost Benchmark—Cost/Pay



Formula Used: Total Payroll Activity Cost / Annual Number of Pays

8.11 Two of the benchmarked Commonwealth organisations have a cost per pay that falls within the lowest cost quartile of the Global Group. One of these organisations is also the largest of the Commonwealth Group, possibly indicating the benefits of scale.

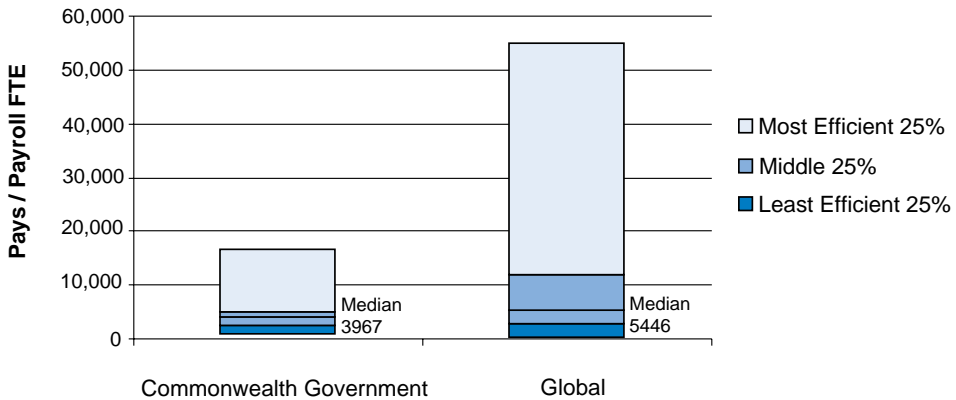
8.12 The organisation that had an outlying result in the overall cost benchmark also had a result substantially higher than the rest of the Group in this benchmark. In this instance, the organisation had a cost per pay of approximately \$150, which is \$110 more than the cost per pay for the next highest organisation.

Efficiency Dimension Benchmark

8.13 The efficiency measure of the number of pays processed per FTE—illustrated in Figure 8.3—provides an insight into employee output and productivity. As with the two cost benchmarks, two of the Commonwealth Group have a number of pays per payroll FTE that fall within the most efficient quartile of the Global Group. However the Global Group median is 37 per cent higher than that of the Commonwealth.

Figure 8.3

Payroll Activity Efficiency Benchmark—Pays/FTE



Formula Used: Total Number of Pays Annually / Payroll Activity FTEs

8.14 Good performance against the efficiency benchmark could be an indication of highly efficient employees or employee utilisation, efficient business processes and/or low error rates (less rework required). A further consideration could be the relatively complex public sector employment conditions, including arrangements around higher duties allowances and short-term leave.

Quality Dimension Benchmark

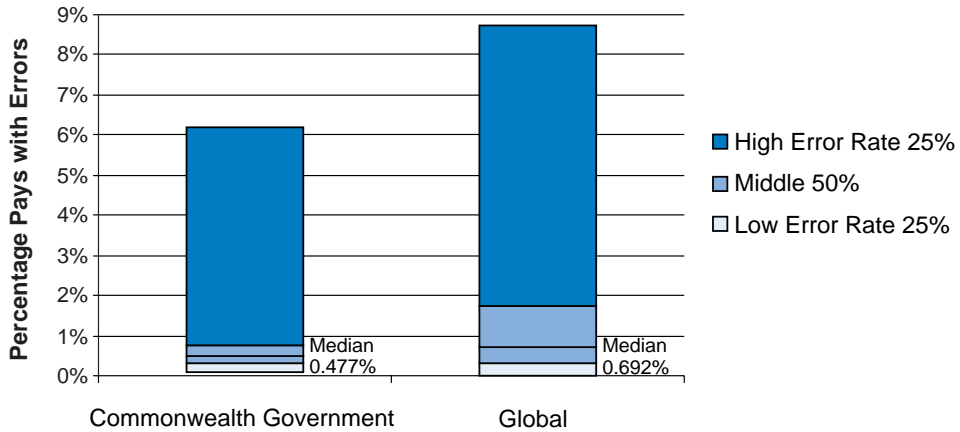
8.15 The ANAO selected one measure of quality for the payroll activity being a benchmark which measures the error rate through the total number of payroll errors as a percentage of pays. Payroll processing errors are those rejected by the payroll system. System validation tests may check for validity of employee numbers, account distribution coding, the reasonableness of pay amounts, etc. Therefore, this measure is an indication of the quality of information input to the payroll system.

8.16 The error rate benchmarks of the Commonwealth Group—shown in Figure 8.4—indicate sound performance against Global benchmarks with the median some 31 per cent lower than that of the Global Group. Six of the nineteen Commonwealth Group reported error rate benchmarks placing them in the low error rate quartile of the Global Group. Furthermore, only one organisation within the Commonwealth Group

had an error rate of higher than 3 per cent, the rest of the Commonwealth Group had results within a range of 0.086 and 2.946 per cent.

Figure 8.4

Payroll Activity Quality Benchmark—Error Rates



Formula Used: Total Number of Pays with Errors / Total Number of Pays Annually

8.17 The ANAO noted a correlation between the relatively low error rates reported by the Commonwealth Group and relatively low efficiency benchmarks. The results indicate a cost/quality trade off although another driver of lower error rates in the Commonwealth Group could be that the majority of staff in the Commonwealth Group are salaried staff with few salary variations from pay to pay. The Global Group includes many organisations with wages staff paid on an hourly basis, requiring more processing and involving the opportunity for more errors to arise.

Better Practice Benchmarks

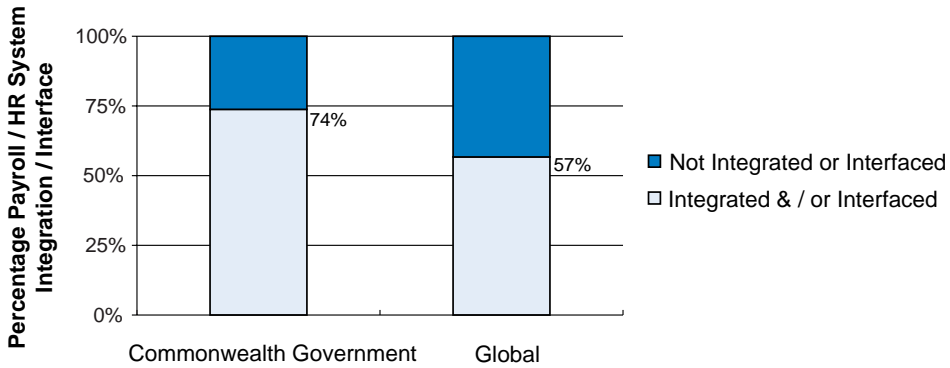
8.18 The ANAO obtained benchmark data relating to the level of both integration and/or interfacing of payroll and human resource systems and the utilisation of direct deposit for pays as an indicator of the adoption of better practice.

8.19 The benchmarking result relating to the level of integration and/or interfacing of payroll and human resource systems is shown in Figure 8.5.

8.20 The payroll systems of better practice organisations provide relevant and timely payroll information to a variety of different systems, eliminating duplication in recording and establishing one control point for employee information.

Figure 8.5

Payroll Activity Better Practice Benchmark—Payroll/Human Resources System Integration/Interface



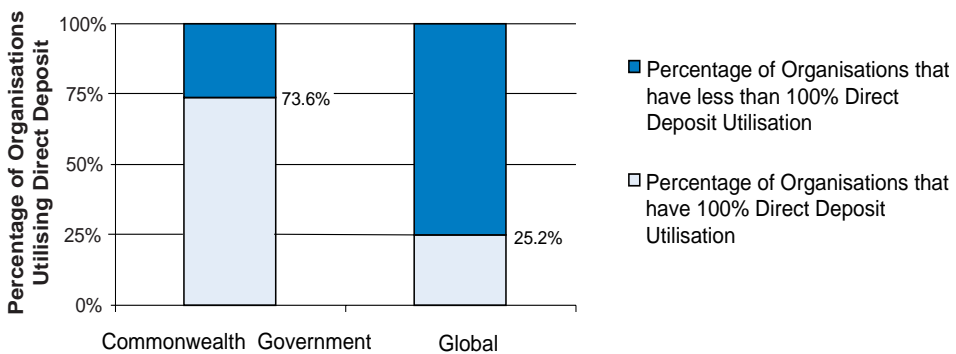
Formula Used: Payroll/Human Resources Systems Integration/Interface

8.21 Integration and/or interfacing of payroll and human resource systems has occurred in almost three-quarters of the Commonwealth Group, well above the achievement of the Global Group. It would be expected that the cost and efficiency benchmarks of organisations without integrated or interfaced systems would improve with the implementation of either a system integration or interface between the Human Resource and Payroll systems.

8.22 The high utilisation of direct deposit for pays—shown in Figure 8.6—assesses the better practice of utilising direct deposit for the payment of personnel. Much of the non-labour cost of paying employees is related to the actual production of a cheque.

Figure 8.6

Payroll Activity Better Practice Benchmark—Personnel Payment Using Direct Deposit



Formula Used: Total Staff Using Direct Deposit / Total Staff

8.23 All but five of the Commonwealth Group pay 100 per cent of their staff by direct deposit. However the remaining organisations still have high utilisation rates with four of the organisations ranging between 98.10 per cent to 99.52 per cent of pays processed and only one organisation with a utilisation rate below 90 per cent (87.67).

8.24 The high utilisation of direct deposit for pays within the Commonwealth Group in conjunction with the high percentage of human resources and payroll system integration and/or interface in the Commonwealth Group would be expected to result in lower payroll processing costs and higher levels of efficiency for these organisations. However, the cost and efficiency benchmarks of the Commonwealth Group do not support this expectation suggesting the need for further analysis.

Conclusion

8.25 The Commonwealth Group reported high utilisation of both integrated/interfaced payroll/human resources systems and payroll direct deposit which are better practices. However, the overall payroll cost is higher than that of the Global Group while the median cost per pay is lower. The Global Group is 37 per cent more efficient as measured by the median number of pays processed per full time equivalent employee (FTE). The error rate benchmarks of the Commonwealth Group generally indicate sound performance with the median some 31 per cent lower than that of the Global Group.

Better Practice Observations³³

8.26 The following paragraphs outline some of the better practices that have been adopted by organisations to deliver overall improvement in the efficiency and effectiveness of the payroll activity.

8.27 The ANAO notes that most Commonwealth organisations have already adopted better practices in the payroll activity—for example the utilisation of direct deposit of pay—but the discussion is provided for the benefit of all organisations wishing to implement higher performing finance functions.

Organisational Structure

8.28 A significant trend is the move toward centralised processing of payroll, clearly distinguishing authorisation devolution and processing

³³ Arthur Andersen Global Best Practices® KnowledgeBase and Reengineering Australia.

centralisation. As part of the authorisation devolution, human resource information system data entry and retrieval is decentralised with the processing of the payroll occurring centrally.

8.29 Organisational performance against the efficiency benchmark may be improved through the use of service bureaus or higher levels of technology utilisation (eg. automated time recording and attendance systems). The consolidation of the payroll processing into one or a small number of centres frees up resources for more value adding activities.

8.30 Benefit can also be achieved through the co-location and integration of the human resource information and payroll processing staff. Through a multi-function approach achieved by cross training, staff are made more aware of the interdependencies of these two activities. They also provide a more flexible workforce which is more responsive to peak workload periods.

8.31 Appropriate outsourcing of the payroll activity can also deliver benefit through improved efficiency.

Technology

8.32 A common feature of changes in payroll practices is the increasing reliance on technological solutions to make value-added processes more efficient and to eliminate non-value added processes altogether. The two principal innovations in this area have been the move toward the full integration or interfacing of the human resource management information, financial and the payroll systems, and the increasing use of electronic commerce—primarily electronic payment.

8.33 Better practice organisations use a central integrated system which is based around one database. This database supports all human resources, benefits and payroll activities. Data only needs to be added once to the system which eliminates redundant data entry, reduces the number of staff needed and ensures consistency of data. Employees can also access payroll, benefits and HR information more easily and quickly.

8.34 Paying employees electronically reduces payroll processing time and costs and increases employee productivity. It eliminates the time and expense associated with issuing paper cheques and reduces potential for lost, stolen or fraudulent cheques.

8.35 Better practice organisations have replaced paper with electronic messaging for time and attendance reporting. Paperless reporting minimises redundant data entry and shortens payroll processing time.

8.36 Decentralising data entry and increasing access to information to employees through the implementation of employee access and control over basic payroll information is increasingly being used as a strategy to reduce the amount of time that payroll personnel spend maintaining data and answering questions, giving them more time to concentrate on core activities. This approach also increases the accuracy of basic payroll data by giving employees the opportunity to enter data directly into the system, eliminating the need for data to be transcribed by a third party.

Conditions

8.37 New staff agreements and human resource policies can be established to address the issues of higher duties allowance payment, short-term leave and the multiplicity and complexity of conditions of service, facilitating more streamlined payroll processing.

9 Travel Activity Benchmarks

Introduction

9.1 Travel expenses are those costs incurred by organisations in having employees travel for business purposes. For most organisations, travel is the third largest controllable expense, after salaries and data processing (hardware and software) costs³⁴. The nature of an organisation's business and its geographical spread will have a direct impact on the extent of travel undertaken.

9.2 Travel expenses are derived from both direct and indirect sources. Direct travel expenses are the costs of tangible goods and services such as airfare, hotel rooms, meals and car rentals. Indirect travel expenses are the administrative costs involved in managing travel, such as the costs of processing expense reports, issuing reimbursements or advances and paying travel-related bills. Only indirect travel costs are measured in this benchmarking study. A primary business objective of the travel activity is to be a low-cost provider and processor of travel activity related expenses.

9.3 Travel administration is generally one of the smallest activities within the Commonwealth Group with a median 3.5 per cent of the total finance budget. At the median travel processing staff account for 4.54 per cent of the total finance function staffing, with individual organisation staffing ranging between 0.1 and 19 FTEs.

9.4 The travel activity benchmarks selected by the ANAO address the dimensions of cost, efficiency and quality as set out in Table 9.1.

Table 9.1
Travel Activity Benchmarks

<i>Dimension</i>	<i>Formula</i>
Cost—Overall	Total indirect travel activity cost / Total organisational expenditure
Cost—Per Activity	Total indirect travel cost / Number of travel requisitions
Efficiency	Total travel requisitions / Total travel FTEs
Better Practice	Method of employee reimbursement

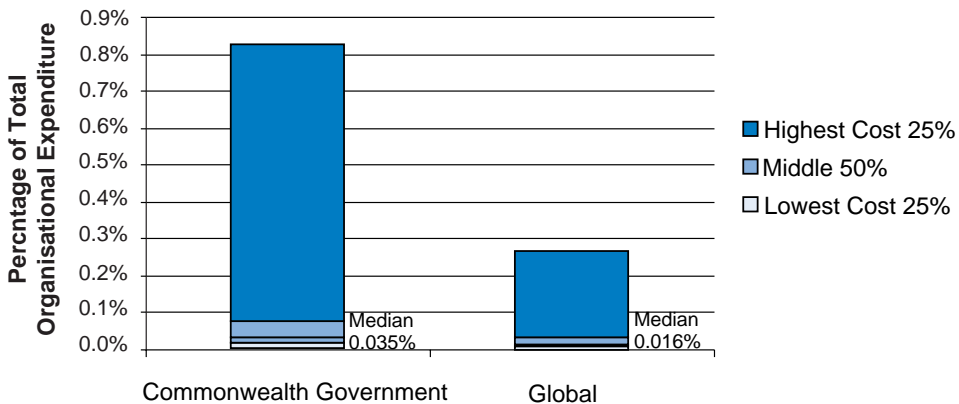
³⁴ Arthur Andersen Global Best Practices® KnowledgeBase.

Cost Dimension Benchmarks

9.5 The ANAO used two measures of cost of the travel activity. The first captures travel activity cost at a global level and expresses this as a percentage of total organisational expenditure. As shown in Figure 9.1, the Commonwealth Group allocates between 0.003 and 0.826 per cent of total organisational expenditure to travel activity, indicating a relatively high cost within the Commonwealth Group as a whole. On the other hand, the Global Group allocates between 0.001 and 0.270 per cent of total organisational expenditure. It should be noted, however, that the organisation that had a benchmark of 0.826 was substantially higher than the rest of the Commonwealth Group. If the outlying result is omitted then the range of expenditure that the Commonwealth Group allocates to the Travel activity is between 0.003 and 0.223 per cent which is very similar to the Global Group.

Figure 9.1

Travel Activity Cost Benchmark—Overall Cost



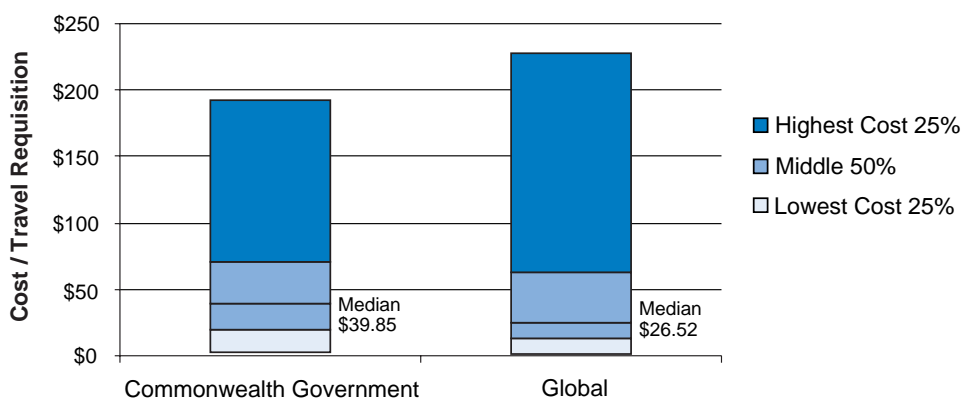
Formula Used: Total Indirect Travel Activity Cost / Total Organisational Expenditure

9.6 Although two organisations within the Commonwealth Group have benchmarks which fall within the Global Group's lowest cost quartile, almost three quarters of the Commonwealth Group have benchmarks falling in the highest cost half of the Global Group. This indicates the potential for enhanced cost-efficiency. If the travel activity costs of the finance function of those organisations in the Commonwealth Group above the Group median were reduced to the median level, the result would be a 21 per cent reduction in expenditure.

9.7 The second benchmark of the travel activity utilised by the ANAO measures the travel activity cost per travel requisition processed. The average cost per travel requisition, as illustrated in Figure 8.2, indicates that in relation to the travel processing activity, the median cost of the Commonwealth Group is some 50 per cent higher than that of the Global Group. The range of costs however is smaller in the Commonwealth Group (between \$2.86 and \$192.02) than the Global Group (\$1.59 and \$229.77). Furthermore, the highest result within the Commonwealth Group (\$192.02) was considerably greater than the one below it which was \$94.53.

Figure 9.2

Travel Activity Cost Benchmark—Cost/Travel Requisition



Formula Used: Total Indirect Travel Activity Cost / Number of Travel Requisitions

9.8 The ANAO notes that the administration of travel has been decentralised within the Commonwealth Government in recent years, and consequently the activity cost benchmarks may not have captured all costs. Any ‘hidden’ costs will add to the already high travel administration costs revealed above.

9.9 The higher cost within the Commonwealth Group may be explained in part by the differences in approach to travel administration between the public and private sectors. For example, it is generally normal practice in the Commonwealth to pay officers a ‘travel advance’ based on the city to be visited and the duration of the visit. The advance is acquitted after the travel is completed, resulting in two administrative processes for each trip. The use of an entitlement based reimbursement system that also has two administrative processes for each trip is becoming more common.

9.10 In the private sector, it is common practice for officers travelling to be reimbursed for actual travel costs (including incidentals) with a high utilisation of business charge cards. Charge cards for travel expenses are not widely used in Commonwealth organisations. As discussed in the Better Practice Observations beginning at paragraph 9.20, improved efficiency in travel administration may be delivered by the review of an organisation's travel policies.

9.11 The higher cost within the Commonwealth Group may be explained in part by the differences in approach to travel administration between the public and private sectors. The Commonwealth traditionally paid officers a travel allowance which usually involved detailed calculations. For some travel (for example overseas) there was an allowance given which was required to be acquitted following completion of the travel. In the private sector, it is common practice for officers travelling to be reimbursed for actual travel costs (including incidentals) with a high utilisation of corporate charge cards. This system generally involves fewer resources in terms of processing. Charge cards for travel expenses have not been widely used in Commonwealth organisations but the rate of usage is increasing. As discussed in the Better Practice Observations beginning at paragraph 9.20, improved efficiency in travel administration may be delivered by organisations re-engineering their travel processes.

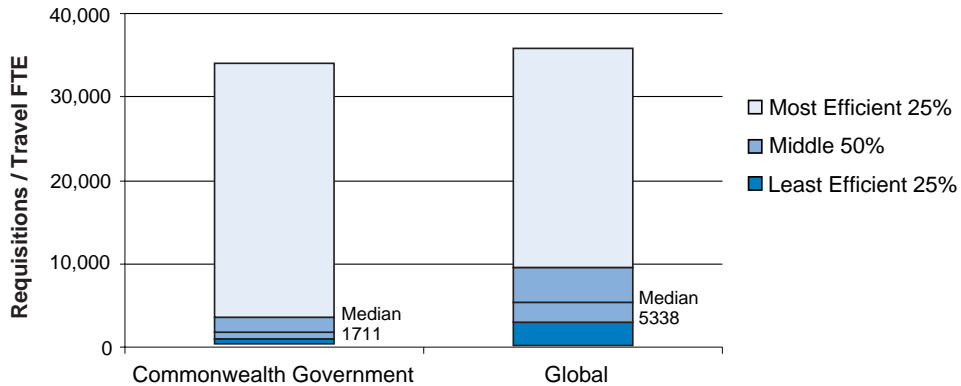
Efficiency Dimension Benchmark

9.12 The ANAO obtained data on the number of travel requisitions processed per FTE to provide an indicator of efficiency by providing a measure of employee output and productivity.

9.13 The benchmarking results, set out in Figure 9.3, suggest that Commonwealth Group travel processing is relatively inefficient when compared with the Global Group. Almost three-quarters of the organisations in the Commonwealth Group have efficiency benchmarks which fall within the Global Group's least efficient quartile and only one of the Commonwealth Group had a result of over 10,000 travel requisitions processed per FTE.

Figure 9.3

Travel Activity Efficiency Benchmark—Travel Requisitions/FTE



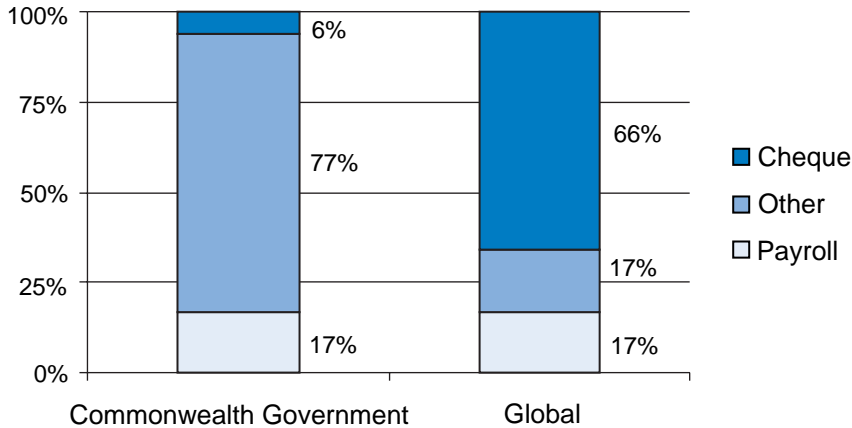
Formula Used: Total Travel Requisitions / Total Travel FTEs / Number of Travel Requisitions

Better Practice Benchmark

9.14 The benchmark performance of the Commonwealth Group may be indicative of the decentralised nature of travel processing management within the Commonwealth Group, and/or the complexities of the travel processes of organisations.

9.15 The ANAO used the benchmark of reimbursement of travel through payroll as an indicator of better practice. The practice of paying travel reimbursements through the payroll system minimises transaction processing and results in reduced employee reimbursement processing costs, turnaround time and employee effort.

9.16 The Commonwealth Group’s use of the payroll system to reimburse travel expenses is similar to the Global Group, as illustrated in Figure 9.4 following.

Figure 9.4**Travel Activity Better Practice—Reimbursement through Payroll**

Formula Used: Method of Employee Reimbursement

9.17 The Commonwealth Group reported that the ‘other’ methods of payment of travel reimbursements included direct deposit into the officer’s bank account via electronic funds transfer through accounts payable (which is similar to the above process) and cash.

Conclusion

9.18 The benchmarking of travel administration activity indicates the Commonwealth Group spends both a higher proportion of its total expenditure on the travel activity and has a higher average cost per travel requisition than the Global Group. The Commonwealth Group also performs less favourably in terms of efficiency based on the selected measure of efficiency. The Commonwealth Group does however, fare well in relation to the use of reimbursement through payroll and direct deposit.

9.19 These findings are supported by Audit Report No.19 *Management of Public Sector Travel Arrangements—Follow Up Audit* published by the ANAO in December 2000. The audit objective was to ascertain the extent of implementation of the previous audit recommendations and better practice principles and whether organisations were managing travel efficiently and effectively. The audit concluded that organisations have taken only limited action to reengineer their travel management processes.

Better Practice Observations³⁵

9.20 The ANAO issued the *Public Sector Travel Better Practice Guide* in December 1997³⁶ outlining many better practices that may result in significant improvement in the administration of travel. These included the mandating the use of a multi-purpose, employer-sponsored charge card for travel related expenditure and the implementation of fully automated travel booking, approval and expense processing.

9.21 The following paragraphs outline some of the other better practices that have been adopted by organisations to deliver overall improvement in the efficiency and effectiveness of the travel activity.

Organisational Structure

9.22 As with certain other finance activities, a significant trend is the move toward centralised processing of travel, clearly distinguishing authorisation devolution and processing centralisation.

9.23 The implementation of travel payments through the existing payroll system is a better practice which will deliver consolidation and reduce duplication and cost. It also facilitates the opportunity for cross-skilling between travel and payroll processing personnel.

Technology

9.24 Utilisation of a multipurpose corporate charge card may reduce indirect administrative costs of managing travel expenses and offer a comprehensive approach to payment, expense monitoring and processing, reimbursement and information management. These cards capture corporate spending in detail which helps in monitoring travel policy compliance, forecasting travel budgets, collecting data on vendor usage and negotiating discounts with vendors.

9.25 Automation of travel booking, approval and expense processing can lead to process efficiencies in organisations where business travel is a significant activity. The features of an automated system would include:

- electronic forms, preferably pre-populated with expense data from charge card transactions;
- built-in data completeness, accuracy and other integrity tests;

³⁵ Australian National Audit Office *Public Sector Travel Better Practice Guide* December 1997, Arthur Andersen Global Best Practices® KnowledgeBase and Reengineering Australia.

³⁶ Australian National Audit Office *Public Sector Travel Better Practice Guide* December 1997.

- integration with travel policy to highlight exceptions and seek explanations; and
- electronic transmission to, and approval by, a supervisor, and then to accounts area.

Travel Policy/Conditions

9.26 Developing, communicating and enforcing a formal travel policy encompassing all aspects of the travel process provides the framework for an efficient and effective travel process.

9.27 Undertaking regular risk assessments of business travel policies and processes.

9.28 Consolidating corporate travel management and developing a strong relationship with a single travel agency may enable negotiation of better rates with airlines and other travel vendors, control of travel policy and preferred vendor usage.

9.29 Reducing the complexity of travel allowances and processes may result in improved processing efficiency—for example, by payment of actual expenses in place of travel allowances for accommodation and meals, utilisation of corporate charge cards with appropriate controls and implementing pre-agreed arrangements with hotels or hotel chains where the organisation is directly billed for expenses.

9.30 Monitoring and reviewing contract performance through a comprehensive statement of performance measures covering all aspects of business travel.

10. Billing Activity Benchmarks

Introduction

10.1 The billing activity process includes creating customer billing accounts, creating and sending invoices to customers, responding to inquiries, maintaining the billing system and providing collection-related reports to management. The main objective of the billing activity is to ensure that all customers who purchase goods and services are sent a complete and accurate bill or billing statement in a timely manner.

10.2 In the Commonwealth Group, only thirteen of the organisations benchmarked had billing activity information. Five organisations indicated they did not have a billing activity and one other had a billing activity that was almost negligible in staffing and funding.

10.3 In organisations within the Commonwealth Group that have a billing activity, this activity accounts for (at the median) only 2.4 per cent of the total finance function budget. The relatively low significance of the billing activity is also supported by the number of billing FTEs within the Commonwealth Group where, at median, billing staff account for 2.62 per cent of the total finance function staffing, with individual organisation staffing ranging between 0.2 and 4.03 FTEs.

10.4 The cost, quality and better practice benchmarks selected by the ANAO for the billing activity are shown in Table 10.1. There were no efficiency benchmarks available for the billing activity.

Table 10.1
Billing Activity Benchmarks

<i>Dimension</i>	<i>Formula</i>
Cost—Overall	Total billing activity cost / Total organisational expenditure
Cost—Per Activity	Total billing activity cost / Number of annual invoices issued
Quality—Error Rate	Number of customer invoices adjusted / Total number of customer invoices issued
Quality—Time	Average elapsed time between service provision and invoicing
Better Practice	Percentage utilisation of EDI for billing

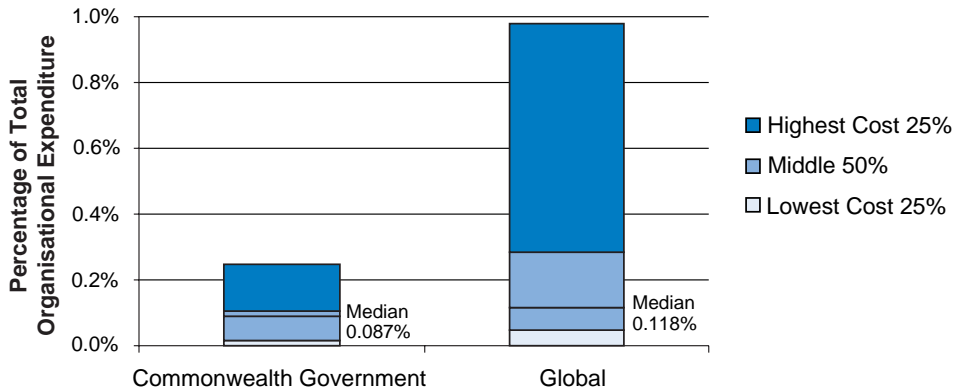
Cost Dimension Benchmarks

10.5 The ANAO used two measures of cost of the billing activity. The first captures the billing cost at a global level and expresses this as a percentage of total organisational expenditure.

10.6 As illustrated in Figure 10.1, the Commonwealth Group allocates between 0.002 and 0.248 per cent of total organisational expenditure to billing activity, with the lowest cost quartile ranging between 0.002 and 0.015 per cent. In comparison, the Global Group allocates between 0.002 and 0.978 per cent of total organisational expenditure to their billing activity.

Figure 10.1

Billing Activity Overall Cost Benchmark—Overall Cost



Formula Used: Total Billing Activity Cost / Total Organisational Expenditure

10.7 Half of the fourteen Commonwealth Group with a billing activity have overall cost benchmarks which place them within the Global Group's lowest cost quartile and no Commonwealth Group organisation had an overall cost benchmark which placed it in the Global Group's highest cost quartile.

10.8 Although the Commonwealth Group has an overall better result than the Global Group, there is still potential for improving cost-efficiency within the Commonwealth. If the billing costs of those organisations in the Commonwealth Group above the Group median were reduced to the median level, then expenditure reductions of some 12 per cent of the billing activity cost for the Commonwealth Group would result.

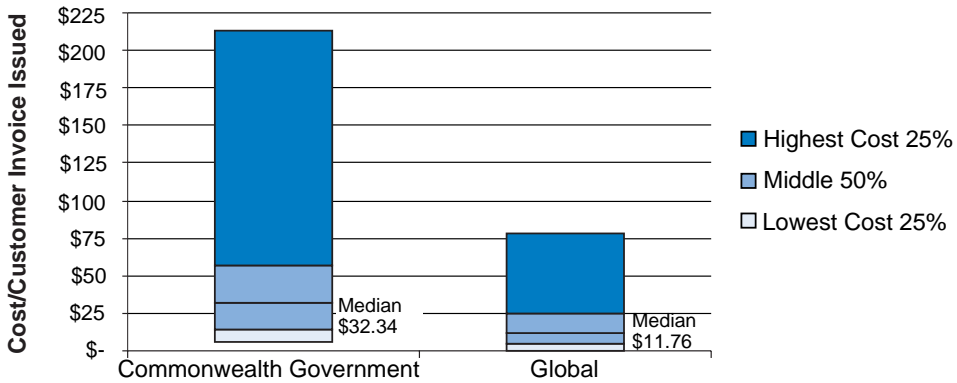
10.9 The ANAO observed that the Commonwealth Group with the lowest overall cost benchmark had outsourced its billing activity although, as noted subsequently in this chapter, this organisation also had a high error rate.

10.10 The second billing activity cost benchmark measures the billing activity cost per invoice issued. As illustrated in Figure 10.2, the billing cost per invoice for the Commonwealth Group ranged between \$5.88 and \$213.14, compared with \$0.10 and \$77.72 in the Global Group. The range for the Commonwealth Group has been affected by two

organisations that had results substantially higher than the rest of the Commonwealth Group. The two highest results were \$213.14 and \$170.20, while the next highest result was \$67.83. If these two outlying results are excluded from the range, then the range for the Commonwealth Group becomes \$5.88 to \$67.83, which is more in line with the Global Group.

Figure 10.2

Billing Activity Cost Benchmark—Cost / Customer Invoice Issued



Formula Used: Total Billing Activity Cost / Number of Annual Invoices Issued

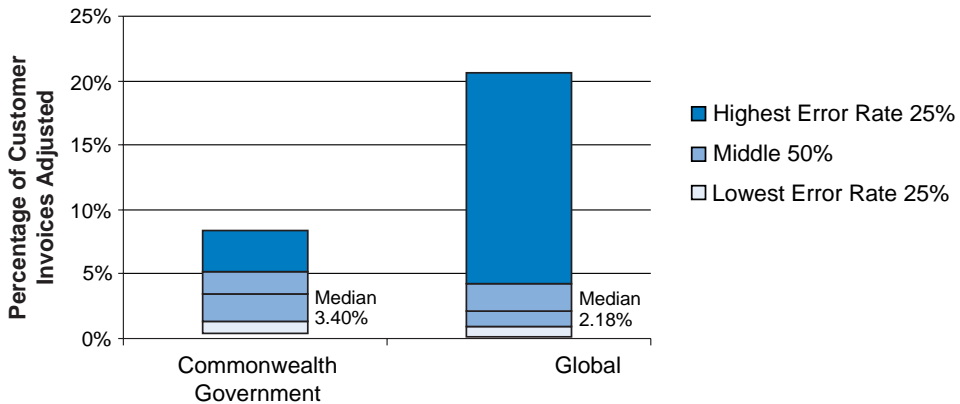
10.11 The Commonwealth Group does not perform well in this benchmark in comparison to the Global Group. No Commonwealth Group organisation possesses an average billing cost per invoice benchmark which place it in the Global Group’s lowest cost quartile. Furthermore, over half of the Commonwealth Group have benchmarks which place them in the Global Group’s highest cost quartile and the Commonwealth median cost is 2.75 times that of the Global Group.

10.12 A reason for the high relative cost may be found in the relative small sizes of the Commonwealth billing activities and the consequent inability to achieve economies of scale.

Quality Dimension Benchmarks

10.13 The ANAO used two measures of billing quality. The first assesses the error rate through the total number of adjustments as a percentage of total customer invoices issued, providing an insight about the accuracy of customer bills. The benchmark is illustrated in Figure 9.3, revealing a median error rate of 3.40 per cent in the Commonwealth Group compared with a Global median error rate of 2.18 per cent.

Figure 10.3
Billing Activity Quality Benchmark—Error Rate



Formula Used: Number Customer Invoices Adjusted / Total Number of Customer Invoices Issued

10.14 Three Commonwealth Group organisations reported error rates that placed them in the Global Group’s lowest error rate quartile. Each of these organisations had billing cost per activity benchmarks that placed them in the Global Group’s highest cost quartile.

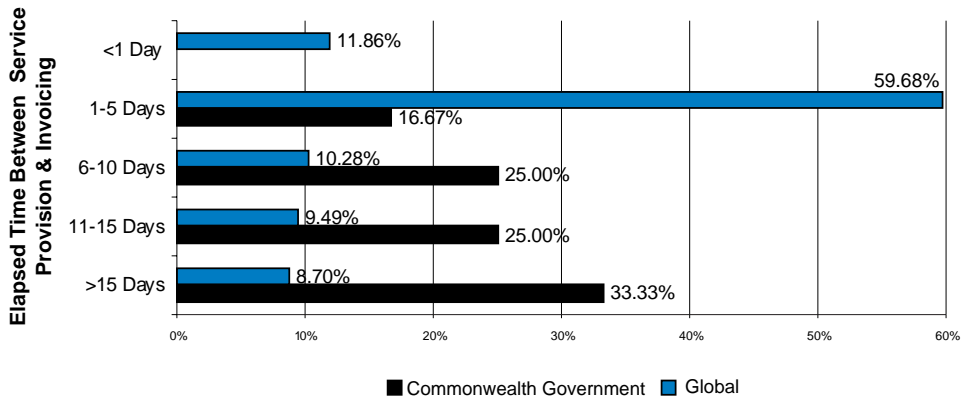
10.15 Of the six Commonwealth Group organisations which reported error rates placing them in the Global Group’s highest error rate quartile, four (including the organisation which outsourced its billing activity) had cost per activity benchmarks which placed them in lowest cost end of the Commonwealth Group benchmarks. These outcomes mirror the cost/quality trade off observed in other activities within the finance function.

10.16 The second billing quality benchmark measures the elapsed time between the provision of a service and the invoicing of the customer for the service. A timely and accurate invoice improves the quality of customer service and reduces cash collection time.

10.17 As shown in Figure 10.4, the Commonwealth Group reported longer lead times in the billing process than the Global Group. The Global Group better practice is less than one day whilst the best result in the Commonwealth Group was a lead time of 1 to 5 days. In the Global Group most organisations had a lead time of 1 to 5 days compared to the Commonwealth Group where most organisations took over 15 days between the provision of a service and invoicing the customer.

Figure 10.4

Billing Activity Quality Benchmark—Elapsed Time to Invoicing



Formula Used: Average Elapsed Time between Service Provision and Invoicing

Better Practice Benchmark

10.18 The billing better practice benchmark assesses the utilisation of electronic data interchange (EDI) for billing activities. EDI allows an organisation to transmit bills electronically to customers and contributes to process efficiency and lower error rates.

10.19 None of the Commonwealth Group utilises EDI for billing purposes offering opportunity for process and service improvement. As part of the Commonwealth Government’s information economy framework³⁷, one of the ten key strategic on-line priorities is to implement a world class model for delivery of all appropriate government services on-line by 2001. In its 1999 performance audit report into electronic service delivery³⁸, the ANAO noted that although organisations were generally well positioned to achieve the Government’s target, there was still considerable work required. While this benchmarking study does not identify the progress of the benchmarked Commonwealth organisations towards implementation of EDI for billing purposes, it does highlight the requirement for them to ensure appropriate steps are being taken to achieve the on-line goal by the target date.

³⁷ Commonwealth Government Strategic Framework for the Information Economy, December 1998.

³⁸ Australian National Audit Office Audit Report No.18 of 1999–2000 *Electronic Service Delivery, including Internet Use, by Commonwealth Government Agencies*.

Conclusion

10.20 In comparison with the Global Group, the Commonwealth Group had a lower overall cost but had a higher cost per customer invoice issued and a higher error rate (at the median). While, in particular organisations, high costs can be contrasted with low error rates, this is not the case for the Commonwealth Group population as a whole.

10.21 Coupled with the longer elapsed duration to invoice, the benchmarks indicate that the overall performance of the Commonwealth Group is lower than the Global Group, perhaps due to the relatively small size of the billing activity within the benchmarked Commonwealth organisations.

Better Practice Observations³⁹

10.22 The following paragraphs outline some of the better practices that have been adopted by organisations to deliver overall improvement in the efficiency and effectiveness of the billing activity.

10.23 The ANAO notes that some Commonwealth organisations have already adopted better practices in the billing administration activity but the discussion is provided for the benefit of all organisations wishing to implement higher performing internal finance functions.

10.24 The adoption of better practices in Commonwealth organisations may lead to substantial improvement in the billing administration activity, particularly in the areas of centralised processing and appropriate technology utilisation.

Organisational

10.25 Improvements in communications and accuracy may reduce the percentage of billing adjustments processed. Enhanced communications between the customer and organisation—as well as between the organisation's own internal order processing, billing and customer inquiry processes—will enable complaints and errors to be resolved in a more timely manner. An emphasis on billing accuracy can be achieved by automating the billing system and implementing validation and edit checks, as well as by monitoring variances from norms at key points throughout the process.

³⁹ Arthur Andersen Global Best Practices® KnowledgeBase and Reengineering Australia.

Technology

10.26 Better practice organisations automate the billing system and integrate it with other organisational or customer systems. Also, real-time interaction between order processing and billing will reduce the time lag between in billing. Organisations that tailor billing to meet the specific needs of customers (e.g., bill once a week, month) may encounter longer elapsed times between performance and billing, and have thus chosen to sacrifice collection time and cash flow in the interest of customer service.

10.27 EDI allows an organisation to transmit bills electronically to customers. While EDI is increasingly more common and is widely accepted as better practice, it is restricted by the technology limitations of either the organisation or the customer. The implementation of EDI may result in reduced:

- paperwork and processing time;
- number of billing personnel;
- billing errors and inaccuracies; and
- duplication of activities.

11. Tax Activity Benchmarks

Introduction

11.1 A primary business objective of the tax activity is to ensure proper compliance with tax laws while seeking to minimise organisation-wide taxes.

11.2 The business tax activity is one of the least significant of the Commonwealth Group's financial activities. The tax activity in the Commonwealth Group accounts at the median for only 1 per cent of the total finance operating budget. Tax staff in the Commonwealth Group account for 0.9 per cent of the total finance function staffing, with staffing in individual organisations ranging between 0.11 and 1.25 FTEs.

11.3 The cost benchmark selected by the ANAO for the tax activity is set out in Table 11.1. No efficiency or quality benchmarks were selected for review because of the low materiality of the activity and the absence of useful comparators across jurisdictions and between the public and private sectors.

Table 11.1
Tax Activity Benchmark

<i>Dimension</i>	<i>Formula</i>
Cost—Overall	Total tax activity cost / Total organisational expenditure

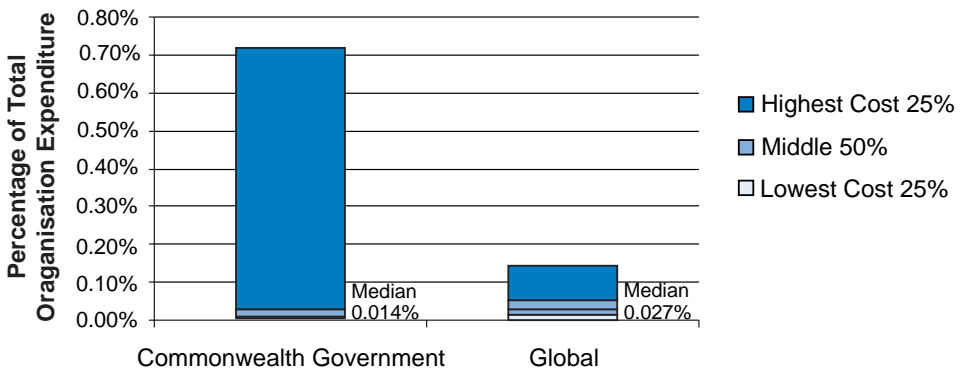
Cost Dimension Benchmark

11.4 The overall cost benchmark for the tax accounting activity captures the total tax cost for the organisation and expresses this as a percentage of total organisational expenditure. The benchmarking results are summarised in Figure 11.1. At the median the Commonwealth Group spends approximately half what the Global Group spends on the tax accounting activity. This result is most likely due to the significantly lower level of tax management required in the public sector at the time of the benchmarking study.

11.5 The Commonwealth Group allocates between 0.003 and 0.720 per cent of total organisational expenditure to tax activity, with the lowest cost quartile ranging between 0.001 and 0.005 per cent. In comparison the Global Group allocates between 0.001 and 0.144 per cent of total organisational expenditure.

11.6 It should be noted, however, that within the Commonwealth Group only one organisation had a result above 0.161 per cent. This result has been included for completeness but has the effect of skewing the overall result for the Commonwealth Group, making it appear to perform badly. If this result is excluded from the analysis then the Commonwealth Group percentage range of total organisation expenditure becomes 0.003 to 0.161 per cent which is similar to the Global Group.

Figure 11.1
Tax Activity Cost Benchmark—Overall Cost



Formula Used: Total Tax Activity Cost / Total Organisational Expenditure

11.7 There is some scope for improving cost-efficiency. If the tax activity costs of those organisations in the Commonwealth Group above the Group median were reduced only to the median level, then a reduction of some 31 per cent of the money spent on the tax activity in the finance function would result.

Conclusion

11.8 Consistent with differences in tax management requirements between the public and private sectors at the time of the benchmarking study, the benchmarking results show that the Commonwealth Group, at the median, spends a lower proportion of total organisation expenditure on the tax activity than the predominantly private sector Global Group comparison organisations.

Better Practice Observations⁴⁰

11.9 The following paragraphs outline some of the better practices that have been adopted by organisations to deliver overall improvement in the efficiency and effectiveness of the tax activity. These will become increasingly relevant as administrative effort on managing the Goods and Services Tax becomes better known.

11.10 Traditionally, the main focus of the tax activity has been on compliance. Best practice companies maximise the use of technology to reduce the time spent on compliance and administration and to redirect resources to planning, research and customer service activities.

11.11 Tax planning should become part of an organisation's business strategy. The tax implications of all business decisions should be assessed as those decisions are being made.

11.12 Regular communications regarding tax issues keeps employees informed of tax issues that can affect their job. Information should be readily available and easy to access (eg. through providing a single point of contact for all tax inquiries).



Canberra, ACT
22 December 2000

P. J. Barrett
Auditor-General

⁴⁰ Arthur Andersen Global Best Practices® KnowledgeBase.

Appendices

Appendix 1

Benchmark Demographic Profiles

<i>Demographic Profile</i>	<i>Commonwealth Group</i>	<i>Global Group</i>
Number of organisations	19	507
Geographic locations	Australia (19)	Australia (26), Europe (189), UK (11), USA (228), Asia (3), NZ (8), Canada (13), Brazil (29)
Industry	Federal Government (19)	Manufacturing (223), Consumer Products (111), Commercial Services (43), Utilities (54), Financial (11), Real Estate (7), Insurance (12), Health (8), Non-profit/Government (23), Unspecified (15)
Total Revenues (AU\$)	11 852 954 932	1 096 219 173 410
Average Revenue (AU\$)	623 839 733	2 246 350 765
Revenue Range (AU\$)	12 039 000 — 3 406 903 036	362 091—96 567 334 310
Total Employees	46 789	2 686 513
Average Employees	2463	5416
Range of Number of Employees	94—22 641	4—852 043

Appendix 2

Derivation of Finance Function Benchmarks

The following table shows the derivation of the key benchmarks used in this Report.

Activity	Dimension	Formula
Finance Overall	Cost—Overall	Total finance function expenditure / Total organisational expenditure
	Cost—Staff	Total finance function staffing / Total organisation staffing
	Quality	Average length of employee service
		Finance staff education levels as a percentage of total finance employees
Better Practice	Shared services utilisation by activity	
Budgeting and Financial Analysis	Cost—Overall	Total budgeting and analysis activity cost / Total organisational expenditure
	Efficiency	Total elapsed days to prepare budget
	Better Practice	Total number of budgets developed annually
Fixed Assets	Cost—Overall	Total fixed asset activity cost / Total organisational expenditure
	Cost—Per Activity	Total fixed asset activity cost / Annual number of fixed asset transactions
	Efficiency	Total number of fixed assets tracked / Total fixed assets FTEs
	Quality—Error Rate	Percentage of fixed assets misclassified or misallocated
	Better Practice	Capitalisation threshold for fixed assets
Accounts Payable	Cost—Overall	Total accounts payable activity cost / Total organisational expenditure
	Cost—Per Activity	Total accounts payable activity cost / Number of annual invoices
	Efficiency—Per Resource	Total accounts payable invoices / Total accounts payable FTEs
	Efficiency—Size	Total accounts payable payments / Number of invoices processed
	Quality—Error Rate	Total accounts payable errors / Number of invoices processed
	Better Practice	Total number of active vendors to organisation

Activity	Dimension	Formula
'Close the Books'	Cost—Overall	Total 'close the books' activity cost / Total organisational expenditure
	Quality—Error Rate	Total number of error correction journals / Total number of journals
	Better Practice	Number of hard closes in excess of requirements
Accounts Receivable	Cost—Overall	Total accounts receivable activity cost / Total organisational expenditure
	Cost—Per Activity	Total accounts receivable activity cost / Total credit activity
	Efficiency	Total number of remittances / Total accounts receivable FTEs
	Quality—Error Rate	Total remittance errors / Total number of remittances
	Quality—Error Rate	Total remittances matched first time / Total remittances
	Better Practice	Elapsed days between customer invoicing and receipt of payment
Payroll	Cost—Overall	Total payroll activity cost / Total organisational expenditure
	Cost—Per Activity	Total payroll activity cost / Annual number of pays
	Efficiency	Total number of pays annually / Payroll activity FTEs
	Quality—Error Rate	Total number of pays with errors / Total number of pays annually
	Better Practice	Payroll / Human Resources System Integration / Interface Total staff using direct debit / Total staff
Travel	Cost—Overall	Total indirect travel activity cost / Total organisational expenditure
	Cost—Per Activity	Total indirect travel cost / Number of travel requisitions
	Efficiency	Total travel requisitions / Total travel FTEs
	Better Practice	Method of employee reimbursement

Activity	Dimension	Formula
Billing	Cost—Overall	Total billing activity cost / Total organisational expenditure
	Cost—Per Activity	Total billing activity cost / Number of annual invoices issued
	Quality—Error Rate	Number of customer invoices adjusted / Total number of customer invoices issued
	Quality—Time	Average elapsed time between service provision and invoicing
	Better Practice	Percentage utilisation of EDI for billing
Tax	Cost—Overall	Total tax activity cost / Total organisational expenditure

Appendix 3

Finance Function Benchmarks

1. Overall Finance Function Benchmarks

Table 1.1

Benchmarked Commonwealth Group Finance Activity Cost

	<i>Total Annual Activity Cost / Total Annual Finance Function Expenditure (percentage)</i>		
	<i>Minimum</i>	<i>Median</i>	<i>Maximum</i>
Financial Budgeting and Analysis	4.2	15.6	52.8
Fixed Assets	0.6	3.3	11.3
Accounts Payable	5.3	13.6	28.1
'Close The Books' and Financial Reporting	2.3	8.9	28.9
Accounts Receivable	0.3	3.6	15.0
Payroll	3.4	21.2	42.4
Travel	0.3	3.5	14.0
Billing	0.3	2.4	7.2
Tax	0.4	1.0	3.9

Table 1.2

Finance Function Cost Benchmark—Overall Cost

	<i>Total Finance Function Expenditure / Total Organisational Expenditure (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Lowest Cost Percentage	0.089	0.110
Lowest Cost 25%	0.368	0.622
Middle 50%	1.270	1.014
Highest Cost 25%	1.733	1.666
Highest Cost Percentage	9.852	4.832

Table 1.3**Finance Function Cost Benchmark—Staffing**

	<i>Total Finance Function Expenditure / Total Organisational Expenditure (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Lowest Finance Staff per Organisational Staff Percentage	0.72	0.17
Lowest Finance Staff 25%	1.99	2.35
Middle 50%	3.50	3.75
Highest Finance Staff 25%	4.96	5.58
Highest Finance Staff per Organisational Staff Percentage	12.38	13.33

Table 1.4**Finance Function Quality Benchmark—Staff Retention**

	<i>Average Length of Employee Service (years)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Longest Length of Service	18.8	24.0
Longest Length of Service 25%	6.9	11.4
Middle 50%	5.0	8.0
Shortest Length of Service 25%	3.0	5.0
Shortest Length of Service	1.0	0.6

Table 1.5**Finance Function Quality Benchmark—Staff Qualifications**

	<i>Finance Staff Education as a Percentage of Total Finance Staff</i>			
	<i>Management</i>		<i>Staff</i>	
	<i>Commonwealth Group</i>	<i>Global</i>	<i>Commonwealth Group</i>	<i>Global</i>
<i>Educational Qualification</i>				
Accounting Degree	20.44	25.31	13.09	37.84
CPA	42.44	34.33	9.17	7.86
MBA	1.27	17.16	1.50	2.79
CPA and MBA	0.00	4.45	0.00	0.00
None of the above	35.85	18.67	76.24	50.86

Table 1.6**Finance Function Better Practice Benchmark—Shared Services**

	<i>Shared Services Utilisation by Activity (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Payroll	78.95	27.61
Travel	52.63	23.67
Accounts Payable	63.16	26.23
Billing	36.84	19.92
Accounts Receivable	52.63	26.23
'Close the Books' and Financial Reporting	84.21	29.38
Fixed Assets	73.68	26.63

2. Financial Budgeting and Analysis**Table 2.1****Budgeting and Analysis Activity Cost Benchmark—Overall Cost**

	<i>Total Budgeting and Analysis Cost / Total Organisational Expenditure (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Lowest Cost Percentage	0.019	0.004
Lowest Cost 25%	0.061	0.054
Middle 50%	0.158	0.106
Highest Cost 25%	0.290	0.191
Highest Cost Percentage	1.739	0.941

Table 2.2**Budgeting and Analysis Activity Efficiency Benchmark—Budget Cycle Time**

	<i>Total Elapsed Days To Prepare Budget</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Shortest Cycle Time	14	5
Shortest Time 25%	30	30
Middle 50%	90	60
Longest Time 25%	120	90
Longest Cycle Time	270	270

Table 2.3**Budgeting and Analysis Activity Better Practice Benchmark—Number of Annual Budgets**

	<i>Total Number of Budgets Developed Annually</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Least Annual Budgets	1	1
Least Budgets 25%	2	3
Middle 50%	4	4
Most Budgets 25%	12	12
Most Annual Budgets	20	33

3. Fixed Assets Activity Benchmarks**Table 3.1****Fixed Asset Activity Cost Benchmark—Overall Cost**

	<i>Total Fixed Asset Activity Cost / Total Organisational Expenditure (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Lowest Cost Percentage	0.003	0.001
Lowest Cost 25%	0.018	0.010
Middle 50%	0.040	0.020
Highest Cost 25%	0.063	0.036
Highest Cost Percentage	0.167	0.146

Table 3.2**Fixed Asset Activity Cost Benchmark—Cost / Fixed Asset Transaction**

	<i>Total Fixed Asset Activity Cost / Annual Number of Fixed Asset Transactions</i>	
	<i>Commonwealth Group</i> \$	<i>Global</i> \$
Lowest Cost Percentage	1	0
Lowest Cost 25%	28	14
Middle 50%	46	40
Highest Cost 25%	80	114
Highest Cost Percentage	1464	487

Table 3.3

Fixed Assets Activity Efficiency Benchmark—Fixed Assets Tracked /FTE

	<i>Total Number of Fixed Assets Tracked / Total Fixed Assets FTE (numbers)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Most Fixed Assets/FTE	11 429	50 000
Most Efficient 25%	5437	15 000
Middle 50%	3502	8353
Least Efficient 25%	2197	4762
Least Fixed Assets/FTE	297	100

Table 3.4

Fixed Assets Activity Quality Benchmark—Error Rates

	<i>Percentage of Fixed Assets that are Misallocated or Misclassified (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Lowest Error Rate	0.00	0.00
Lowest Error Rate 25%	0.88	0.05
Middle 50%	1.00	1.00
Highest Error Rate 25%	2.00	2.00
Highest Error Rate	50.00	10.00

Table 3.5

Fixed Assets Activity Better Practice Benchmark—Capitalisation Threshold

	<i>Capitalisation Threshold for Fixed Assets</i>	
	<i>Commonwealth Group</i> \$	<i>Global</i> \$
Highest Capitalisation Threshold	2000	16 284
Highest Capitalisation Threshold 25%	2000	4071
Middle 50%	2000	1628
Lowest Capitalisation Threshold 25%	1500	814
Lowest Capitalisation Value	500	2

4. Accounts Payable Activity Benchmarks

Table 4.1

Accounts Payable Activity Cost Benchmark—Overall Cost

	<i>Total Accounts Payable Activity Cost / Total Organisational Expenditure (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Lowest Cost Percentage	0.007	0.005
Lowest Cost 25%	0.080	0.071
Middle 50%	0.164	0.120
Highest Cost 25%	0.314	0.192
Highest Cost Percentage	0.870	0.350

Table 4.2

Accounts Payable Activity Cost Benchmark—Cost / Invoice

	<i>Total Accounts Payable Activity Cost / Number of Annual Invoices</i>	
	<i>Commonwealth Group</i> \$	<i>Global</i> \$
Lowest Cost Percentage	9.51	0.83
Lowest Cost 25%	14.23	6.74
Middle 50%	18.88	10.99
Highest Cost 25%	28.11	26.10
Highest Cost Percentage	86.90	116.92

Table 4.3

Accounts Payable Activity Efficiency Benchmarks—Processed Invoices / FTE

	<i>Total Accounts Payable Invoices / Total Accounts Payable FTEs (numbers)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Most Invoices/FTE	12 960	50 000
Most Efficient 25%	4977	11 313
Middle 50%	3667	7412
Least Efficient 25%	2758	5068
Least Invoices/FTE	725	344

Table 4.4

Accounts Payable Activity Efficiency Benchmark—Average Payment

	<i>Total Accounts Payable Payments / Number of Invoices Processed</i>	
	<i>Commonwealth Group</i> \$	<i>Global</i> \$
Largest Average Payment	83 991	161 360
Largest Payment 25%	27 271	47 589
Middle 50%	9224	13 167
Smallest Payment 25%	5520	5230
Smallest Average Payment	1240	8

Table 4.5

Accounts Payable Activity Quality Benchmark—Error Rates

	<i>Total Accounts Payable Errors / Number of Invoices Processed (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Lowest Errors/Payment	0.07	0.05
Lowest Error Rate 25%	0.70	0.98
Middle 50%	1.52	2.74
Highest Error Rate 25%	3.07	8.16
Highest Errors/Payment	6.09	34.35

Table 4.6

Accounts Payable Activity Better Practice Benchmarks—Number of Active Vendors

	<i>Total Number of Active Vendors to Organisation</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Least Active Vendors	827	132
Least Active Vendors 25%	2966	1000
Middle 50%	5457	2251
Most Active Vendors 25%	10 682	5909
Most Active Vendors	89 174	30 000

5. 'Close the Books' and Financial Reporting

Table 5.1

'Close the Books' Activity Cost Benchmark—Overall Cost

	<i>Total 'Close the Books' Activity Cost / Total Organisational Expenditure (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Lowest Cost Percentage	0.013	0.005
Lowest Cost 25%	0.050	0.076
Middle 50%	0.081	0.152
Highest Cost 25%	0.128	0.292
Highest Cost Percentage	0.990	0.957

Table 5.2

'Close the Books' Activity Quality Benchmark—Error Rates

	<i>Total Number of Error Correction Journals / Total Number of Journals (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Lowest Cost Percentage	2.83	0.02
Lowest Cost 25%	6.67	0.61
Middle 50%	21.43	2.00
Highest Cost 25%	49.46	6.62
Highest Cost Percentage	75.00	25.00

Table 5.3

'Close the Books' Activity Better Practice Benchmark—Hard Closes

	<i>Number of Hard Closes in Excess of Requirements by Organisation and percent of total</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
No Hard Closes in Excess	13 (72.22%)	121 (39.03%)
1–12 Hard Closes in Excess	5 (27.78%)	181 (58.39%)
13–28 Hard Closes in Excess	0 (0.00%)	8 (2.58%)

Note: 1 organisation in the Commonwealth Group put "N/A" as its response to this question.

6. Accounts Receivable Activity Benchmarks

Table 6.1

Accounts Receivable Activity Cost Benchmark—Overall Cost

	<i>Total Accounts Receivable Activity Cost / Total Organisational Expenditure (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Lowest Cost Percentage	0.002	0.002
Lowest Cost 25%	0.029	0.067
Middle 50%	0.045	0.118
Highest Cost 25%	0.106	0.212
Highest Cost Percentage	0.293	0.840

Table 6.2

Accounts Receivable Activity Cost Benchmark—Cost / Credit Activity

	<i>Total Accounts Receivable Activity Cost / Total Credit Activity</i>	
	<i>Commonwealth Group</i> \$	<i>Global</i> \$
Lowest Cost Percentage	19	2
Lowest Cost 25%	41	164
Middle 50%	121	492
Highest Cost 25%	136	1258
Highest Cost Percentage	2576	4480

Table 6.3

Accounts Receivable Activity Efficiency Benchmark—Remittances/FTE

	<i>Total Number of Remittances / Total Accounts Receivables FTEs (numbers)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Highest Efficiency	9353	28 215
Highest Efficiency 25%	3951	7361
Middle 50%	1761	3966
Lowest Efficiency 25%	1429	1909
Lowest Efficiency	846	154

Table 6.4**Accounts Receivable Activity Quality Benchmark—Error Rates**

	<i>Total Remittances Errors / Total Number of Remittances (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Least Errors/Journal	0.16	0.01
Lowest Error Rate 25%	0.97	1.04
Middle 50%	1.20	3.50
Highest Error Rate 25%	3.29	8.57
Most Errors/Journal	6.00	25.00

Table 6.5**Accounts Receivable Activity Quality Benchmark—Remittances First Time Matches**

	<i>Total Remittances Matched First Time / Total Remittances (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Most First Time Matches	100	100
Most Matches 25%	99	98
Middle 50%	98	93
Least Matches 25%	90	83
Least First Time Matches	44	20

Table 6.6**Accounts Receivable Activity Better Practice Benchmark—Days Receivable Outstanding**

	<i>Elapsed Days Between Customer Invoicing and Receipt of Payment</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Least Days Outstanding	8.00	5.00
Least Days 25%	24.88	30.00
Middle 50%	29.00	43.00
Most Days 25%	46.50	62.50
Most Days Outstanding	50.00	128.00

7. Payroll Activity Benchmarks

Table 7.1

Payroll Activity Cost Benchmark—Overall Cost

	<i>Total Payroll Activity Cost / Total Organisational Expenditure (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Lowest Cost Percentage	0.031	0.010
Lowest Cost 25%	0.121	0.063
Middle 50%	0.263	0.115
Highest Cost 25%	0.460	0.190
Highest Cost Percentage	2.955	0.745

Table 7.2

Payroll Activity Cost Benchmark—Cost Per Pay

	<i>Total Payroll Activity Cost / Annual Number of Pays</i>	
	<i>Commonwealth Group \$</i>	<i>Global \$</i>
Lowest Cost/Pay	1.96	0.65
Lowest Cost 25%	12.81	8.88
Middle 50%	17.65	18.29
Highest Cost 25%	30.92	36.08
Highest Cost/Pay	148.75	114.23

Table 7.3

Payroll Activity Efficiency Benchmarks—Pays Per FTE

	<i>Total Number of Pays Annually / Payroll Activity FTEs (numbers)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Most Efficient	16 683	54 823
Most Efficient 25%	5004	11 991
Middle 50%	3967	5446
Least Efficient 25%	2411	2857
Least Efficient	1075	190

Table 7.4**Payroll Activity Quality Benchmark—Error Rates**

	<i>Total Number of Pays with Errors / Total Number of Pays Annually (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Lowest Errors/Pay	0.086	0.014
Lowest Error Rate 25%	0.322	0.290
Middle 50%	0.477	0.692
Highest Error Rate 25%	0.758	1.736
Highest Errors/Pay	6.213	8.742

Table 7.5**Payroll Activity Better Practice Benchmark—Payroll/HR System Integration/Interface**

	<i>Payroll / Human Resources System Integration / Interface</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Better Practice	74% Integrated	57% Integrated
Non-Better Practice	26% Not Integrated	43% Not Integrated

Table 7.6**Payroll Activity Better Practice Benchmark—Personnel Payment Using Direct Deposit**

	<i>Total Staff Using Direct Debit / Total Staff (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
High Direct Deposit Utilisation	100.00	100.00
Highest Utilisation 25%	100.00	100.00
Middle 50%	100.00	87.23
Lowest Utilisation 25%	99.76	49.08
Low Direct Deposit Utilisation	87.67	0.00

8. Travel Activity Benchmarks

Table 8.1

Travel Activity Cost Benchmark—Overall Cost

	<i>Total Indirect Travel Activity Cost / Total Organisational Expenditure (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Lowest Cost Percentage	0.003	0.001
Lowest Cost 25%	0.019	0.008
Middle 50%	0.035	0.016
Highest Cost 25%	0.080	0.033
Highest Cost Percentage	0.826	0.270

Table 8.2

Travel Activity Cost Benchmark—Cost/Travel Requisition

	<i>Total Indirect Travel Cost / Number of Travel Requisitions</i>	
	<i>Commonwealth Group \$</i>	<i>Global \$</i>
Lowest Cost/Requisition	2.86	1.59
Lowest Cost 25%	20.22	12.64
Middle 50%	39.85	26.52
Highest Cost 25%	70.08	64.86
Highest Cost /Requisition	192.02	229.77

Table 8.3

Travel Activity Efficiency Benchmarks—Travel Requisitions/FTE

	<i>Total Travel Requisitions / Total Travel FTEs (numbers)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Most Requisitions/FTE	34 120	35 850
Most Efficient 25%	3556	9647
Middle 50%	1711	5338
Least Efficient 25%	970	3012
Least Requisitions/FTE	357	136

Table 8.4**Travel Activity Better Practice Benchmark—Reimbursement through Payroll**

<i>Method of Employee Reimbursement (percentage of total)</i>	
<i>Commonwealth Group</i>	<i>Global</i>
17 (Payroll)	17 (Payroll)
77 (Other)	17 (Other)
6 (AP Cheque)	66 (AP Cheque)

9. Billing Activity Benchmarks**Table 9.1****Billing Activity Cost Benchmarks—Overall Cost**

	<i>Total Billing Activity Cost / Total Organisational Expenditure (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Lowest Cost Percentage	0.002	0.002
Lowest Cost 25%	0.015	0.046
Middle 50%	0.087	0.118
Highest Cost 25%	0.103	0.282
Highest Cost Percentage	0.248	0.978

Table 9.2**Billing Activity Cost Benchmark—Cost / Customer Invoice Issued**

	<i>Total Billing Activity Cost / Number of Annual Invoices Issued</i>	
	<i>Commonwealth Group</i> \$	<i>Global</i> \$
Lowest Cost Percentage	5.88	0.10
Lowest Cost 25%	14.31	4.23
Middle 50%	32.34	11.76
Highest Cost 25%	56.71	25.41
Highest Cost Percentage	213.14	77.72

Table 9.3
Billing Activity Quality Benchmark—Error Rates

	<i>Number of Customer Invoices adjusted / Total Number of Customer Invoices Issued (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Least Adjustments/Invoice	0.43	0.10
Lowest Error Rate 25%	1.36	0.94
Middle 50%	3.40	2.18
Highest Error Rate 25%	5.19	4.27
Most Adjustments/Invoice	8.44	20.57

Table 9.4
Billing Activity Quality Benchmark—Elapsed Time to Invoicing

	<i>Average Elapsed Time Between Service Provision and Invoicing (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
<1 Day	0.00	11.86
1–5 Days	16.67	59.68
6–10 Days	25.00	10.28
11–15 Days	25.00	9.49
>15 Days	33.33	8.70

Table 9.5
Billing Activity Better Practice Benchmark—EDI Utilisation

	<i>Percentage Utilisation of EDI for Billing (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Better Practice EDI Utilisation	0.00	8.90
Middle 50%	0.00	4.45
Non-Better Practice EDI Utilisation	0.00	0.00

10. Tax Activity Benchmarks

Table 10.1

Tax Activity Cost Benchmark—Overall Cost

	<i>Total Tax Activity Cost / Total Organisational Expenditure (percentage)</i>	
	<i>Commonwealth Group</i>	<i>Global</i>
Lowest Cost Percentage	0.003	0.001
Lowest Cost 25%	0.005	0.015
Middle 50%	0.009	0.027
Highest Cost 25%	0.030	0.052
Highest Cost Percentage	0.720	0.144

Appendix 4

Previous Audit Coverage

Better Practice Guides, *Building Better Financial Management Support—Functions, systems and activities for producing financial information and Building a Better Financial Management Framework—Defining, presenting and using financial information*, November 1999

The two financial management Better Practice Guides were designed to assist organisations to develop a sound financial management capability. The Functions Guide deals with the critical functions, systems and processes needed to deliver financial information efficiently and effectively to users and examines current trends in the evolution of the finance function.

The Defining Information Guide outlines some of the critical considerations involved in using financial information that are essential to the establishment of a valuable financial management framework.

Audit Report No. 16, *Financial Control and Administration Audit Payment of Accounts, 1996–97 and Better Practice Guide Payment of Accounts*, November 1996

The payment of accounts audit assessed the management and administration of the payment of accounts function in the Commonwealth and reported better practice with a view to promoting overall improvements in public administration. The ANAO concluded that the payment of accounts function was being administered satisfactorily within the context of the current financial legislative and management framework. However, better practices could be achieved through changes in the management and organisational framework for the payment of accounts and greater use of advanced information technology.

Audit Report No. 14, *Financial Control and Administration Audit Official Travel by Public Sector Employees, 1997–98 and Better Practice Guide Public Sector Travel*, December 1997

The travel audit covered short-term travel undertaken by Commonwealth public sector employees on official business. It addressed direct travel costs such as air fares, accommodation and allowances and considered the effectiveness of procedures and processes for managing travel expenses. It also examined the indirect costs of travel associated with processing movement requisitions and expense claims and paying invoices.

The Better Practice Guide provides guidance to Commonwealth organisations on the implementation of the better practices and has two parts. The first focuses on the creation of an environment in which travel reform can be effected. The second part examines the mechanics of travel process re-engineering and provides guidance on managing direct costs, stepping through a better practice model for travel administration.

**Audit Report No. 19, Financial Control and Administration Audit
Management of Public Sector Travel Arrangements—Follow Up Audit,
2000–01**

The objective of this audit was to provide assurance to the Parliament on the cost-effectiveness of public sector travel by ascertaining the degree of acceptance, and the extent of implementation, of previous audit recommendations and better practice principles and establishing whether organisations were managing travel efficiently and effectively, taking into consideration recommendations and findings detailed in previous audit reports and the *Public Sector Travel* Better Practice Guide. The ANAO concluded that the establishment of cluster travel contracts had delivered significant savings on airfares. However, organisations have taken only limited action to re-engineer travel management processes in response to the recommendations made in previous Audit Reports and the ANAO Better Practice Guide.

**Audit Report No. 29, Financial Control and Administration Audit
Management of Accounts Receivable, 1997–98 and Better Practice Guide
*Management of Accounts Receivable, December 1997***

The accounts receivable audit assessed the cost-effectiveness of the management and administration of the accounts receivable function in the general government sector and reported better practice to promote overall improvements in the management of accounts receivable.

The Better Practice Guide provides an overview of the current trends and better practice approaches being adopted by organisations in the management of accounts receivable. It provides practical advice and assistance to managers directly involved in the key accounts receivable processes including invoicing, receipting payments and debt collection.

Audit Report No. 41, Financial Control and Administration Audit *Asset Management*, 1997–98 and Better Practice Guide *Asset Management*, June 1996

The ANAO first examined asset management in the general government sector in 1995. The outcome was presented in Audit Report No. 27, 1995–96, *Asset Management*. The 1997–98 audit reviewed the degree of acceptance of the previous audit recommendations; the extent to which organisations were managing their assets in accordance with the asset management principles identified in the *Asset Management Handbook*; and central coordination activities in asset management.

The *Asset Management Better Practice Guide* brings together the experience of a broad cross-section of Commonwealth entities and builds on this by examining approaches adopted in the private sector and in other levels of government both within Australia and overseas. The Guide provides a strategic overview of asset management for executives and senior managers.

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