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Information Support Services

An Analysis of the Chief Financial Officer Function in Commonwealth Organisations

Benchmarking Study

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of Australia 2001
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Canberra ACT
21 December 2001

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 study, and the accompanying brochure, to the Parliament. The report is titled *An Analysis of the Chief Financial Officer Function in Commonwealth Organisations*.

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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Abbreviations

APS	Australian Public Service
ANAO	Australian National Audit Office
CAC	<i>Commonwealth Authorities and Companies Act 1997</i>
CEO	Chief Executive Officer
CFO	Chief Financial Officer
FMA	<i>Financial Management and Accountability Act 1997</i>
FMIS	Financial Management Information System
GST	Goods and Services Tax
ICAA	Institute of Chartered Accountants in Australia
IT	Information Technology
KPI	Key Performance Indicator
NCOA	National Commission of Audit
TCP/IP	Transmission Control Protocol and Internet Protocol

Summary and Opportunities

Summary

This summary provides a brief overview of the results of the Chief Financial Officer (CFO) benchmarking study. It highlights the major issues and key areas, identified by the study, where there are likely to be opportunities for CFOs to enhance the performance of their responsibilities within Commonwealth organisations.

Background

1. Increasingly, Commonwealth organisations are recognising that the role of a CFO is critical if organisations are to take advantage of the opportunities to improve their performance within the new financial management framework.
2. In recognition of this, the Australian National Audit Office (ANAO) has undertaken a benchmarking study of the CFO function in Commonwealth organisations in 2000–2001. The study surveyed the roles and functions of CFOs from 15 Commonwealth organisations. It also involved the CFOs providing self-assessments in response to questions about their role, responsibilities, priorities and challenges.
3. The following is a summary of the results of this survey, focussing particularly on how CFOs themselves see their role, and identifying a number of the opportunities and impediments which exist within their respective organisations. The full results of this study are presented in Chapter 2 of this Report.

The Role of the Chief Financial Officer

4. Ideally, the CFO will be the executive responsible for both the strategic and operational aspects of financial planning, management and record-keeping of the organisation. As such, the CFO will have primary carriage of the implementation of an appropriate financial management framework within their organisation. The CFO will also be an integral part of the senior management team.
5. The CFO is expected to effectively discharge accountability for the financial management activities of the organisation.¹ In addition to

¹ The types of responsibilities that may be conferred on an organisation's CFO by virtue of the requirements imposed on Chief Executive Officers (CEOs) through the *Financial Management and Accountability (FMA) Act 1997* and the *Commonwealth Authorities and Companies (CAC) Act 1997* can include areas such as: Delegations, Risk Management, Budget Management, Spending Approvals, Purchasing Goods and Services, Payment of Accounts, Management of Corporate Credit Cards, Management of Cash Advances, Official Travel, Payroll, Banking, Accounts Receivable, Receipting, Management of Public Property, Fringe Benefits Tax and Accountable Forms.

possessing highly developed financial and accounting skills, CFOs in Commonwealth organisations should demonstrate a capacity to balance the management of change with the ability to communicate successfully on financial matters to both internal and external stakeholders. The CFO position generally encompasses responsibilities for preparing financial and related management reports capable of being used to measure the organisation's performance, in delivering against identified outputs and outcomes. The CFO should also be involved in the development of the future strategic directions of the organisation, particularly in the analysis of program delivery options and long-term funding arrangements.

Financial Management and the Chief Financial Officer: the state of play and opportunities for improvement

6. Commonwealth CFOs indicated that they were undertaking financial management responsibilities that were consistent with achieving the objectives of the Commonwealth financial management model.² Relative to previous benchmarking activities at the Commonwealth level, such as the *Beyond Bean Counting* studies,³ the CFOs reported that in 2000–2001 they have:

- more appropriate and varied experience;
- a higher level of qualifications;
- roles and responsibilities that encompass both strategic and operational financial management; and
- more prominence in the senior management of the organisation. Increasingly, CFOs are in the Senior Executive Service, some at quite high levels and most report directly to the Chief Executive Officer (CEO) or the Board of Management.

² The current requirements for an appropriate financial management model for Commonwealth organisations is based on the concept of the accrual accountability framework, the basis of which is outlined in the National Commission of Audit (NCOA) Report to the Commonwealth Government, June 1996. Some of the essential features of this model include managers budgeting and managing on a day-to-day basis using accrual information. The framework supports the outcomes/outputs initiative.

³ *Beyond Bean Counting Effective Financial Management in the APS—1998 & Beyond*, Management Advisory Board, 1998 and *Beyond Bean Counting 2000. A Benchmark of Effective Financial Management in the Australian Public Sector*, Public Sector Centre of Excellence CPA Australia, 2000.

7. The Commonwealth organisations' results are generally comparable to a number of the benchmark metric results in the Andersen Global Best Practices® knowledge base.⁴ Notwithstanding the achievement of some better practices, the analysis of Commonwealth results suggests that the Commonwealth organisations in the study can make further progress by enhancing financial management performance. The CFOs considered increasing management understanding of financial management issues, and more closely linking financial and management reporting were the changes that would have the greatest influence on their role in the medium-term. The CFOs also identified that the key drivers of change were the better utilisation of technology and demands from management for knowledge, not just information or financial data.

8. The following section discusses a number of issues identified by the study where there is the potential for CFOs to assist their organisations to achieve improved financial management. The ANAO recognises that some CFOs may already have realised, or are actively pursuing, these opportunities. As such, they would represent better practice which could be used as a guide for others.

The responsibilities, roles and skill sets of CFOs

9. In support of the new financial management model, Commonwealth CFOs generally considered their role was to focus on strategic and business performance related matters such as management reporting, performance measurement and re-engineering business processes. An analysis of CFOs' responses indicated that they placed an increasing emphasis on some broader financial management responsibilities extending beyond a narrow focus of financial transaction processing. In particular, more than 80 per cent of CFOs considered financial statements, cash and credit management, budgeting and management reporting to be their four primary responsibilities.

10. To fulfil their role successfully, CFOs considered key areas that offered improvement opportunities were: performance management; providing the required level of support to program managers; obtaining a greater level of understanding of financial results; and improving budget management. While these key areas were consistent with some aspects of the financial management model, CFOs noted that one of the fundamental principles of the financial management model, the outcomes/ outputs initiative, was important but not critical to their success.

⁴ The Andersen Global Best Practices® knowledge base comprises more than 500 organisations, the large majority of which are in the private sector.

11. The ANAO considers that CFOs have an opportunity to:

- **enhance financial management within their organisation by facilitating the development of a better understanding of the links between their organisations' day-to-day operations and the achievement of their corporate goals and objectives.** This in turn would assist in enhancing the CFO's ability to provide: a greater level of support to program managers; a better understanding of financial results; and an improvement in budgeting processes; and
- **provide effective support to senior and business managers, at all levels of the organisation, to enhance their understanding and use of accrual financial management information.** This could involve CFOs demonstrating how financial information can be better utilised to achieve managers' business objectives, as well as assisting in the monitoring and review of organisational performance.

Financial and management reporting

12. CFOs also reported that the nature and frequency of internal financial reporting had improved in recent years. In particular, all organisations surveyed are now producing monthly accrual financial reports. This result suggests there has been broad adoption of accrual accounting across Commonwealth organisations. Half or more of the organisations also produced cash-based information and monthly (financial and non-financial) management reports.

13. CFOs identified that financial reports focussed on progress against budget in relation to the principal financial statements, such as the balance sheet (statement of financial position), the operating statement (statement of financial performance), and statement of cash flows. Some CFOs indicated that monthly financial reports were being used to monitor year to date financial results against forecasts for the remainder of the financial year. While Commonwealth organisations were regularly producing accrual financial reports, these reports generally were not supported by an appropriate analysis of the financial information, thereby limiting the information's usefulness to management in decision-making, at all levels of the organisation.

14. Organisations that produced monthly management reports focussed reporting on:

- outputs of a particular program;
- outputs and outcomes of the organisation relative to the corporate plan; and/or
- key performance indicators from their balanced scorecard.

15. In terms of the timeliness of financial reports, the average elapsed time between the end of the month and when management required financial and management reports was nine and ten days respectively. However, CFOs advised that the management in some organisations only required these reports 15 days (for financial reports) and 30 days (for management reports) after the end of the reporting period. These results suggest that these managers did not see timeliness of financial and other management information as a key element of the decision-making process.

16. The ANAO considers that CFOs have an opportunity to:

- **assist their organisations in achieving a stronger focus on performance by incorporating aspects of management reporting on outputs/outcomes as part of the monthly financial reporting process.** This would assist management in obtaining a better understanding of the costs of outputs and outcomes and their ongoing financial performance; and
- **enhance the level of support offered to management, by demonstrating to management the use of, and opportunities for, more timely financial and other performance information for effective monitoring, review and decision-making.** This may lead to management requiring, and being provided with, more timely financial and management information.

Meeting the technology challenge

17. The most significant area of both opportunity and stress for CFOs identified by the study, is how best to harness rapidly changing technology to assist in the efficient delivery of transaction processing and financial information within an organisation.

18. The ANAO considers that CFOs have an **opportunity to take a more catalytic role in better harnessing technology tools to assist in the efficient delivery of transaction processing activities and the production of management information.**

19. A starting point for CFOs to increase the utility of their financial systems may be to assess whether their Financial Management Information System (FMIS):

- provides relevant, reliable and timely information; and
- is an integral part of the tool kit used by CFOs and other managers in the financial management of their respective organisations.

20. In cases where opportunities to enhance the operation, management and use of the FMIS are identified, CFOs should give priority to addressing these opportunities.

21. There may also be opportunities for some CFOs to enhance the efficiency and accessibility of the financial processes and information services within their organisations by taking a catalytic role in harnessing technology tools. For example, the development of electronic business solutions using on-line communication with customers and suppliers provides an opportunity for organisations to become more efficient and accessible to the organisations' clients and management. The efficiency of processing can, in some situations, also be improved by introducing technology tools and concepts such as workflow management and self-service facilities to internal and external clients of the organisation.

22. Additionally, there may also be scope for some CFOs to enhance their awareness of how technology can be better utilised by undertaking more targeted training and development in the area of available and emerging technology tools to assist in improving financial and management reporting.

Performance improvement: benchmarking opportunities

23. ANAO Audit Report No.1 2000–2001 *Control Structures as part of the Audits of the Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2001*, identified the introduction of the accrual accounting framework, the outputs/outcomes approach, the focus on performance measurement and the move to a results driven culture has included a more commercial approach to operations within organisations. To achieve this, organisations need to adopt sound business practices which includes performance improvement activities such as contestability of services. Benchmarking is a tool that can be used to demonstrate that sound business practices are in place and services are contestable, and/or identify where improvements can be made.

24. A majority of Commonwealth organisations undertook benchmarking of activities such as payroll, accounts payable, accounts receivable, internal audit, human resources and information technology. However, Commonwealth organisations generally did not report achieving cost savings from benchmarking activities. The exception was a CFO that reported achieving substantial cost savings across a number of activities that were the responsibility of the CFO including payroll, accounts payable, accounts receivable and the management of fixed assets.

25. The ANAO considers that CFOs have an **opportunity to assess the scope for improving the return on investment of future benchmarking activities by better targeting such activities to assist in identifying any opportunities for cost savings, efficiency and effectiveness gains.**

26. Organisations will need to determine how the opportunities outlined above can best be adapted to the specific circumstances of their CFO function. This is likely to be a test of their corporate governance frameworks, including the successful operation of their Audit Committees.

Conclusion

27. The results of the study suggest that CFOs consider their role to be mainly focussed on the broader financial management of the organisation. The results also indicate that CFOs are becoming better placed to address a range of contemporary financial management issues. Key areas, identified by the study, where there are likely to be opportunities for CFOs to enhance the financial management and performance of their organisation in the current environment, include:

- facilitating the development of a better understanding of the links between their organisations' day-to-day operations and the achievement of their corporate goals and objectives;
- supporting senior, as well as operational, managers to improve their understanding and use of accrual financial management information;
- incorporating aspects of management reporting on outcomes/outputs as part of the financial reporting process;
- demonstrating to management the use of, and opportunities for, more timely financial and other performance information for effective monitoring, review and decision-making;
- taking a more catalytic role in better harnessing technology tools to assist in the efficient delivery of transaction processing activities and the production of management information; and
- better targeting benchmarking activities to assist in identifying any opportunities for cost savings, efficiency and effectiveness gains.

Benchmark Study Findings

1. Introduction

This chapter provides a brief explanation of the CFO's roles and responsibilities within Commonwealth organisations and provides a summary of the Beyond Bean Counting studies which have been the previous vehicles for monitoring the roles, responsibilities and priorities of CFOs in the Commonwealth. In addition, this chapter sets out the objectives, scope and the structure of the CFO study.

The Chief Financial Officer

1.1 For the purposes of this study the CFO is the executive who is responsible for both the strategic and operational aspects of financial planning, management and record keeping of the organisation. In the current environment, the CFO is expected to effectively discharge accountability for the financial management activities of the organisation.⁵ In addition to possessing highly developed financial and accounting skills, CFOs in the Commonwealth need to demonstrate a capacity to balance the management of change with the ability to communicate successfully on financial matters to both internal and external stakeholders.

1.2 The CFO should also be involved in the development of the future strategic directions of the organisation, particularly in the analysis of program delivery options and long-term funding arrangements. However, the CFO's ability to maximise their value-adding contribution to the management of an organisation is dependent on the CFO having an appropriately senior position within the organisational structure and, ideally, direct access to the CEO.⁶

⁵ The types of responsibilities that may be conferred on an organisation's CFO by virtue of the requirements imposed on CEOs through the *Financial Management and Accountability (FMA) Act 1997* and the *Commonwealth Authorities and Companies (CAC) Act 1997* can include areas such as: Delegations, Risk Management, Budget Management, Spending Approvals, Purchasing Goods and Services, Payment of Accounts, Management of Corporate Credit Cards, Management of Cash Advances, Official Travel, Payroll, Banking, Accounts Receivable, Receipting, Management of Public Property, Fringe Benefits Tax and Accountable Forms.

⁶ *op. cit.*, *Beyond Bean Counting Effective Financial Management in the APS—1998 & Beyond*, pp. 43–46.

Background

1.3 The National Commission of Audit (NCOA) recommended, in 1996, that the Government formally adopt accrual principles as the basis for an integrated budgeting, resource management and financial reporting framework both at the organisation level and at the aggregate budget sector level.⁷ A full accrual accounting framework was seen as an essential complement to the structural and cultural change the Government was seeking by way of a more competitive, efficient and effective public service.⁸ In response to the NCOA recommendation, the Government adopted a phased introduction of the accrual outputs/outcomes framework culminating in all Commonwealth organisations being required to implement accrual budgeting by 1 July 1999. Generally, CFOs have had a key leadership role in the implementation of this framework within Commonwealth organisations.

1.4 In recent years, the Government has introduced further initiatives aimed at improving the Commonwealth's financial management framework to help ensure that it maximises the benefits espoused by the NCOA recommendation. Some of the specific initiatives recently impacting the operating environment within government organisations and directly affecting the role of the CFO include:

- implementation of accrual systems, performance measurement systems and e-commerce solutions;
- competitive tendering and contracting to market test functions; and
- output pricing reviews carried out by the Department of Finance and Administration as part of the Government's oversight of the implementation of the outcomes/outputs framework.

Beyond Bean Counting: Effective Financial Management in the APS—1998 & Beyond

1.5 A benchmarking study examining the adoption of accrual accounting throughout the Australian Public Service (APS) was undertaken by the Management Advisory Board in 1997. The study compared the state of Commonwealth financial management practices against best practice as exhibited in the private sector and other public sector organisations. The report promoted two dimensions to best practice financial management, these being: the financial management environment

⁷ *op. cit.*, National Commission of Audit Report to the Commonwealth Government, June 1996.

⁸ *ibid.*

in which organisations have to operate; and the way in which financial management is practised within an organisation. The report revealed there were large gaps between the state of Commonwealth practice and the better practice in relation to both dimensions of better practice financial management.

1.6 The report concluded that Commonwealth organisations generally did not include the person with strategic financial responsibilities in the top management team. It also concluded based on the legislative framework, that CEOs, not CFOs, of organisations were responsible for financial management. Within this framework the study identified that CFOs were primarily responsible for providing independent high quality financial advice to the CEO, including independent professional services that improved the quality of information, or its context, for all decision-makers within the organisation.⁹

Beyond Bean Counting 2000

1.7 In 1999, CPA Australia commissioned a follow-on benchmarking study to determine how key public sector organisations had progressed in the three years since the initial Beyond Bean Counting study. Overall this report concluded that most organisations had achieved the adoption of accrual financial management and output/outcome based accrual budgeting. With this has come a greater emphasis on financial management skills, and some significant shifts in organisational behaviour. Some of the more significant trends included:¹⁰

- a widespread acceptance of the value of accrual information by CEOs;
- CEOs and CFOs taking a more dominant role in, and accountability for, financial results;
- continuing strong demands for qualified accounting and finance professionals; and
- a shift in the main focus of internal management accountability from individual budget line items towards a focus on financial results.

1.8 Notwithstanding these advances, the report suggested there was still substantial scope for improvement, specifically in relation to the manner organisations made internal decisions, the skills of line managers and the implementation of sound management practices to enforce the financial management framework.

⁹ *op. cit.*, *Beyond Bean Counting Effective Financial Management in the APS—1998 & Beyond*, p. 43.

¹⁰ *op. cit.*, *Beyond Bean Counting 2000*, pp. viii–ix.

The New CFO of the Future

1.9 More recently, KPMG Consulting, Inc and the Institute of Chartered Accountants in Australia (ICAA) published a paper entitled *The New CFO of the Future*. The objective of the study was to ascertain how the roles and responsibilities of finance professionals were changing and to predict how these would change in the future. As such, the paper provides useful information on, and insights into, the future of the CFO function.

Benchmark objectives, scope and structure of report

Introduction

1.10 This benchmarking study was undertaken in conjunction with the ANAO's Benchmarking the Finance Function 1999–2000 and 2000–2001 study. The current study examined Commonwealth CFOs' roles and responsibilities in undertaking aspects of financial management and financial accounting activities within their organisation. The questionnaire, used to capture Commonwealth CFOs impressions of their roles and responsibilities in undertaking these activities, was based on aspects of the Andersen Global Best Practices® Controllership¹¹ survey and some aspects of the *Beyond Bean Counting 2000* survey undertaken by CPA Australia. These surveys have been modified to better reflect Commonwealth organisational circumstances. Where appropriate, the results of the ANAO study have been reported against the results of these surveys.

Benchmark objectives

1.11 The ANAO undertook this benchmark study to provide information on a range of relevant CFO functions in Commonwealth organisations. In particular the study sought to identify:

- the skills, qualifications and experience of Commonwealth CFOs;
- the CFOs' perceptions of their roles, responsibilities and priorities, and how these may have changed in relation to previous studies and available Andersen Global Best Practices® (from the Andersen Global Best Practices® knowledge base); and
- how Commonwealth CFOs viewed and used information technology to achieve their financial management objectives.

¹¹ 'Controllership' encompasses aspects of both strategic and operational financial planning, management and record keeping. For the purposes of this study the overarching responsibility for 'Controllership' generally rests with the CFO.

1.12 The benchmarking study also sought to draw out the contributions by CFOs in helping their organisations achieve the Government's requirements for improvements in financial management.

Scope

1.13 The ANAO conducted the study in 15 Commonwealth organisations¹² between March and July 2001. The ANAO classified the organisations as small,¹³ medium¹⁴ or large¹⁵ based on staff numbers (full-time equivalents [FTE]). Survey responses were analysed in order to determine the influence organisation size had on the CFO's roles, responsibilities and priorities.

1.14 Seven small organisations (46 per cent), seven medium organisations (46 per cent) and one large organisation (8 per cent) responded to the survey.

1.15 The ANAO also classified organisations by their nature based on their governing legislation, namely the *Financial Management and Accountability (FMA) Act 1997* and the *Commonwealth Authorities and Companies (CAC) Act 1997*. This was done in order to assess the influence the nature of the organisation may have on CFOs' financial management activities in Commonwealth organisations.

Table 1.1

Size and type of organisations benchmarked

	<i>FMA</i>	<i>CAC</i>	<i>Total</i>
Small	3	4	7
Medium	4	3	7
Large	1	0	1
Total	8	7	15

CFO benchmark metrics

1.16 In evaluating the status and nature of the CFO function in the Commonwealth, the study examined responses against a series of CFO benchmark metrics. These metrics are based on key performance measures from the Andersen Global Best Practices® knowledge base.

¹² 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*.

¹³ Small organisations had between 1 and 999 staff.

¹⁴ Medium organisations had between 1 000 and 9 999 staff.

¹⁵ Large organisations had more than 10 000 staff.

Table 1.2
CFO benchmark metrics

Benchmark metric category	Benchmark metrics	Reference
Professional background	Appointment to current position Years of service Type of previous service Functional area experience before assuming current position	Paras 2.4–2.5 Paras 2.6–2.7 Para 2.8 Table 2.1 and Paras 2.9–2.10
Education, professional memberships and training	Highest level of education and academic qualifications Membership of professional association Type of training undertaken and annual hours of training	Paras 2.12–2.14 Paras 2.15–2.18 Table 2.2 and Paras 2.19–2.21
Responsibilities, roles and skill set	Responsibilities of position Key leadership roles in current position Skills considered most important Functions outsourced	Figure 1 and Paras 2.23–2.26 Table 2.3 and Paras 2.27–2.29 Table 2.4 and Paras 2.30–2.31 Paras 2.32–2.33
Greatest influences on the role of the CFO	Changes in next three years most important to the role of the CFO Greatest drivers of change Aspects of position most important to success Issues important to the organisation	Table 2.5 and Paras 2.35–2.37 Table 2.6 and Paras 2.38–2.40 Table 2.7 and Paras 2.41–2.44 Paras 2.45–2.46
Management's requirements	Management reporting relationships Timeliness of financial reporting Timeliness of management reporting Information most often required by management	Paras 2.48–2.49 Paras 2.50–2.55 Paras 2.56–2.58 Table 2.8 and Paras 2.59–2.61
Technology issues	CFO's knowledge of technology as a user Importance of technology to the role of the CFO Updating IT skills Ability to process accounting transactions over the Internet/intranet	Paras 2.63–2.64 Paras 2.65–2.68 Table 2.9 and Paras 2.69–2.70 Figure 2 and Paras 2.71–2.74
Performance improvement	Activities involved in benchmarking studies	Table 2.10 and Paras 2.75–2.79

1.17 Where appropriate, the ANAO has refined metrics defined by the Andersen Global Best Practices® knowledge base and the *Beyond Bean Counting 2000* study, in order to provide further insights into the responses. This means that some comparisons of Commonwealth organisation responses against the Andersen Global Best Practices® knowledge base (Andersen Global group) or other best practices are not available.

Interpretation of results

1.18 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 CFO function in Commonwealth organisations. This assessment is based on a comparison of responses from participating Commonwealth organisations (the Commonwealth group).

1.19 The Commonwealth group data is compared to data, where available, from national and international organisations (the Andersen Global group). The Andersen Global group, used as a basis for comparison throughout this report, is drawn from the Andersen Global Best Practices® knowledge base. Results reported in *Beyond Bean Counting 2000* are also used as a basis for comparison for some benchmark metrics.

1.20 Commonwealth organisations can compare their own performance against the benchmarks and use the information to diagnose areas of concern for the CFO in undertaking financial management responsibilities, as well as highlighting opportunities for process improvement.

1.21 The results are limited to the extent that data in the study has been derived from self-assessments. The results also do not take account of, or distinguish between, the different environments in which the CFO operates, such as the public and private sectors. The results of the benchmarking study therefore provide only a broad indication of differences in the CFO function between Commonwealth organisations and the Andersen Global Best Practices® knowledge base.

2. Survey Results

This chapter examines the extent and nature of the CFO function in 15 Commonwealth organisations. It outlines the responses received from CFOs in the Commonwealth group about their experience, education, and key functional responsibilities. It also considers the external and internal influences driving change in the roles and responsibilities of the CFO, including aspects of organisational structure, use of technology and the Government's financial management framework.

Introduction

2.1 The Government's program of ongoing improvements to financial management has been the driving force behind the increased emphasis on financial management in public sector organisations. The adoption of accrual management frameworks and e-commerce technologies has presented CEOs and CFOs of Commonwealth organisations with numerous challenges. These challenges have impacted on skill requirements, responsibilities and organisational structures. This study reports on what CFOs' perceived to be their roles, responsibilities and challenges of the CFO function in Commonwealth organisations, and examines the nature and extent of changes to their roles and responsibilities over time.

An analysis based on Chief Financial Officer benchmark metrics

2.2 The responses to the survey were analysed against the CFO benchmark metrics outlined in Table 1.2, on page 24.

Professional background

2.3 This aspect of the survey was designed to obtain feedback about the participants' professional background and experience. The participant's relevant experience was broken down into three areas: years of service; type of previous service; and functional area experience before assuming the current position.

Appointment to current position

2.4 Survey responses indicated that nine participants (60 per cent) were hired from outside the organisation. This result was comparable to the Andersen Global group, where approximately 68 per cent of participants were hired to the CFO position from outside the organisation.

2.5 Of the remaining Commonwealth group participants, two (13 per cent) previously worked in the finance/accounting area of their organisation and three (20 per cent) previously worked in other areas of their organisation. One participant was on secondment from another public sector organisation. In comparison, approximately 28 per cent of the Andersen Global group participants were promoted from within the finance area and approximately 4 per cent of the Andersen Global group participants were promoted from another area of the organisation.

Years of service

2.6 Across all organisations, the average years of service as CFO for the participant's current employer was one and three quarter years, with an average of six years as CFO or equivalent with a previous employer. The Andersen Global group achieved a similar result for the years of experience with the current employer. However, the Andersen Global group results were generally higher in relation to the participant's experience with a previous employer (approximately 10 years experience as CFO or equivalent).

2.7 Based on responses from 14 study participants, the average total years of service for the Commonwealth group was $24 \frac{3}{4}$ years, with an average of approximately five of these years being with their current employer. The Andersen Global group results for the total years of service with the current employer were considerably lower (approximately two years experience).

Type of previous service

2.8 Most participants' previous employment experience was in:

- an accounting or finance role in the public sector (67 per cent);
- an accounting or finance role in the private sector (60 per cent); and/or
- another role within the public sector (53 per cent).

Functional area experience before assuming current position

2.9 Table 2.1 provides an overview of the functional area experience of Commonwealth and Andersen Global group participants before they assumed their current position. The table reflects the percentage of participants with experience in a range of functional areas, either within or outside the organisation.

Table 2.1**Functional area experience before assuming current position**

<i>Functional area</i>	<i>Percentage of Commonwealth group</i>	<i>Percentage of Andersen Global group</i>
Marketing/sales	6	5
Finance/accounting	20	57
Engineering/research and development	3	1
Human resources	14	13
Program delivery/line operations	9	4
Information systems	8	17
Policy development	6	n/a
Specialist technical	3	n/a
Internal audit	3	n/a
Corporate services	19	n/a
Other	8	5

n/a Not available

2.10 The table illustrates that participants indicated that the most common functional areas in which they had previously worked included finance and accounting, corporate services, and human resources. Similar to the Commonwealth result, the Andersen Global group participants indicated that the most common functional areas in which they had previously worked were finance and accounting, information systems and human resources. However, the Andersen Global group appears to have had less varied experience than their Commonwealth group counterparts, with a majority of the Andersen Global group participants having experience in the finance and accounting functional area. All Commonwealth participants had experience in at least two functional areas, and 53 per cent of the Commonwealth group participants had experience in four or more functional areas.

Education, professional memberships and training

2.11 This aspect of the survey was designed to obtain feedback about the participants' level of education and primary discipline studied. The participants were also asked to indicate whether they were a member of professional associations. In addition, participants were asked to indicate the nature and extent of annual training undertaken.

Highest level of education and academic qualifications

2.12 Seven participants (47 per cent) from the Commonwealth group indicated that they had completed post graduate study as their highest level of education. The remaining eight participants (53 per cent) had completed a bachelor degree as their highest level of education.

2.13 In comparison, of the Andersen Global group participants:

- 39 per cent of participants had completed a post graduate degree as their highest level of education;
- 58 per cent of participants had completed bachelor degrees as their highest level of education; and
- 3 per cent of participants had completed high school as their highest level of education.

2.14 Thirteen participants (87 per cent) from the Commonwealth group had completed a business related degree and two participants (13 per cent) had completed a degree in humanities. Similarly, 85 per cent of the participants from the Andersen Global group had completed business related studies as their major area of tertiary study.

Membership of professional association

2.15 Twelve participants (80 per cent) indicated that they were a member of a professional association. Ten of these also had an affiliation with a professional accounting association.¹⁶ Three participants had also attained the status of 'fellow' in their association(s), indicating an extended period of membership.

2.16 These results indicated a higher participation rate in professional memberships for the Commonwealth group compared to the Andersen Global group. Of the Andersen Global group participants, approximately:

- 58 per cent were members of a professional accounting association; and
- 9 per cent were members of another professional association.

2.17 Of the three Commonwealth group participants that were not members of a professional association, two had not completed accounting-related studies. Two of these participants also had broader job responsibilities than the role of CFO within their small FMA organisations.

2.18 The survey results are consistent with the findings in *Beyond Bean Counting 2000*,¹⁷ where approximately 82 per cent of CFOs were professionally qualified accountants.

¹⁶ These include CPA Australia or The Institute of Chartered Accountants in Australia (ICAA).

¹⁷ *op. cit.*, *Beyond Bean Counting 2000*, p. 20.

Type of training undertaken and annual hours of training

2.19 Table 2.2 provides an overview of the nature, participation rate and average hours of training undertaken annually by the survey participants.

Table 2.2

Nature, participation rates and hours of training undertaken annually

<i>Nature of training</i>	<i>Participation rates (Percentage of Participants)</i>	<i>Average annual hours</i>	<i>Percentage of total training</i>
Finance/accounting	93	33	50
Managerial/leadership	80	13	19
Communication/presentation	20	1	2
Technology	60	8	12
Public sector themes	53	10	15
Other	13	1	2
Total		66	100

2.20 The emphasis on training in the areas of finance, accounting, management and leadership is not unexpected for CFOs. These results were higher than the Andersen Global group where:

- 75 per cent of participants were involved in finance/accounting training, and averaged 27 hours of such training annually; and
- 57 per cent of participants were involved in managerial/leadership training, and averaged 17 hours of such training annually.

2.21 However, the Commonwealth group did not undertake the same extent of technology training as the Andersen Global group. This issue will be considered further in the 'technology issues' section.

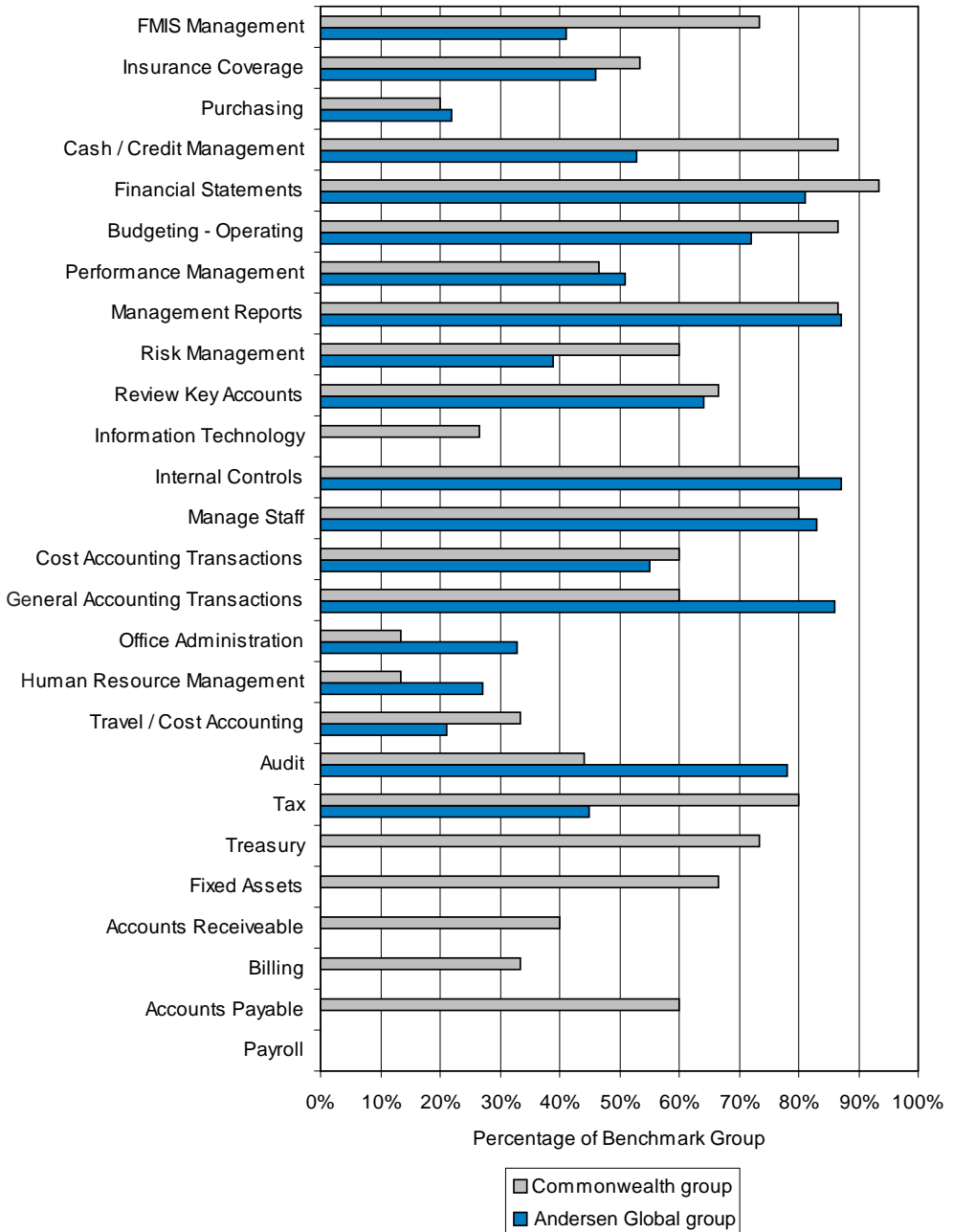
Responsibilities, roles and skill set

2.22 This part of the survey was designed to obtain feedback about the participants' key responsibilities and roles. Participants were also asked to identify the required skill set of a CFO. In addition, participants were asked to identify which corporate services functions had been outsourced.

Responsibilities of position

2.23 Participants were provided with a list of activities and asked to indicate their responsibility for each activity. The four alternatives available for participants were primary responsibility, secondary responsibility, responsibility outsourced or not applicable. Commonwealth and, where available, Andersen Global group responses have been presented in Figure 1 for primary responsibilities.

Figure 1
Primary responsibilities of position



2.24 The figure illustrates that participants in the Commonwealth group have a significantly higher level of primary responsibility for risk management, financial statement preparation, cash and credit management, and FMIS management than their Andersen Global group counterparts. The Andersen Global group noted the latter three responsibilities as secondary rather than primary responsibilities. Interestingly, the Commonwealth group participants had a significantly lower level of primary responsibility for general accounting transaction processing than their Andersen Global group counterparts, but saw this more as their secondary responsibility. These results are consistent with the responses regarding key roles (which are discussed in the ‘key leadership roles in current position’ section below).

2.25 Both the Commonwealth and Andersen Global groups considered budgeting to be their primary responsibility. The Andersen Global group participants had a significantly higher level of primary responsibility for human resource management, audit and office administration.

2.26 The Commonwealth group participants also reported having a high level of responsibility for tax planning, most likely as a result of CFOs being responsible for managing the introduction of the Goods and Services Tax (GST).

Key leadership roles in current position

2.27 Table 2.3 provides an overview of the roles in which CFOs are required to demonstrate leadership in both the Commonwealth and, where available, the Andersen Global group results. The table reflects the percentage of participants who provide a key leadership role in the areas listed.

Table 2.3
Key leadership roles

<i>Leadership role</i>	<i>Percentage of Commonwealth group</i>	<i>Percentage of Andersen Global group</i>
Strategic planning	80	n/a
Development of accounting policies	80	87
Management reporting	100	85
Financial statement preparation	87	n/a
Performance measurement system	67	42
Managing the FMIS	87	n/a
Role in re-engineering	53	40

n/a Not available

2.28 These responses indicate that Commonwealth group participants were more actively involved in management reporting, performance measurement and re-engineering business processes than their Andersen Global group equivalents.

2.29 In addition, survey results indicate participants who worked for FMA organisations generally assumed more leadership roles than their CAC peers. CFOs from the FMA organisations were less involved in maintaining the organisation's performance measurement system compared to their CAC peers. Also, management of the operations of the FMIS was seen to be more important within small organisations than within medium organisations.

Skills considered most important

2.30 Participants were given a list of skills and asked to indicate the importance of these skills to their role. The five alternatives available for participants were essential, very important, important, somewhat important and not important. Table 2.4 presents the Commonwealth and, where an appropriate measure exists, Andersen Global group average response for each skill.

Table 2.4

Key skills

<i>Skill</i>	<i>Commonwealth group</i>	<i>Andersen Global group</i>
Interpersonal	Essential	Very important
Leadership	Essential	Very important
Negotiating	Very important	Important
Problem solving	Very important	Very important
Team building	Very important	Very important
Political	Very important	Somewhat important
Communication	Essential	Very important
Innovation	Very important	Important
Listening	Essential	Very important
Coach/mentoring	Very important	Important

2.31 The Commonwealth group participants indicated that interpersonal, leadership, communication and listening were 'essential' skills for a CFO. All other skills were rated as 'very important' by the Commonwealth group. The Andersen Global group did not rate any skills as 'essential'. Only two skills (problem solving and team building) were considered equally important by both groups. CAC organisations rated all skills, except for coaching, as 'essential'.

Functions outsourced

2.32 At the time of the study, the only functions outsourced by participants in the Commonwealth group were the treasury and audit functions. Only one participant (7 per cent) reported that the treasury function had been outsourced, and five participants (33 per cent) reported that the audit function had been outsourced.

2.33 In comparison, there was a broader range of finance functions being outsourced by the Andersen Global group. However, there was generally less than 5 per cent of the Andersen Global group involved in outsourcing most finance function activities. The functions that were more commonly outsourced in the Andersen Global group included payroll (41 per cent), tax accounting (37 per cent) and internal audit (20 per cent). At the time of the survey many agencies were in various stages of market testing some or all finance functions which could result in a decision to outsource some or all functions.

Greatest influences on the role of the CFO

2.34 This aspect of the survey was designed to obtain feedback on the influences on the CFO role and the drivers of change in relation to the finance/accounting function.

Changes in the next three years most important to the role of the CFO

2.35 Participants were given a list of changes that had the potential to occur over the next three years, and were asked to indicate which of these they saw as most important to their role. The five alternatives available for participants were essential, very important, important, somewhat important and not important.

Table 2.5

Key changes

<i>Potential change to role of the CFO</i>	<i>Commonwealth group</i>	<i>Andersen Global group</i>
Focus on strategic planning	Very important	Very important
Manage when functions are outsourced	Important	n/a
Provide insight beyond financial based performance	Very important	Very important
Increase management understanding of financial issues	Essential	n/a
Focus more on measuring and controlling business risk	Very important	Important
Utilise technology to strategic advantage	Very important	Very important
Link financial and management reporting issues to gain a better understanding of the organisation	Essential	n/a
Develop strategies for retention of skilled staff	Very important	n/a
Non-CFO tasks compete for attention due to pressure from management	Important	n/a

n/a Not available

2.36 The Commonwealth group participants indicated that the need to increase management understanding of financial issues, and more closely link financial and management reporting issues to gain a better understanding of the organisation were 'essential' for the CFO in the future. The Andersen Global group did not rate any of these changes as 'essential'. Most of the remaining changes were rated as 'very important' by both the Commonwealth and Andersen Global groups.

2.37 Medium organisations rated the increase of management understanding of financial issues as being more important than small organisations. However, small organisations rated the need to link financial and management reporting issues to gain a better understanding of the organisation as more important than the medium organisations.

Greatest drivers of change

2.38 Participants were given a list of drivers of change in the next three years that were expected to impact on the finance function and were asked to indicate which of these they saw as most important. The five alternatives available for participants were essential, very important, important, somewhat important and not important. Table 2.6 presents the Commonwealth group average response for each item.

Table 2.6
Drivers of change

<i>Driver of change</i>	<i>Commonwealth group</i>
Change in Government requirements	Very important
Budgetary pressures	Very important
Demands from management for knowledge, not just information	Very important
Technology and its impact on business processes	Very important
Change in direction of internal management	Important
Outsourcing functions	Important

2.39 Of the drivers of change that were rated 'very important', the two rated highest were demands from management for knowledge, not just information, and technology. However, only 60 per cent of participants undertook any technology related training (and it only comprised 12 per cent of their total training effort). Similarly, a change in Government requirements was also seen as a critical driver of change. However, only 53 per cent of participants undertook any public sector themes related training (and it only comprised 15 per cent of their total training effort).

2.40 Small organisations and/or FMA organisations indicated that they were more significantly affected by the budgetary pressure and technology drivers, while medium organisations indicated that they were significantly more affected by other drivers such as demands from management for knowledge not just information, and changes in the direction of internal management (particularly for medium CAC organisations). The large organisation indicated that government requirements and demands for knowledge were their most significant drivers of change. The Andersen Global group indicated that technology was the most significant driver of change.

Aspects of position most important to success

2.41 Participants were asked to indicate those aspects of their position they considered were most important to their success. The five alternatives available for participants were essential, very important, important, somewhat important and not important. Table 2.7 presents the Commonwealth group average response for each aspect.

Table 2.7

Aspects of position most important to success

Aspect	Commonwealth group
Providing the required level of support to program areas	Very important
Obtaining a greater level of understanding of financial results	Very important
Meeting internal budgets	Very important
Meeting external budgets	Very important
Producing the required management reports	Very important
Outcomes/outputs initiatives	Important
Performance management	Essential
Budget preparation/reducing the time spent on the budgeting activity	Important
Market testing/pricing reviews	Very important
Financial reporting	Very important
Human resource management issues	Very important
Contract management	Important

2.42 The aspect of the position that was considered ‘essential’ to success by CFOs in Commonwealth organisations was performance management. Of those considered ‘very important’, the most important were providing the required level of support to program managers, obtaining a greater level of understanding of financial results, and meeting budgets. Interestingly, outcomes/outputs initiatives were only rated as ‘important’ to the success of the CFO.

2.43 CAC organisations considered that budget preparation, providing support to program areas and performance management were more important to success than the FMA organisations.

2.44 Consistent with these results, *Beyond Bean Counting 2000* found that 85 per cent of CEOs considered that achieving budgeted financial results was one of the three main indicators of their personal success.¹⁸

Issues important to the organisation

2.45 As part of the survey, CFOs were also asked to consider what they believed were the issues with which the organisation was having the most difficulty. The issues most frequently identified by participants included:

- the acceptance of accrual information among senior managers and business managers;
- business acumen amongst business managers leading to a better understanding of financial management issues;
- resource management; and
- being able to link the day-to-day operations to the organisation's output/outcome targets.

2.46 These comments are supported by CFOs responses to their key success factors.

Management's requirements

2.47 This section of the survey was designed to obtain feedback on CFO reporting relationships and management's demands of the CFO, particularly in relation to management reporting.

Management reporting relationships

2.48 Participants were asked to indicate to whom they report regarding their financial management responsibilities. Forty seven per cent of participants indicated that they reported to more than one member (responses ranged from one to four) of management. Twenty per cent of CFOs were required to report to four members of their organisation's management. Seven of the participants (47 per cent) reported to the CEO and/or the Board of Management. This result was comparable to the Andersen Global group, where approximately 67 per cent of the participants indicated that they reported to the CEO or President.

¹⁸ *op. cit.*, *Beyond Bean Counting 2000*, p. 11.

2.49 Most of the participants from the FMA organisations (63 per cent) reported to the First Assistant Secretary or equivalent. In addition, it was more common for CFOs of FMA and/or small organisations to report to multiple members of management.

Timeliness of financial reporting

2.50 Participants were asked whether they produced monthly financial reports (cash, accrual or both) and how long after the end of the month management required the reports.

2.51 All participants indicated that they produced monthly accrual financial reports. Nine participants (60 per cent) of the Commonwealth group indicated that they produced both cash and accrual reports. *Beyond Bean Counting 2000* reported a similar result to the Commonwealth group, indicating that 39 per cent of participants reported on both cash and accrual figures and 57 per cent of participants ran accounting systems that produced both cash and accrual reports.¹⁹

2.52 CAC organisations were more likely to produce both cash and accrual-based reports than FMA organisations (71 per cent and 50 per cent respectively). The large organisation produced both cash and accrual-based financial reports.

2.53 CFOs identified that financial reports focussed on progress against budget in relation to the principal financial statements, such as the balance sheet (statement of financial position), the operating statement (statement of financial performance), and statement of cash flows. Some CFOs indicated that monthly financial reports were being used to monitor year to date financial results against forecasts for the remainder of the financial year. While Commonwealth organisations were regularly producing accrual financial reports, these reports generally were not supported by an appropriate analysis of that financial information, thereby limiting the information's usefulness to management in decision-making.

2.54 Based on the 14 responses to this aspect of the survey, the average time elapsed between the end of the month and when management required financial reports was nine days. Five organisations (36 per cent) required financial reports to be produced in five days or less after the end of the month. All organisations required financial reports to be produced within 15 days or less after the end of the month. The Andersen Global group average was five days. In addition, *Beyond Bean Counting 2000* reported that 48 per cent of participants produced financial reports in five days or less after the end of the month.²⁰

¹⁹ *op. cit.*, *Beyond Bean Counting 2000*, p. 13.

²⁰ *op. cit.*, *Beyond Bean Counting 2000*, p. 15.

2.55 Two (29 per cent) of the CAC organisations did not require financial reports to be provided until 10 days or longer after the end of the month, compared to four (50 per cent) of the FMA organisations requiring reports within 10 days.

Timeliness of management reporting

2.56 Eleven participants (73 per cent) produced monthly management reports. All of the CAC participants produced monthly management reports compared to FMA participants, where only four (50 per cent) produced management reports in addition to financial reports.

2.57 Based on the 11 responses, the average time elapsed between the end of the month and when management required management reports was 11 days. Only two (29 per cent) of the CAC organisations, and one (25 per cent) of the FMA organisations, were required to produce monthly management reports in less than 10 days. All organisations required management reports to be produced within 30 days or less after the end of the month.

2.58 Many organisations indicated that monthly management reports were designed to report on performance against corporate objectives, whether this was through analysis of Key Performance Indicators (KPIs), outputs or performance against the corporate plan. Where management reports were not prepared monthly, organisations still reported against corporate objectives, through one of the methods identified above or by using a balanced scorecard approach, on a weekly, quarterly, half yearly or annual basis.

Information most often required by management

2.59 Table 2.8 reflects the responses provided by the Commonwealth and Andersen Global group participants concerning the information requirements of management.

Table 2.8**Management's information requirements**

<i>Requirement</i>	<i>Percentage of Commonwealth FMA group</i>	<i>Percentage of Commonwealth CAC group</i>	<i>Percentage of Andersen Global group</i>
To provide better information for decision-making	100	86	88
To focus on planning for the future	63	86	63
To attract, develop and maintain quality staff	25	43	38
To approach issues with a public sector wide perspective	13	43	n/a
To run an efficient and effective accounting process	63	86	77
To get an unqualified audit report	63	86	n/a

n/a Not available

2.60 These responses indicate that the Commonwealth and Andersen Global group participants face similar information requirements from management. The Andersen Global group participants indicated a higher management emphasis on running an efficient and effective accounting process, attracting and maintaining quality staff, and providing better information for decision-making.

2.61 FMA organisations indicated that management demands were more concerned with providing better information for decision-making (100 per cent) and getting an unqualified audit report (63 per cent). Management at FMA organisations were less concerned with the CFO attracting and maintaining quality staff (25 per cent) and approaching issues from a public sector wide perspective (13 per cent). In comparison, CAC organisations indicated that their management requirements included providing better information for decision-making, focusing on planning for the future, running an efficient and effective accounting process and getting an unqualified audit report (all 86 per cent). Like their FMA counterparts, management at CAC organisations were less concerned with the CFO attracting and maintaining quality staff (43 per cent) and approaching issues from a public sector wide perspective (43 per cent).

Technology issues

2.62 This section of the survey was designed to obtain feedback on the CFOs knowledge of technology as a user and how the CFO rated the importance of technology to their position. It was also designed to obtain feedback on the use of the Internet and intranet to process accounting transactions.

CFO's knowledge of technology as a user

2.63 Participants were asked to indicate their knowledge, as a user, of the organisation's information technology systems. The five alternatives available for participants were exceptional, good, fair, poor and none. Of the 15 participants from the Commonwealth group:

- fourteen (93 per cent) indicated that they had a 'good' knowledge of technology; and
- one (7 per cent) indicated that they had a 'poor' knowledge of technology. This was a medium FMA organisation.

2.64 The Andersen Global group reported, on average, having a lower level of knowledge of technology than the Commonwealth group. Most Andersen Global group participants (65 per cent) indicated that they had a 'good' knowledge of IT. A further 20 per cent of the Andersen Global group reported having a 'fair' knowledge of technology, while 12 per cent considered their knowledge to be 'exceptional'. This result may translate to CFOs in Commonwealth organisations placing a higher level of importance and use on technology in fulfilling their responsibilities.

Importance of technology to the role of the CFO

2.65 Participants were asked to indicate the importance of information systems to their position. The five alternatives available for participants were essential, important, fair, slight and not at all. Of the 15 participants from the Commonwealth group:

- eight (53 per cent) indicated that they considered technology was 'essential' to their position;
- six (40 per cent) indicated that they considered technology was 'important' to their position; and
- one (7 per cent) indicated that they considered technology was 'fairly important' to their position. This CFO, from a medium organisation, had also reported a lower level of technology knowledge as a user.

2.66 The ANAO also found that the CFOs from large and medium organisations generally considered technology was more important to their position than CFOs from small organisations. Similarly, CFOs from CAC organisations generally considered technology was more important to their position than CFOs from FMA organisations.

2.67 In comparison, only 39 per cent of the Andersen Global group considered technology was 'essential' to their position. Most of the Andersen Global group (55 per cent) indicated that they considered technology was 'important' to their position. This result suggests that the Commonwealth CFOs place a higher level of importance on

information technology than the Andersen Global group in fulfilling their responsibilities. The Commonwealth group result would seem consistent with the *Beyond Bean Counting 2000* statement that financial systems were an important enabler to any effective financial management framework.²¹ In addition, this result is consistent with the results for the drivers of change for the finance function. That is, technology was seen as a primary driver of change and therefore it would be important to the CFO in fulfilling financial management responsibilities. However, only 60 per cent of the Commonwealth group undertook any technology related training (and it only comprised 12 per cent of their total training effort).

2.68 Finally, the Commonwealth group considered the utilisation of technology to strategic advantage was ‘very important’ to their role in the medium-term.

Updating IT skills

2.69 Of the 15 participants from the Commonwealth group, all CFOs updated their IT skills and 67 per cent used multiple methods to update their skills. Table 2.9 provides an overview of the source and participation rates of information technology skills updates undertaken by the participants from organisations in the Commonwealth and Andersen Global groups.

Table 2.9
How information technology skills are updated

<i>Source of update</i>	<i>Percentage of Commonwealth group</i>	<i>Percentage of Andersen Global group</i>
Books	33	50
Seminars	60	70
Consultants	13	45
Magazines	40	75
Other	60	20

2.70 Organisation size did not influence how the CFO updated their skills, although CFOs from medium organisations were more likely than CFOs from small organisations to update their technology skills by ‘other’ sources such as on the job training and training courses. The Andersen Global group was more likely to use books, seminars, consultants and magazines than the Commonwealth group to update their technology skills.

²¹ *op. cit.*, *Beyond Bean Counting 2000*, p. 18.

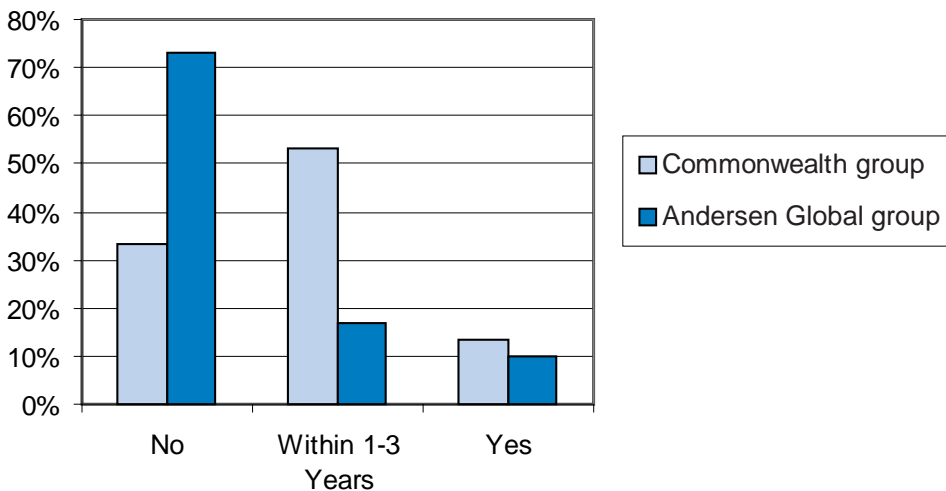
Ability to process accounting transactions over the Internet/intranet

2.71 Participants were asked to indicate whether they currently used the Internet and/or intranet²² to process accounting transactions. The three alternatives available for participants were yes (currently), no (expect to in 1–3 years) and no.

2.72 Of the 15 participants from the Commonwealth group, only two organisations (13 per cent) were using the Internet to process customer, vendor, bank and/or other types of transactions. Figure 2 presents the results of both the Commonwealth and Andersen Global groups, and indicates that the Commonwealth group result was consistent with the Andersen Global group. However, more of the Commonwealth group than the Andersen Global group were planning to process transactions over the Internet in the medium-term. Most of the medium organisations did not use the Internet to process transactions and did not plan to in the medium-term.

Figure 2

Ability to process transactions over the Internet



²² An intranet is a network based on TCP/IP (Transmission Control Protocol and Internet Protocol) protocols belonging to an organisation, which is accessible only by the organisation's members, employees, or others authorised to do so. The TCP/IP protocol is the low-level communications protocol used throughout the Internet. It specifies the manner in which two pieces of software running on different machines on the Internet find each other, rendezvous and transfer data. It also provides the essential service of making sure that each piece of data is transferred in the correct sequence and without error.

2.73 Three organisations (20 per cent) from the Commonwealth group used the intranet to process customer, vendor, bank and/or other types of transactions. Only one of the organisations that processed transactions over the Internet also processed transactions over the intranet. A result for the Andersen Global group was not available for the intranet. Most small CAC organisations did not use the intranet to process transactions and did not plan to in the medium-term.

2.74 *Beyond Bean Counting 2000* predicted that e-business, e-commerce and e-procurement were going to have an enormous impact on the way the public sector does business. In particular, public sector organisations demanded services on-line by a specified date.²³ However, ANAO survey results suggest that few organisations were using on-line electronic business solutions specifically for the finance function to transact business with the organisation's clients, and only 66 per cent of the Commonwealth group were planning to provide on-line electronic business solutions in the medium-term. However, it is recognised that utilising the Internet to make electronic payments is not the usual mode of payment used by Commonwealth organisations, with the most common form of electronic payment used being Electronic Funds Transfer (EFT).²⁴

Performance improvement

Activities involved in benchmarking studies

2.75 In order to gauge the efforts made to improve activities undertaken by the corporate services area within an organisation, the survey sought information relating to benchmarking studies conducted.

2.76 Participants were given a list of activities and asked to indicate in which of these they had undertaken benchmarking studies. Table 2.10 reflects the percentage of Commonwealth, and where an appropriate measure exists, Andersen Global group participants who were undertaking benchmarking activities of some of the key corporate services activities that relate to the responsibilities of the CFO.

²³ *op. cit.*, *Beyond Bean Counting 2000*, p. 7.

²⁴ EFT involves an organisation engaging its banker to transfer funds to another organisation's banker when it authorises a payment for products or services received.

Table 2.10
Benchmarking activities

<i>Activity</i>	<i>Percentage of Commonwealth group</i>	<i>Percentage of Andersen Global group</i>
Payroll	33	7
Accounts payable	33	6
Customer billing	13	4
Accounts receivable	33	8
Fixed asset accounting	20	3
Treasury	20	2
Tax accounting	13	2
Internal audit	27	1
Travel and expense accounting	20	4
Human resources	27	2
Information technology	33	6
Purchasing	20	4

2.77 Ten of the Commonwealth organisations undertook benchmarking activities. These results indicate that more of the Commonwealth group participants were undertaking benchmarking activities than the Andersen Global group. The Commonwealth group participants most commonly undertook benchmarking of payroll, accounts payable, accounts receivable, internal audit, human resources and information technology (greater than 25 per cent participation rate).

2.78 One organisation had benchmarked up to 13 (81 per cent) of the listed activities in the survey, while others had only undertaken benchmarking in relation to output pricing reviews conducted in conjunction with the Department of Finance and Administration. Most of the medium organisations (86 per cent) undertook benchmarking activities, while only three (43 per cent) of the small organisations undertook benchmarking activities.

2.79 While the level of benchmarking was high compared to the Andersen Global group, Commonwealth organisations generally did not report that they had achieved cost savings from benchmarking activities. The exception was a CFO who reported achieving substantial cost savings across a number of activities that were the responsibility of the CFO including payroll, accounts payable, accounts receivable and management of fixed assets. By contrast, the Andersen Global group reported anticipated savings of between US\$50 000 and US\$1.2 million for each activity that was benchmarked.

Appendices

About the study

Benchmarking studies

Benchmarking studies are undertaken under the general performance audit provisions of the Auditor-General Act 1997. The process of benchmarking aims to systematically measure an agency's performance against its internal and external peer groups. Benchmarking is a practical tool for continuous improvement as it establishes quantifiable measures for business processes and activities, and uses these to analyse performance trends over time. Through benchmarking, an organisation may identify problem areas in its performance and target areas for the improvement of public sector administration. Benchmarking studies can be used by public sector managers in meeting their responsibilities and to inform the Parliament about aspects of public administration which are not likely to be covered by the financial statement and performance audit products. They examine common business support activities and processes, including:

- systems of internal control;
- the accountability framework; and
- legislative and procedural compliance.

This product has been focused on examining key issues affecting the public service in recent years, including financial management and reporting, and internal audit. This report is part of a series of proposed benchmarking studies being undertaken by the ANAO on Finance Function topics. There is also a benchmarking study on Human Resource Management currently being undertaken which will be tabled during the 2001–2002 financial year.

Benchmarking study objectives

The ANAO undertook this benchmark study to provide information on a range of relevant CFO functions in Commonwealth organisations. In particular the study sought to identify:

- the skills, qualifications and experience of Commonwealth CFOs;
- the CFOs' perceptions of their roles, responsibilities and priorities, and how these may have changed in relation to previous studies and available Andersen Global Best Practices® (from the Andersen Global Best Practices® knowledge base); and

- how Commonwealth CFOs viewed and used information technology to achieve their financial management objectives.

Performance information

This benchmarking study commenced in March 2001.

The ANAO provided a report on the results of the study to each agency reviewed as part of the study during October 2001.

The total cost of the study was \$90 000.

Series Titles

Titles published during the financial year 2001–02

Audit Report No.27 Assurance and Control Assessment Audit
Agency Management of Software Licensing

Audit Report No.26 Performance Audit
Management of Fraud and Incorrect Payment in Centrelink

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Accounts Receivable

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Audit Report No.23 Performance Audit
Broadcasting Planning and Licensing
The Australian Broadcasting Authority

Audit Report No.22 Protective Security Audit
Personnel Security—Management of Security Clearances

Audit Report No.21 Performance Audit
Developing Policy Advice
Department of Education, Training and Youth Affairs, Department of Employment,
Workplace Relations and Small Business, Department of Family and Community
Services

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Forestry—Australia (AFFA)*
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Administration of Petroleum Excise Collections
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Audit Report No.16 Performance Audit
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