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GRADUATE PAPER NO. 11
QUEENSLAND GOVERNMENT FINANCIAL
MANAGEMENT IMPROVEMENT INITIATIVES

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By Ian Warren

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By Ian Warren

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TABLE OF CONTENTS

	PAGE
1.0 INTRODUCTION	1
2.0 GOVERNMENT ACCOUNTABILITY	1
3.0 MANAGEMENT INFORMATION SYSTEMS	3
(i) Strategic Planning	4
(ii) Human Resources Management	4
(iii) Budgeting and Accounting Systems	5
4.0 AUDITING PROCESS	9
5.0 FUTURE SCENARIOS	10
6.0 CONCLUSION	12
7.0 REFERENCE LIST	14
8.0 BIBLIOGRAPHY	15

1.0 INTRODUCTION

This paper will review the Financial Management Improvement Initiatives in the Queensland State Government from 1980 to present. Specific examples from the Queensland Local Government Department will be examined with a view to highlighting the reasons for the implementation of these initiatives. Further, the source of reform, and the deficiencies in the past/current financial management systems, targeted by the introduction of these Improvement Initiatives, will be examined. Problems of implementation and measuring the impact and success or otherwise of the results, will be critically discussed.

2.0 GOVERNMENT ACCOUNTABILITY

McCallum suggests that Government Accountability implies the liability to be called to account, particularly in relation to financial matters.(1) This broad concept of accountability includes Ministerial, Public and Financial Accountability. The Australian system of Government, based on the Westminster model is driven by the doctrines of Ministerial Responsibility and Public Sector Financial Accountability. According to McCallum, these doctrines imply the liability of a Government to account for its administration, including its policies, its financial administration, the efficiency with which it manages public programs, and the integrity of its actions.(2)

In theory, within the system of Responsible Government, the conduct of Public Servants is paramount, and is complementary to the concept of Ministerial Responsibility. Ideally, this system includes public service neutrality, public service anonymity and the career service concept.(3) However, accountability and the system of Responsible Government have been well documented in the later half of the 1980's and has proved to be far from exemplary.

As Goss (when leader of the Parliamentary Opposition) points out, the Fitzgerald Report delivered a damning indictment of the state of administration within the Queensland Government. It highlights dishonesty and corruption by former Ministers and Public Servants, and revealed alarming ignorance of Westminster principles, about Ministerial Responsibility and Accountability.(4) This deficiency

has led to a number of former Ministers facing criminal charges for the misuse of public funds in the Queensland Courts.

Other deficiencies within the realm of accountability to emerge from the early 1980's include Ministerial interference with private land and rezoning dealings, and the Public sectors, cronyism and a contempt for administrative integrity. In one way or another, these have all led to a willingness to use public money for private advantage.(5)

The newly elected Goss Government suggests that good public administration and accountability, requires a careful program of reform for the executive and the Public Service. Goss is committed to the Westminster tradition and the following initiatives are intended to improve the financial management of the Ministerial Responsibility Concept:-

- (i) new standards of Ministerial conduct;
- (ii) proper statements of pecuniary interests;
- (iii) full disclosure of Ministerial expenditure; and
- (iv) new regulations about Ministerial accounts, travel and staff.(6)

These initiatives demonstrate the need to ensure that Ministers are directly responsible to Parliament, and ultimately to the public in general; and is something that Fitzgerald suggests has been missing in recent years.

The Goss Government is also committed to effective administration and has rationalised the machinery of Government in Queensland, in an effort to achieve this.(7) . The initiative to reduce the number of Queensland Government Departments from 27 to 18, and a review of current statutory authorities, boards etc., is required to reduce the duplication and overlap of departments and to bring related functions together under the control of a single Minister. Only time will judge whether these initiatives will be successful or not, as problems have already surfaced in trying to implement the Governments demands. These problems include disjointed decision making by "Review Teams", probably through lack of practical experience and the application of theoretical models. However, this initiative

concur with the Savage Report Recommendations of 1987, in that Government should make an exhaustive examination of the capability of private enterprise to fulfil the role or provide the service of some existing Government financial institutions.(8)

The new Government has also created a number of Committees, in an attempt to limit cronyism, and promote professionalism within the Public Service. This initiative is based on the recruitment and promotion of staff on merit, and is supported by new management strategies to enhance Government efficiency and effectiveness.(9) In particular the Government will introduce:-

- (i) proper administrative law;
- (ii) judicial power of review and enforcement;
- (iii) codes of conduct for public officials; and
- (iv) proper accounting and auditing systems, to track the use of public money.(10)

The Government has entrusted the responsibility for implementing these reforms to the Electoral and Administrative Review Commission (EARC); the Public Sector Management Commission (PSMC) and the Criminal Justice Commission (CJC). The Government's objective is to build the most professional Public Service possible, and agrees 'these' reforms will restore an independent, impartial and expert Public Service, and improve management skills within the public sector.

3.0 MANAGEMENT INFORMATION SYSTEMS

Jolly suggests that the quality of the information system employed by Government, to a large extent determines the quality of the executive decisions that are made.(11) However, Ryan also adds that several other factors need to be considered such as the misuse of evaluation techniques, the failure to consider an adequate range of alternatives, hasty decision making, or succumbing to the pressures of special interest groups.(12) Management Information Systems in the Queensland Government include Strategic Planning, Human Resources Management and Budgeting/Accountancy Systems, and numerous initiatives have developed to improve the financial management of these systems, during the 1980's.

(i) **Strategic Planning**

The issue of increased public awareness of Government performance and spending surfaced in the early 1980's. As a result Government Departments have embarked on a process of Strategic Management and Planning techniques to provide greater meaning to the concept of Government Accountability. The performance and jobs of Public Sector Managers have also come under close attention because they now have to cope with reduced financial and human resources; place more emphasis on program outputs and outcomes; and apply greater attention to resource and asset management. In particular, in April 1988, the Local Government Department produced the document "Strategic Directions into the 1990's". This document summarised the Departments Strategic Planning process and development at that time. It also provides the 'strategic vision' for the Department, so that alternative decisions may be made to help the organisation head in the direction that is required. This initiative concurs with the Savage Report Recommendations that the Departments pursue strategies appropriate to their own area and expertise and also the idea of increased responsibility for individual departments.(13) It also counters the deficiency in the Governments administration as highlighted in the Fitzgerald Report.

The major benefit of Strategic Planning is that the Directorate now has a process to determine departmental direction through the approval and prioritisation of projects, by monitoring the effectiveness" of program outputs and through defining program goals and objectives. Strategic Planning also provides the guidelines for the revision of management systems and programs by the Directorate. Other benefits include Managers now being collectively responsible and accountable for the achievement of program outputs and also ensuring the preparation of appropriate project and policy submissions to the Directorate.

(ii) **Human Resources Management**

The Local Government Department has developed and implemented a comprehensive Personnel Recruitment and Selection Policy.(14) The policy is complemented by a manual, providing details to selection panel members

and applicants on the processes involved and the underlying philosophy behind selection and recruitment of Departmental Officers. The basic thrust of the policy is that selection and appointments will be made by choosing the best person for the job, based on job related criteria. This process provides a fair, consistent and objective method of assessing the merit of each applicant, and reflects the Department's belief that choosing the 'right person for the job' is a vital first step in improving the organisations effectiveness.(15) The Departments policy has a staff development focus and is linked to other initiatives such as career planning, and staff training and development. For example, Management and Development Workshops provide Managers with a practical approach to strategic concepts, that Public Sector Managers need to consider and understand.

These initiatives have been developed to replace the old Public Service mentality, of promotion based upon seniority. They further reflect the recommendation of the 1987 Savage Report, of placing greater responsibility for recruitment and personnel matters in Departmental Permanent Heads. It also focuses on the need to install Departmental policies to replace the old Public Service Board abolished in the mid 1980's.

Fitzgerald makes mention in his report on the operations of Queensland Government, that management expertise is required to improve public sector efficiency and effectiveness.(16) To action this, the Goss Government has created a Public Sector Management Commission, and given it the responsibility of providing leadership and direction for the Queensland public sector. As mentioned previously, the Governments objective is to build the most professional Public Service as possible and one in which talent and performance will determine the careers of Public Servants. It is, also an extension of the 'human resource' initiatives developed by the Local Government Department (and probably a number of other Government Departments) in 1987, and demonstrates the inevitable change in public management reforms in the Queensland Public Sector of the 1980's.

(iii) Budgeting and Accounting Systems

Ryan argues that the issue of public accountability has been viewed as a

constraint that causes public sector accounting and budgeting to be less efficient than its private sector counterpart.(17) Sainsbury and Weller suggest that the budget is a major economic, social and political statement which includes virtually the whole of the Government policy capable of being expressed in expenditure and taxation measures.(18)

When considering that the budgeting process includes the formulation, authorisation, implementation and review phases, these definitions demonstrate that the entire process can be a very complex and resource-consuming exercise.

In the early 1980's the Queensland Government Departments developed their annual budget submissions based on the traditional concepts of an aggregation of line-items or inputs. These would include expenditure types such as salaries, travel expenses, motor vehicle expenses, and postage and telephone expenses. This system of budgeting is excellent for identifying individual expenditure items, and presents an easy method to develop the budget submission, which can be zero-based or on an incremental basis. However, with increasing public awareness during the 1980's Government financial accountability has received greater attention, resulting in massive changes towards the end of the 1980's. These changes include the introduction of Program based performance budgeting, standardised financial reporting, the application of Public Finance Standards, and a reduction in the duplication of financial recording functions by the Treasury Department.

These reforms have been introduced to remedy the inherent deficiencies in the traditional methods of budgeting and financial reporting. Wilenski argues that line-item budgeting stresses inputs rather than outputs, and that it is closely associated with a rigid form of incremental budgeting.(19) This line of thought represents a regressive attitude to budgeting, and demonstrates why line-item budgeting has fallen out of favour. Also, the Financial Administration and Audit Act 1977 states that cash accounting rather than accrual accounting is suitable for the purpose of public accounts.(20) Cash accounting supplements line-item budgeting, but any unspent appropriation at year end, tends to encourage extravagant spending to avoid a reduction in the

subsequent year's appropriation. Further, in 1984 the Queensland Auditor-General expressed strong reservations concerning the adequacy of the accounting, budgeting and reporting systems being used by the Queensland Government.(21) The Auditor-General reported that the financial statements and the estimates (budgets) did not provide sufficient information to enable proper understanding by the Executive members of the Legislative Assembly and the public, of the purposes for which public moneys are to be expended, nor did they provide a basis for sound financial management or financial reporting.(22) Another problem of the early 1980's was the duplication of the recording of financial details by the Treasury Department, through the abstracting of moneys expended by Government Departments.

These deficiencies have led to a need for more comprehensive and relevant information to be supplied in the budget estimates, to allow the proper assessment and understanding of Departmental activities and the resources used.

A limited version of Program Performance Budgeting was introduced into the Queensland Government in 1986. This system allowed performance measurement as well as program planning and budgeting, and was designed to rectify the deficiencies of the traditional line-item budgeting approach. Ryan defines program performance budgeting as a plan which relates input resources to the expected output results using a classification scheme which uses similar endeavours.(23) This initiative has resulted in the further development of program budgeting and program management systems, for many of the Queensland Government Departments. The refinement of program goals and objectives and the further development of strategic plans will allow the Government Departments the opportunity to publish performance measurement criteria and results in the annual reports for the early years of the 1990's.

The introduction of program budgeting also coincided with the uniform computerisation of the financial accounting systems of the Queensland Government Departments. The MSA (Management Science of America) accounting system has resulted in significant changes in working practices

and procedures. Most importantly, the standardisation of financial reporting and regular inter-departmental accounting conferences have allowed Government Accountants the freedom to exchange ideas, while fulfilling the financial accountability requirements highlighted in the Fitzgerald Report. Also, an ongoing upgrading and sophistication of the accounting systems together with the advent of Public Accounting Standards and Exposure Drafts have led to significant changes in the Government accounting environment in the 1980's. For example, the abstracting systems of the early 1980's has been replaced with a system known as QGAITS (Queensland Government Accounting Information Transfer System). This has only been possible through the MSA computerised accounting system, and satisfies the Savage Report recommendation to abolish those functions that duplicate financial records. The Treasury Department now has online access to each Department's financial records which are standardised in the Australian Bureau of Statistics expenditure codes.

Further initiatives include the publishing of Draft Public Finance Standards in March 1990. These standards are to take effect as from 1 July 1990 and are to replace the Treasurer's Instructions which are now considered by the Government to be too restrictive in definition and operation. Each Department has the opportunity to comment on these standards with a view to refining them, using the combined knowledge and talent of the Government Accounting personnel in general. The standards also represent the impetus for the introduction of accrual accounting into the public sector. This is necessary due to the changing role of Government accounting as a result of the post Savage and post Fitzgerald environment's that have developed.

A major benefit of these initiatives is that of improved costing awareness and performance measurement by more public servants through the collective and individual responsibility for "a bucket of money". However, as well as the normal problems of implementation of any new initiatives, the major one has been the introduction of computerisation and the lack of acceptance for the collective responsibility and therefore accountability for program outputs and results.

4.0 AUDITING PROCESS

Ryan suggests the major deficiencies in conventional public sector accounting practices include the inability of the cash based accounting system to provide any reliable measure of performance; the practice of spending appropriations before the end of the financial year to avoid subsequent cut backs, the complexity of the responsibility layers in satisfying accountability conventions; and the inability to link expenditure inputs with actual outputs.(24) However, the advent of the MSA computerised accounting system and the development of program performance budgeting has improved these deficiencies, and consequently the auditing process has also changed considerably during the 1980's. The traditional role of the Auditor as a 'watchdog' to check the correctness of the financial disclosure made by Government Departments has remained unchanged during the 1980's, however the duties and functions performed have altered, due to the introduction of computers and program performance budgeting.

In the early 1980's, Auditors required a knowledge of cash based accounting systems, and the ability to track payment of vouchers from the postings on general ledger cards. This function was no doubt tedious and repetitious, but formed the basis of the Auditors opinion as to the adequacy of the financial details disclosed in Departmental Fund Statements. However, computerisation and program budgeting have created many problems for Auditors of the late 1980's. The Auditor's functions now extend to an assessment of the MSA computerised accounting systems and practices used by the Government Departments, and thus a knowledge of the systems modules and capabilities is required. Heavy reliance is also placed on computer validation reports of documents processed, and the assumption that the computerised accounting system will perform the correct functions to process documents, update vendor files, produce cheques, and post to the general ledger. In this regard the Auditor-General's Department has conducted many courses to maintain the knowledge of their auditing staff. Further, the concept of efficiency auditing has been adopted as the responsibility of the Auditor-General's Department as recommended in the Savage Report of 1987. This is reflected in the high number of auditing staff completing post graduate tertiary studies and Australian Society of Accountants qualifications in recent years.

Another initiative in the auditing process is evidenced in the Public Finance Standards due to take effect on 1 July 1990. These Standards are designed to reduce the prescriptive features of the existing Treasurer's Instructions and are confined to statements of policy and principles to be applied by accountable officers to be set forth in Departmental accounting manuals. In particular the Standards state that each accountable officer shall provide for an independent internal audit and shall include such verifications, checks and valuations as are necessary to determine whether or not the information systems are operating efficiently; the system procedures are fully documented; the duties are being performed in the proper manner; and the system appraisals and position assessments have been properly undertaken.(25) The internal audit is to be undertaken by departmental officers or by external consultants as required, and reflects the efficiency auditing concepts highlighted in the Savage Report. It also encapsulates the Fitzgerald revelation that departmental accountable officers should have greater responsibility and the required review of internal management and evaluation systems as proposed by the Electoral and Administrative Review commission established by the Goss Government.

The auditing process has therefore played a major role in the improved financial reporting to the Treasury Department, and ultimately the consolidated financial reports to Parliament and the Public during the 1980's. The benefits of the departmental efficiency auditing concepts will emerge in the 1990's, as will the detailed auditing assessments of program budgeting and the information it provides.

5.0 FUTURE SCENARIOS

Ryan argues that the basic methodology of program performance budgeting includes:

- . the development of a program framework;
- . the setting and systematic analysis of program objectives;
- . forward planning of program costs a number of years into the future; and
- . the installation of appropriate accounting and information systems to supply relevant data.(26)

These elements are essential if program budgeting is to further develop into 1990's. The benefits in the area of Government policy formulation, and the performance assessment of programs, will follow as a result. However, Ryan also points out that program budgeting has limitations, especially with regard to its acceptability and implementation. These include a failing to commit sufficient resources and a failing to gain the necessary involvement of senior management.(27) This is particularly the case for the Local Government Department because Managers were reluctant to accept co-joint responsibility for program goals and outputs and maintained an "our bucket of money" mentality for a period of eighteen months when program budgeting was first implemented. This attitude has changed somewhat as the principles and benefits of program budgeting become more apparent. This can only enhance Government accountability in the future with the natural development and introduction of new technology to improve management information systems. An example of this may be the individual recording of 'time units' by Public Servants, as currently conducted in private enterprise with the MSA accounting system interfacing with the Human Resources personnel, manpower and payroll systems currently used. The scenario of Public Servants logging on terminals to record fifteen minute time units may cause the traditional Public Servant major worries, but really represents an extension of program budgeting concepts where by inputs, in this case human resources, need to be measured to determine the efficiency and identification of program outputs.

Ryan also expresses the view that the program budgeting approach may conflict with responsibility accounting and that we may lose sight of responsibility concepts below top management level.(28) This also raises the question of where the Government is heading in terms of financial management and whether program budgeting necessarily provides the answers to the accountability dilemma. Mills argues that program budgeting is a development which is designed to provide information to meet the demands of policy makers and decision makers at all levels of management within the Government.(29) A future scenario may well be that decision making and responsibility within the public service is extended, and that greater contact with Ministers by middle management, is the order of the day. The Public Finance Standards are definitely a step in this direction, because they place emphasis on management information system analysis, responsibility and accountability. The objective of the Standards is to ensure they remain relevant

and continue to be the most modern and comprehensive code for the management of an accounting and reporting by Departments and Statutory Authorities in Australia.(30) This demonstrates the Queensland Government's absolute commitment to high standards of accountability. Further, if the Savage recommendations about the role of the Auditor-General's Department are enforced it will mean that responsibility accounting by Departments will be superior in the 1990's, than it was in the 1980's.

The Public Finance Standards also incorporate financial management initiatives including strategic planning, resource management and user charging. They nominate position assessments, internal control and internal auditing considerations, accounting manuals, asset protection and system assessments as essential for proper management and provision for information to meet financial reporting requirements. This also recognises that Government and Public Servants in general have accepted the tremendous change that has occurred in recent years in terms of financial management and accountability. It also identifies that continuous modifications are the responsibility of the accountable officer, and has particular relevance to the impact on the Public Service due to the recent amalgamation of Government Departments.

6.0 CONCLUSION

There is no doubt that accountability has been the major issue of concern to the Government during the 1980's. As a result we have witnessed the Savage Committee of Inquiry into Government operational efficiency, and the Fitzgerald Inquiry into corruption, lack of Ministerial responsibility and lack of Government accountability. Financial management improvement initiatives such as program performance budgeting, efficiency auditing, human resources development, strategic planning and program management have merged to lend credibility to the Government and improve the management information systems, that have come under attack. It has been obvious that any improvements are necessarily warranted and that these improvements have been accepted by the Government, and ultimately by the Parliament and the general public.

However, as Ryan points out, there would be some difficult measurement problems involved if one were to try and put a value on the improved decision-making as a

result of adopting the program performance budgeting system.(31) But, the performance of the Government is judged by the people, and the final judgement was handed down in the closing months of the decade when the Goss led Labour Party was elected to power. With this power came the responsibility to 'clean-up' the Government, and to enhance the financial management improvement initiatives that emerged during the 1980's.

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Editor: Liam Ryan
School of Business
University College of Central Qld
Rockhampton Q 4702