

## **School of Government**

### **PADM 507**

## **FINANCIAL MANAGEMENT IN THE PUBLIC SECTOR** (24 Points)

**Trimester Two 2006**

### **COURSE OUTLINE**

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#### **Contact Details**

**Course Co-ordinator:**

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**Other Lecturers:**

Guest presenters will be advised at the commencement of the course

**Administrator:**

**Darren Morgan**

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#### **Course Dates, Times and Location**

This is an **intensive** course. It runs from Tuesday 12 to Friday 15 September 2006 (inclusive). Classes will start at 9.00am and finish at 5.00pm each day.

The course will be held on the Pipitea Campus of Victoria University of Wellington. You will be advised of your classroom one week prior to the course by email.

## Course Objectives

The objectives of this course are:

- ❖ To consider whether, and how, financial management in New Zealand answers the four questions that citizens want answers to re the operations of the Government:
  - Is it managing its financial affairs prudently? [*the money issue*]
  - Is it achieving what it set out to achieve? And is it doing so in a cost efficient and effective manner? [*efficiency Vs effectiveness*]
  - Is it looking after its assets (people, infrastructure, intellectual capital) so it can deliver results (outcomes, outputs) in the future? [*capability and risk management*]
  - Are its activities being carried out in accordance with the law and expected standards of conduct and probity? [*authority and probity*]
  
- ❖ To introduce you to the elements of the integrated management cycle – strategic planning, budgeting and resource allocation, operations and budget implementation, and monitoring and reporting. (This involves integrating finance, human resources and organisational resources into the overall planning structure.)
  
- ❖ To make you familiar with the nature, rationale, and historical development of the system of financial management in the New Zealand public sector (including Central Government, Crown Entities, State-owned Enterprises, and Local Government) as a means of assessing:
  - Is public expenditure better managed?
  - Are resources more effectively allocated?
  - Is there too much or too little accountability? And is the accountability to the right stakeholders?
  - How do we evaluate whether outcomes have been achieved and why?
  - Does accountability (reporting, monitoring, auditing, and the front page of the Dominion Post) bring about useful change?
  - Does Parliamentary scrutiny serve a useful purpose?
  
- ❖ To consider whether significant current developments (such as the current focus on outcomes and the preparation of Statements of Intent, and capability) answer the issues raised by recent critiques of the New Zealand financial management system.
  
- ❖ To consider the implications of recent legislation affecting public sector financial management:
  - The Public Finance Act 1989 (as amended in 2004)
  - The Crown Entities Act 2004
  - The Local Government Act 2002

*This course will not make you an accountant! It is intended for managers who wish to understand more about financial management, but who do not have a need for in-depth knowledge about, for example, alternative financial reporting treatments of a specific type of transaction.*

## Readings

The topic readings for the course are a mixture of official publications, text material and academic articles. They are intended to introduce basic material; give an understanding of the New Zealand Government's financial management system, as well as that of local government; and to provide an academic perspective on some of the issues addressed.

Specific readings are set out under the Course Content on pages 7 to 27 of this Course Outline. Where there is a website reference, a copy of the material has not been included in the Course Booklet.

There are no textbooks for the course, but the following six publications provide background reading:

- **Scott, Graham, *Public Management in New Zealand***, Centre for Law and Economics Australian National University Canberra, Melbourne, Wellington, April 2001 (Textbook for MMPM 501 - copies of relevant chapters will be provided to those students that are not doing MMPM 501)
- **Norman, Richard, *Obedient Servants? Management Freedoms and Accountabilities in the New Zealand Public Sector***, Victoria University Press, 2003
- **Dalziel, Paul & Lattimore, Ralph** – *The NZ Macroeconomy: Striving for Sustainable growth with Equity*, Oxford University Press (5<sup>th</sup> edition 2004)
- **Boston, Jonathan et al, *Public Management – The New Zealand Model***, Oxford University Press, 1996
- **The Treasury, *Putting it Together - An Explanatory Guide to the New Zealand Public Sector Financial Management System***, Wellington 1996 (Available from the VUW bookshop (approx. price \$20) or can be downloaded from <http://www.treasury.govt.nz/publicsector/pit/> [Please note that some of this book is out-of-date.]
- **The Treasury, *A Guide to the Public Finance Act*** (August 2005)  
Can be downloaded from <http://www.treasury.govt.nz/pfa/guide-pfa.pdf>

## Course Method

The course comprises readings, discussion, small group work, an essay, and an assignment. Prior to each module you are expected to:

- ❖ complete the readings;
- ❖ give some thought to the discussion questions; and
- ❖ be prepared to report on (and evaluate) the content of the readings.

## Assessment Requirements

The purpose of assessment is three-fold:

- ❖ to ensure that you have met the standard of work required for the course;
- ❖ to give you feedback on your performance to assist you with your future study; and
- ❖ to provide the teaching staff with feedback on the progress of the class.

Formal assessment for the course will be as follows:

1. An *Essay*, to be submitted by **16 October 2006**, worth **60%**
2. An *Assignment*, to be submitted by **15 November 2006**, worth **40%**

**Essay: Financial management and reporting in government departments**

**Due Date:** 16 October 2006      **Max length:** 3,000 words      **Worth:** 60%

Over the last 16 years there have been significant changes to the systems of financial management and financial reporting of government departments in New Zealand. Some commentators argue that these ‘new public management’ changes are improvements, while other commentators identify problems and concerns.

Required: [please provide a word count]

*Critically discuss* the changes in financial management and financial reporting since 2000 and *evaluate* whether these changes address the issues that commentators have raised. Wherever possible you should utilize your own experience and that of the organisation you work for.

**Assignment: Achieving reprioritisation in the budget process**

**Due Date:** 15 November 2006      **Max length:** 2,000 words      **Worth:** 40%

Frequently government organisations face fiscal pressures that do not allow significant new spending. This creates pressure on the organisation to reprioritise their spending, and seek to achieve greater effectiveness through the reallocation of resources to outputs that better achieve the organisation’s outcomes.

Required: [please provide a word count]

In the context of a public sector organisation that you know well:

- ❖ *outline* the budget process, including key deadlines;
- ❖ *give examples* of areas where reprioritisation is possible;
- ❖ *describe* the main barriers to reprioritisation (either aspects of the budget process or wider issues such as management culture, organisational context, etc); and
- ❖ *suggest* ways to improve the organisation’s ability to reprioritise.

**Please post / hand-in ALL assignments to:**

Francine McGee,  
School of Government,  
Victoria University of Wellington,  
Level 8 Reception,  
Rutherford House,  
23 Lambton Quay,  
P.O. Box 600,  
Wellington.

**Students should keep a copy of all submitted work.**

## Penalties

The ability to plan for and meet deadlines is a core competency of both advanced study and public management. Failure to meet deadlines disrupts course planning and is unfair on students who do submit their work on time. It is expected therefore that you will complete and hand in assignments by the due date. Marks will be deducted at the rate of five for every working day by which the assignment is late (weekends and public holidays excluded) and no assignments will be accepted after five working days beyond the date they are due. For out of town students, two calendar days' grace is given to allow for time in the post. **Electronic versions of assignments may be submitted by email, but MUST be followed by a hard copy.**

If ill-health, family bereavement or other personal emergencies prevent you from meeting the deadline for submitting your assignments, you can apply for, and may be granted, an extension to the due date. **Note that this applies only to extreme unforeseen circumstances and is not necessarily awarded.** You should let your course co-ordinator/lecturer know as soon as possible in advance of the deadline if you are seeking an extension.

## Expected Workload

Pre reading time will vary according to student reading speed. In addition:

- 24 hours of class contact time
- Study to undertake two assignments, approximately 40 hours.

## Course Structure

### Lecture Programme

Day	Topic
<b>Day One Tuesday 12 September</b>	1. <i>How Government works</i> : Introduction to the New Zealand Public Sector
	2. <i>Framework for thinking about the reforms and setting the scene</i> : The NZ public sector financial management system <ul style="list-style-type: none"><li>• Concepts and the reform process;</li><li>• The integrated management cycle</li></ul>
	3. <i>Are we on the right track?</i> Public sector financial management in New Zealand <ul style="list-style-type: none"><li>• Is it providing the 'right' answers?</li><li>• What could we do better?</li></ul>

<b>Day Two Wednesday 13 September</b>	4. Accounting concepts, including: <ul style="list-style-type: none"> <li>• Accountants – scorers, measurers &amp; interpreters, or agents of social change?</li> <li>• Cash Vs accrual accounting</li> <li>• Operating Vs capital expenditure</li> <li>• Is the public sector different?</li> </ul>
	5. The NZ Government’s budget process
	6. Financial management & analysis <ul style="list-style-type: none"> <li>• Crown</li> <li>• Departmental</li> <li>• Financial analysis</li> </ul>
	7. Financial reporting <ul style="list-style-type: none"> <li>• Accountability to external parties</li> <li>• Financial reporting standards</li> </ul>
<b>Day Three Thursday 14 September</b>	8. Service performance reporting
	9. Local Government – What’s different?
	10. What’s the best governance model for public sector entities?
	11. The role of audit
<b>Day Four Friday 15 September</b>	12. A CFO’s view of relationships with, and information needs of, stakeholders
	13. Lessons learned from the reforms
	14. Ethics
	15. Class discussion – key issues arising during the course

## Course Content

### 1. *How Government works: Introduction to the New Zealand Public Sector*

#### Topic Description

This section provides an introduction to the New Zealand public sector answering questions such as:

- How is the country governed – do we have a written constitution?
- What are the relative roles of:
  - The Governor-General?
  - Parliament?
  - The Executive?
  - The Judiciary?
- What is policy? Who gives policy advice? Who makes policy decisions?
- Why is the public sector split into different types of entities?
- What is the difference between central and local government?
- What legislation affects the public sector?

#### Readings

Decisionmaker New Zealand: *Guidebook to Parliament for the Community*

[www.decisionmaker.co.nz/guide2003/](http://www.decisionmaker.co.nz/guide2003/)

#### Desired Learning Outcomes

At the end of these lectures you should have a broad understanding of NZ's system of government, its major players, what they do, and how they interact with each other (You should also realise that governance and financial management in the public sector is different from the private sector!).

### 2. *Framework for thinking about the reforms and setting the scene: The NZ public sector financial management system*

- **concepts**
- **the reform process**
- **the integrated management cycle.**

#### Topic Description

This section will examine the ideas that underlie the financial management system operated by the New Zealand Government. The matters covered in this session include:

- The problems the system was seeking to address.
- The view taken of accountability relationships.
- The concepts of performance (including the output/outcome distinction, ownership and purchase, and the control distinction between the accountabilities of chief executives and of the Government as a whole).
- The Integrated Management Cycle (planning, budgeting, operating, reporting, audit and review) across the different reporting entities within government.
- The 7-S Model – and organisational alignment tool as a framework for analysis of strategy, structure, systems, staffing, skills, style, and share values.

#### Readings

- PowerPoint presentation – *Concepts & Reforms, the Integrated Management Cycle*, **David Macdonald**
- PowerPoint presentation – *Processes, documents & terminology [jargon] used in the Integrated Management Cycle*, **David Macdonald**

- **The Treasury (1996), *Putting it Together - An Explanatory Guide to the New Zealand Public Sector Financial Management System*** ( Chapters 1 and 2) - available from the Treasury website: <http://www.treasury.govt.nz/publicsector/pit/>
- **The Treasury (2005), *A Guide to the Public Finance Act*** available from the Treasury website: <http://www.treasury.govt.nz/pfa/guide-pfa.pdf>

### Desired Learning Outcomes

The first PowerPoint presentation describes the economic theories behind, and the rationale for, the system of financial management that has evolved in New Zealand over the last 20 years. The second PowerPoint presentation details the documents, processes and accountability mechanisms that are used in the Integrated Management Cycle.

The system of financial management is set out in a great deal more detail in the two Treasury Publications – “Putting it Together” [which is accurate in principle but some of the documentation has changed] and “A Guide to the Public Finance Act”.

This material will not be discussed in detail – if you want further clarification you should ask questions in class.

### Discussion Questions

- What are the key concepts underlying the New Zealand Government’s financial management system?
  - What evaluative framework(s) could be used to judge the success (or lack of success) of NZ’s public sector financial reforms?
  - Managing public expenditure and democratic government – who is accountable to whom and for what?
3. ***Are we on the right track? Public sector financial management in New Zealand – Is it providing the ‘right answers? What could we do better?***

### Topic Description

Drawing on Session 1, this session will discuss the reform process and whether it is achieving what reformers set out to achieve. ***This session and session 1 are an important resource for your essay.***

### Readings

- *Modernising Government: The Synthesis*, **Alex Matheson** (2004)
- **State Services Commission**, *Working Paper # 18, Whither Accountability?* **Bruce Anderson & Lynne Dovey** (9/2003)
- *Departmental Uptake of the Managing for Outcomes Initiative (8/2003)*, **Economic & Strategy Group** (ISBN 0-478-24436-3)
- *Managing for Outcomes: Accountability and Thrust*, **Karen Baehler** (Australian Journal of Public Administration, 2003)
- Chapters 1, 2 and 7 of **Scott, Graham** (2001) *Public Management in New Zealand: Lessons & Challenges*, Centre for Law and Economics Australian National University Canberra, Melbourne, Wellington, April 2001
- *Sector Neutrality’ and NPM ‘Incentives’: their use in Eroding the Public Sector*, **Susan Newberry**, Australian Accounting Review, Vol 13, No 2, 2003)  
<http://helicon.vuw.ac.nz:2065/pgdweb?did=381180361&sid=1&Fmt=3&clientId=7511&RQT=309&VName=PQD>
- **Treasury Working Paper 01/06, Review of Evidence on Broad Outcome of Public Sector Management Regime**, **Murray Petrie & David Webber**, 2001
- Lecture at the Treasury, *Reflections on the New Zealand Model*, **Professor Allen Schick**, August 2001



- *Report of the Advisory Group on the Review of the Centre – the Executive Summary*, November 2001

#### Additional readings

- *Obedient Servants? Management Freedoms and Accountabilities in the New Zealand Public Sector*, **Richard Norman**, Victoria University Press, 2003
- *The NZ Macroeconomy: Striving for Sustainable Growth with Equity*, **Dalziel, Paul & Lattimore, Ralph**, Oxford University Press (5<sup>th</sup> edition 2004)
- *The Challenge of Evaluating Systemic Change: The Case of Public Management Reform*, **Jonathan Boston** (December 2000)
- Chapters 1 and 2 of *Public Management – The New Zealand Model*, **Boston et al**, Oxford University Press 1996

#### Desired Learning Outcomes

The readings have been chosen to provide a broad range of views and perspectives on the success (or otherwise) of the financial reforms in New Zealand over the past 20 years.

These readings – together with the readings for Session 7, Service Performance Reporting - provide the background for your essay topic which asks you to *evaluate* whether changes in the system of financial management and reporting *since 2000* address the issues that commentators have raised.

A great deal has been written about the reform process and your problem is to filter all this information and write an interesting and coherent essay which incorporates your own views and experiences. You should appreciate that in order to carry out an effective evaluation process you need to have a set of criteria to evaluate against. You should also consider the Course Objectives set out on page 2 of the Course Outline.

#### Discussion Questions

- What are the results of new public management as practiced in New Zealand:
  - Are public expenditures better managed?
  - Are resources more effectively managed?
  - Is there too little or too much accountability?
  - Does accountability [reporting and monitoring] bring about change?
  - Does parliamentary scrutiny [select committee reviews] serve a useful purpose?
- Is it possible to find a balance between freedom to manage, accountability, and the interests of stakeholders?
- Efficiency Vs effectiveness – trade-off, or fundamental difference in approach?
- The *Review of the Centre* identified fragmentation, problems with providing integrated service delivery, and lack of innovation, as areas where central government needed to improve.
  - To what extent does the financial management system contribute to these problems?
  - Has the system changed to help address these problems?
- Has the social impact of the reforms been adequately evaluated?

## 4. Accounting Concepts

#### Topic Description

One of the distinguishing features of NZ's public sector financial management system is the use of accrual accounting concepts for appropriations, budgeting, and financial reporting.

This session discusses the role of accountants and accounting – are accountants scorers, measurers and interpreters, or are they agents of maintaining the status quo or achieving social change?

It then covers accounting issues, such as cash accounting, accrual accounting, capital expenditure, and operating expenditure.

And considers whether public sector accounting is different from private sector accounting – does it need a separate set of standards?

### Readings

- **Deegan, Craig & Samkin, Grant** extracts from *NZ Financial Accounting* (2<sup>nd</sup> Edition) Chapter 2 – An overview of theories of accounting
- **Norman, Richard**, *Accounting for Government*, published by Victoria University of Wellington through Victoria Link Ltd, (1997)
- *Fooling the People*, **David Farrar** (March 2005)
- *ABCs of Finance*, **National Association for the Self-employed** (2005)
- *Words to live by*, **National Federation of International Business** (2003)
- *Australian treasurer explaining health budget in accrual terms*, **Burke** (2002)
- *Australian budget 2000 – summary in accrual & cash terms* (2000)
- *Introduction to accrual accounting & IFRSs in Australia* (2005)
- **Department of Corrections**, *Annual Report 2004/05*. Available from the Corrections website at: [www.corrections.govt.nz/public/pdf/annualreports/ar2005-complete.pdf](http://www.corrections.govt.nz/public/pdf/annualreports/ar2005-complete.pdf)

### Desired Learning Outcomes

As stated in the Course Objectives, this course will not make you an accountant.

However, it is useful to understand that accounting is an “art” not a “science” and there is often more than one way of recording an economic event. In addition, to quote Deegan & Samkin, “At present there is no universal agreement on the objective, role and scope of accounting and, consistent with this, there is no single accounting theory that is universally accepted.”

Some of you may find Chapter 2 from *New Zealand Financial Accounting* quite fascinating, others will probably find it rather impenetrable and boring and be grateful that you did not graduate in accounting! You should skim enough of this chapter to understand the difference between ‘positive’ and ‘normative’ theories and the application of ‘critical theory’ to accounting.

A further concept that you need to understand is the difference between cash accounting and accrual accounting.

### Discussion Questions

- Do you agree that “accounting is an art not a science”?  
If it’s an art doesn’t that lead to ‘creative accounting’?
- Are accounting standards too important to be designed by accountants?
- Is accrual accounting more useful than cash accounting?
  - Are there any drawbacks?
- How often does your organisation monitor its Statement of Financial Position (Balance Sheet) against its budget?

## 5. The NZ Government's Budget Process

### Topic Description

This session examines the rationale for, and behavioural aspects of, budgeting - and the nature of the budget process of the NZ Government. It also examines the documentation that is produced in the budget decision-making process.

### Readings

- PowerPoint presentation – *Budgets, Appropriations and the Public Finance Act*
- **Jensen, Gwenda**, 'Zen and the Art of Budget Management: The New Zealand Treasury', publication in *Controlling Public Expenditure The Changing Roles of Central Budget Agencies – Better Guardians?* (Edward Elgar Publications)
- **Treasury Working Paper 01/24**, *Budget Management That Counts: Recent Approaches to Budget and Fiscal Management in New Zealand*, **Angela Barnes & Steve Leith**
- **The Treasury**, *The New Zealand Fiscal Management Approach – An Explanation of Recent Changes (January 2003)*
- **Hansen & Mowen**, *Management Accounting (2 ed.)*, South Western College Publishing, Cincinnati, Ohio (1997), Chapter 8 (Budgeting for Planning and Control)

### On The Treasury Website

- **The Treasury** (2005), *Budget Process Guide* (December 2003).  
<http://www.treasury.govt.nz/budgetprocessguide/>
- **The Treasury** (2000), *Guide to Appropriations*  
<http://www.treasury.govt.nz/publicsector/appropriations/>
- **The New Zealand Government**, *2006 Budget Policy Statement*, which includes government goals for 2006 [www.treasury.govt.nz/budgetpolicy/2006/](http://www.treasury.govt.nz/budgetpolicy/2006/)

### Desired Learning Outcomes

You should understand:

- Why governments budget;
- Appropriations; and
- The main features of the legislation that determine the Government's budgeting process.

**In preparation for your Assignment you also need to understand the different methods of going about the budgeting process – especially the concepts of 'zero-based' budgeting, 'incremental' budgeting and 'reprioritisation'.**

The PowerPoint presentation is a series of lectures to undergraduates - PADM students should find this a basic primer on the subject.

### Discussion Questions

- What constitutes a good budget process?
- How good is the New Zealand Government's budget process in allocating resources efficiently and effectively? And how good is the budget process within your own organisation?
- Does the budget system make cooperation between departments more difficult?
- Are Supplementary Estimates and Imprest Supply subject to adequate review by Parliament?

## 6. Crown Financial Management – Fiscal Responsibility Departmental Financial Management – Capital Charge Financial Analysis

### Topic Description

Introduces:

- The fiscal responsibility principles and requirements now embodied in the Public Finance Act.
- The rationale for and workings of the capital charge for Departments.

Introduces the basic techniques of financial analysis and its relevance to government organisations.

### Readings

- PowerPoint presentation – *Crown Financial Management & Fiscal Responsibility*
- PowerPoint presentation – *Financial Analysis*
- Tutorial 3 – *Analysing the Crown's level of debt*
- **Tregilgas, Alan** – *Conveying Good performance: A Creditor Perspective on Public Sector Reporting Requirements* (1992 Public Sector Convention)
- **Scott, J** – *The impact of the capital charge on Government Departments*, Nelson Polytechnic (1997)
- **NZ Government**, *Crown Financial Statements 2005*  
<http://www.treasury.govt.nz/financialstatements/year/jun05/cfsyj05.pdf>
- **Ministry of Education**, *Annual report 2005*. Available from the Ministry's website  
[http://www.minedu.govt.nz/web/downloadable/dl10834\\_v1/ministry-of-education-annual-report-2005.pdf](http://www.minedu.govt.nz/web/downloadable/dl10834_v1/ministry-of-education-annual-report-2005.pdf)
- **Wellington City Council**, *Annual Report 2005*  
<http://www.wellington.govt.nz/plans/annualreport/0405/pdfs/0405annualreport.pdf>
- **The Treasury** (1999):
  - *Monthly Financial Monitoring of Departments*
  - *Introduction to Financial Analysis*
  - *Example of Financial Ratio Analysis – Ministry of Justice*
- **Standard & Poor's** (1998) *Sovereign Credit Rating: A Primer* December 1998

### Desired Learning Outcomes

Part of the session concentrates on the role of the fiscal responsibility provisions (now included in the Public Finance Act) in financial management, and the impact of institutional incentives such as the capital charge.

In addition, you will discuss the similarities and differences between the financial analysis of public sector organisations and the analysis of private sector organisations. And you will consider what information is important when assessing the credit worthiness of a sovereign government.

### Discussion Questions

- How do you know whether your organisation is doing well or not?
- What aspects of your organisation's financial performance can you control? How and by whom is the financial performance of your organization monitored?
- What does a vote analyst look at when analysing a department's finances?
- What are the main differences between the financial analysis of public sector entities and financial analysis of private sector for-profit entities?
- How is success measured in the Crown Financial Statements? Is Michael Cullen's OBERAC a valid/useful measure?
- How well is the capital charge working in your organization in determining whether to lease or purchase equipment?

## 7. Financial Reporting – Accountability to External Parties and IFRSs

### Topic Description

A key component of the financial management system is the use of accrual accounting. This session will address the process for establishing rules for external reporting, as well as some current issues in financial reporting that are relevant to the public sector.

### Readings

- Mindmap, *Financial Reporting to Stakeholders*, **David Macdonald**
- PowerPoint presentation – *Financial reporting: New Zealand Government*
- **Deegan, Craig & Samkin, Grant** – extracts from *NZ Financial Accounting (2<sup>nd</sup> Edition)* Chapter 8 – Accounting for Heritage Assets
- *NZ Equivalents to International Financial Reporting Standards [IFRSs]*
- **NZ Government**, *Crown Financial Statements 2005*  
<http://www.treasury.govt.nz/financialstatements/year/jun05/cfsyjun05.pdf>
- **Ministry of Education**, *Annual report 2005*. Available from the Ministry's website  
[http://www.minedu.govt.nz/web/downloadable/dl10834\\_v1/ministry-of-education-annual-report-2005.pdf](http://www.minedu.govt.nz/web/downloadable/dl10834_v1/ministry-of-education-annual-report-2005.pdf)
- **Wellington City Council**, *Annual Report 2005*  
<http://www.wellington.govt.nz/plans/annualreport/0405/pdfs/0405annualreport.pdf>
- **Jensen, Gwenda** (2002), *Financial Reporting Developments and Their Impact on Central Government Entities*, IIR Master Course

### Further Reading

- Chapter 7 in **The Treasury**, *Putting it Together - An Explanatory Guide to the New Zealand Public Sector Financial Management System*. Available on the Treasury website:  
<http://www.treasury.govt.nz/publicsector/pit/>
- **The Treasury (2005)**, *A Guide to the Public Finance Act* available from the Treasury website: <http://www.treasury.govt.nz/pfa/guide-pfa.pdf>
- **Institute of Chartered Accountants of New Zealand (ICANZ)**, *Framework for Differential Reporting* (1997)

### Desired Learning Outcomes

This session is designed to emphasise the wide scope of stakeholders who have differing interests in the financial reports of public sector entities (refer the mindmap), and consider whether financial reporting standards can meet all their information needs.

In addition you will:

- Learn how accounting standards are determined; and
- Consider a number of financial reporting issues that are unique to the public sector – a good example being accounting for heritage assets.

### Discussion Questions

- Public sector entities are generally involved in reporting performance.
  - Do financial indicators have any relevance?
  - What's the significance of a government department making a surplus – is this 'good' news or 'bad' news?
- What government-specific activities or powers present challenges for government financial reporting?
- Describe two current financial reporting issues for government entities and the GAAP applicable to those issues.
- Does financial reporting give adequate emphasis to inter-generational equity issues?
- Why have accounting standards in the public sector? Who should set them – Treasury, an independent standard setter in NZ, or a world body [the IASC]?

- What are the arguments for and against applying exactly the same accounting and financial reporting rules (so called, sector neutral standards) to public sector entities as those applied to private sector entities?

## 8. Service Performance Reporting

### Topic Description

This session discusses service performance reporting, focusing on a number of documents that address this issue.

### Readings

- PowerPoint presentation – *Service Performance Reporting in NZ Public Sector*, **David Macdonald**
- PowerPoint presentation – *Current Issues in Service Performance Reporting*, **David Macdonald**
- **NZ Herald leader** [3/7/06] – “*Unhealthy obsession with paper*”
- **Scott, Graham (2001)** - ‘Chapter 7 Setting and Monitoring Performance Specifications: Outputs and Outcomes’, *Public Management in New Zealand* pp 169-204
- *Reporting Public Sector Performance* [Summary Report], **Controller and Auditor-General**, 2001
- **Neale, Ann & Pallot, June (2001)**, ‘*Frontiers of Non-financial Performance Reporting in New Zealand*’, *Australian Accounting Review* Vol. 11 No. 3 2001  
<http://helicon.vuw.ac.nz:2065/pqdweb?did=95841877&sid=2&Fmt=3&clientId=7511&RQT=309&VName=PQD>
- **Neale, Ann & Anderson, Bruce (March 2000)**, ‘*Performance Reporting for Accountability Purposes – Lessons, Issues, Future*’, *International Public Management Workshop*
- **Olson, Jim**, ‘*Reporting Public Sector Financial Performance*’, 7<sup>th</sup> Annual Public Sector Finance Forum
- Worksheet entitled, ‘*Constraints on the current reporting of non-financial performance*’
- Worksheet entitled, ‘*Where should the public sector go with the reporting of non-financial performance?*’

### Additional readings

- **Review of the Centre Advisory Group (2001)**, *Executive Summary, Report of the Advisory Group on the Review of the Centre*, November 2001
- **Steering Group Managing for Outcomes Roll-out 2003/04 (2002)**, *Managing for Outcomes Output Plans Guidance for Departments*, December 2002
- *Key Government Goals to guide the public sector in achieving sustainable development*, **DPMC**

### Desired Learning Outcomes

Service performance reporting is a critical part of the accountability process in the public sector, but is there too much emphasis on accountability and not enough emphasis on developing performance indicators that help managers manage their organizations more effectively and efficiently?

The readings are designed to provide you with a wide range of views on reporting public sector performance, including the current emphasis on reporting outcomes and the linkages between outcomes and inputs. These readings will also be useful for your Essay.

Much of the session will be in the form of group discussion so that you can network with other students and learn how other public sector organizations are coping with the current major emphasis on performance measures and performance reporting. The discussion questions below are framed to provide a range of topics for you to discuss.

## Discussion Questions

- Why does your organisation capture information and report in the way that it does?
  - Who is the information useful to?
  - Is it appropriate? [i.e. Does it provide a good basis for judging the ‘success’ of your organization?]
  - Does this information help you to manage your organization?
- Has the increased focus on outcomes caused any problems for your organisation?
  - Are you happy to be judged on your achievement of outcomes rather than outputs?
  - Are you able to find a satisfactory link between outputs and outcomes?
  - Are the Government’s ‘Key Goals’ useful in providing a strategic direction for your organisation?
- Is your organisation reporting on risk management and capability? Is this useful information for stakeholders?
- How is your organisation going to measure, and get audited, the ‘triple bottom line’?

## 9. Financial Management in Local Government

### Topic Description

This session will provide an introduction to local government financial management - it highlights the similarities and differences with central government financial management.

### Readings

- PowerPoint presentation, *Financial Management in Local Government [Governance & Accountability]*, **David Macdonald**
- *The Local Government Act 2002: An Overview*, **Local Government New Zealand**
- Mindmap, ‘*Local Government Act 2002 - What’s different?*’, **David Macdonald**
- Mindmap, ‘*What’s different about local government?*’, **David Macdonald**
- *Local Government – Looking Back and Looking Forward*, **Auditor-General**, May 2002. Available on the *Office of the Auditor-General* website:  
<http://www.oag.govt.nz/2002/looking-back/looking-back.htm>
- *Local government – stakeholder “wicked issues”*
- **Dominion Post Leader** [10/7/06] – “*Lessening the rates weight*”
- **Pallot, June** (2001), ‘*Transparency in local government: antipodean initiatives*’, *The European Accounting Review* 2001 10:3. pp 645-660

### Desired Learning Outcomes

Local government is a very important area of economic activity in New Zealand, although not always recognized as such in Wellington circles. This is a good opportunity to learn more about how they operate.

The PowerPoint presentation and mind maps show how local government accounting and accountability issues have often foreshadowed changes in central government. The Local Government Act 2002 has put a huge emphasis on long term strategic planning and reporting on a ‘quadruple bottom line’ basis (economic, social, environmental, and cultural outcomes). The Act also provides the opportunity for local communities to make ‘local choices’ even when these choices might be out of sync with central government initiatives.

### Discussion Questions

- Describe the main ways in which the local government reforms resemble the central government reforms.
- Should/ could central government adopt the “power of general competence”?
- Compared to central government organisations, how free are local authorities to borrow, tax, spend and invest?
- What factors act to ensure that local authorities manage their finances well?

- Local Government Act 2002
  - Has the Act moved too far on outcomes?
  - Much of the effectiveness of the Act depends on consultation – what are the pitfalls?
  - How are TLAs going to prepare, and how is the Auditor-General going to audit, a “quadruple bottom line” SSP?

## 10. What is the Best Governance Model for Public Sector Entities?

### Topic Description

This session will focus on what governance model (the processes by which organisations are directed, controlled and held to account) works best for New Zealand public sector entities. Comparisons will be made with governance models in overseas public sector entities, and with private sector governance models.

### Readings

- State Services Commission, *Working Paper # 17, “Post-NPM Themes in Public Sector Governance, Gambhir Bhatta (9/2003)*
- *Continuous Improvement charts (2)*
- *Governance models elsewhere*, paper prepared for **NSW government (1998)**
- *Overview of governance models, Institute on Governance (2005)*

▪ Operational	▪ Policy governance
▪ Collective	▪ Results-oriented board
▪ Management	▪ Advisory
▪ Traditional	▪ Representational

- *Governance models: what’s right for your board, Nathan Garber & Associates (1997)*
- *The Business Risk Radar, Marsh (insurance brokers)*
- **Barrados, Maria & Mayne, John** – *Can Public Sector Organisations Learn?* (OECD Journal on Budgeting – Volume 3, No. 3)

### Desired Learning Objectives

Public sector organisations are looking for “continuous improvement” in their processes and financial management techniques. In addition, a great deal of emphasis has been placed recently on ‘capability’ and risk management - and private sector governance techniques and benchmarking practices are frequently cited as exemplars for the public sector.

This session explores possible governance models in the public sector and gives you the opportunity to discuss with other students practices and models that have worked for your organisation.

### Discussion Topics

- Has the introduction of private sector governance institutions – e.g. internal audit, audit committees, advisory boards, etc – been useful, or has it just provided another level of compliance costs?
- What use can be made of private sector financial management techniques?
  - Risk management
  - Asset management
  - Public finance initiatives
  - Benchmarking
- What aspects of public sector governance would not be appropriate in the private sector?



- Does your organisation have policies for:
  - Controlling sensitive expenditure?
  - Minimizing the likelihood of fraud?
- Do you contract with NGOs on the same basis as with other organisations

## 11. The Role of Audit

### Topic Description

This section of the course will examine the role of the audit including the Auditor-General, both as an integral part of the integrated financial management cycle and as a reporter to parliament on *accountability* and *improvement* issues.

### Readings

- PowerPoint presentation, *The Role of Audit & the Auditor-General*, **David Macdonald**
- **Jacobs, Kerry**, *Value for Money Auditing in New Zealand: Competing for Control in the Public Sector* (1998), British Accounting Review
- **Buchanan, Robert and Simpkins, Kevin** (2001) 'A New Age for Public Auditing', Chartered Accountants Journal of New Zealand, July 2001, pp 8-11
- **Boston, Jonathan et al**, *Public Management: The New Zealand Model*, Oxford University Press, (1996), Chapter 15

### Auditor-General's website

- *Auditing Standards* (May 2005) – pages 6-23  
<http://www.oag.govt.nz/auditing-standards/audit-standards.htm>
- *Annual Plan 2006-07* <http://www.oag.govt.nz/annual-plan/2006-07/default.htm>
- *Annual Report 2004-05* <http://www.oag.govt.nz/annual-report/2004-05/default.htm>
- *Central Government: Results of the 2004-05 Audits*  
<http://www.oag.govt.nz/central-govt/2004-05/default.htm>
- *Public Audit Act 2001* and a number of accompanying policy papers <http://www.oag.govt.nz/about-us/PublicAuditAct/paa-home.htm>

### Desired Learning Outcomes

The Auditor-General plays an important role in public sector accountability and in improving public sector management.

This session explains the role of the Auditor-General and gives an insight into some of the 'vigorous' debate leading up to the passing of the Public Audit Act 2002.

It also explores how a public sector audit differs from a private sector audit, with particular reference to performance auditing. And, it answers the often asked question "who audits the auditor?"

### Discussion Questions

- What gives an audit value?
- How does the Auditor-General's 'legislative audit model' vary from a private sector audit?
- How does a performance audit vary from a financial audit?
- Given that the Auditor-General performs a mini performance audit (i.e. the audit of SSPs) on most public sector entities, is there any value in him carrying out discretionary performance audits?
- Critically discuss the following statement –  
"The new legislation [the Public Audit Act 2002] has increased the Auditor-General's independence, but his accountability to Parliament has remained weak!"

## 12. The Role of the CFO

### Topic Description

This section of the course will look at the role of the CFO, key relationships and the information needs of stakeholders.

### Desired Learning Outcomes

The Chief Financial Officer also plays an important role in public sector accountability and in improving public sector management with a Government department. Responsibility for the signoff of the Annual Financial Statements falls to the CEO and CFO which arguably places a higher responsibility on the CFO than in the private sector where the CFO does not have this responsibility.

This session looks at the role of the CFO and gives insights as to how it can add value and what stakeholders should expect.

### Discussion Question

- How does the role differ to that of a CFO in a private sector, should the roles and therefore skill sets required be the same or should they differ?

## 13. Lessons Learned from the Reforms

A guest presenter is to speak on an aspect of the reforms.

## 14. Ethics

### Topic Description

This section of the course will examine ethics in the public sector.

### Reading

- Plant, Raymond, *A Public Service Ethic and Political Accountability*. Parliamentary Affairs; Oct 1, 2003; 56, 4; Academic Research Library, pg. 560.  
<http://helicon.vuw.ac.nz:2065/pqdweb?did=443837751&sid=3&Fmt=2&clientId=7511&RQT=309&VName=PQD>

### Desired Learning Outcomes

Ethics is an often debated issue and ethical issues often arise in the financial management arena in setting and interpreting policy. Issues of appropriateness of expenditure of taxpayer funding is a subject likely to hit media headlines if there is any perceived view of impropriety.

This session looks at ethical issues and examines a framework for appropriate management action.

### Discussion Question

- Should departments set different sensitive expenditure policies or should there be centralisation of policy in this area?
- What are appropriate questions to be asked when determining a course of action when faced with ethical issues?

## 15. Class discussion of Key Issues that have emerged During the Course

### Topic Description

This discussion session will be a “wrap-up”, identifying and discussing issues that have emerged during the course, and trying to reach some conclusions about the New Zealand public sector management system and, in particular, the financial management arrangements.

We intend to:

- consolidate the material covered during the course;
- consider some of the issues relating to the 2004 amendments to the Public Finance Act 1989 and the Crown Entities Act 2004;
- consider any other “wicked issues” currently facing public sector managers.

### Readings

- Address to the 7<sup>th</sup> Annual Public Sector Finance Forum by **John Whitehead**, Secretary to The Treasury, August 2003
- Speech to 7<sup>th</sup> Annual Public Sector Finance Forum by **Hon Dr Michael Cullen**, Minister of Finance, August 2003
- Worksheet entitled ‘4 Broad Aims of Public Finance Bill’
- PowerPoint presentation – *Public Finance Act Changes*, **Ken Warren** (Treasury)
- PowerPoint presentation – *The Crown Entities Act 2004*, **Jonathan Ayto** (Treasury) & **Ann Neale** (SSC)
- Article ‘*The Public Finance (State Sector Management) Bill: attacking democracy and the public purse*’ by **Sue Newberry & Alan Robb**
- Article in the Independent entitled ‘*Finance Bill erodes parliamentary sovereignty*’ by **June Pallot & Sue Newberry**

### Additional readings

- Cabinet Minute – CAB (03) 26/2A
- Consolidated Cabinet Paper on PFA Changes [Refer Treasury website <http://www.treasury.govt.nz/pfssm/-documents> ]

## **Mandatory Course Requirements**

To fulfil the mandatory course requirements for this course, you are required to:

1. submit all assignments by the due date, unless you have been granted an extension; and
2. attend all contact sessions of the course. If you are unable to attend a session, you must inform the course co-ordinator as soon as possible and you may be required to submit a further item of assessment.

## **Communication of Additional Information**

Additional information may be provided in class, by post, by email or via Blackboard.

## **Faculty of Commerce and Administration Offices**

### **Railway West Wing (RWW) - FCA Student and Academic Services Office**

The Faculty's Student and Academic Services Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications. To check for opening hours, call the Student and Academic Services Office on (04) 463-5376.

### **Easterfield (EA) - FCA/Education/Law Kelburn Office**

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education and Law is situated in the Easterfield Building - it includes the ground floor reception desk (EA 005) and offices 125a to 131 (level 1). The office is available for the following:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- Forms for FCA Student and Academic Services (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

To check for opening hours call the Student and Academic Services Office on (04) 463-5376.

## **General University Policies and Statutes**

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied. See the Victoria University Calendar available in hard copy or under 'About Victoria' on the VUW home page at [www.vuw.ac.nz](http://www.vuw.ac.nz).

## **Student and Staff Conduct**

The Statute on Student Conduct together with the Policy on Staff Conduct ensure that members of the University community are able to work, learn, study and participate in the academic and social aspects of the University's life in an atmosphere of safety and respect. The Statute on Student Conduct contains information on what conduct is prohibited and what steps are to be taken if there is a complaint. For information about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor or refer to the statute on the VUW policy website at [www.vuw.ac.nz/policy/studentconduct](http://www.vuw.ac.nz/policy/studentconduct). The Policy on Staff Conduct can be found on the VUW website at [www.vuw.ac.nz/policy/staffconduct](http://www.vuw.ac.nz/policy/staffconduct).

## **Academic Grievances**

If you have any academic problems with your course, you should talk to the tutor or lecturer concerned; class representatives may be able to help you in this. If you are not satisfied with the result of that meeting, see the Head of School or the relevant Associate Dean; VUWSA Education Co-ordinators are available to assist in this process. If, after trying the above channels, you are still unsatisfied, formal grievance procedures can be invoked. These are set out in the Academic Grievances Policy which is published on the VUW website at [www.vuw.ac.nz/policy/academicgrievances](http://www.vuw.ac.nz/policy/academicgrievances).

## **Academic Integrity and Plagiarism**

Academic integrity is about honesty – put simply, it means **no cheating**. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. The University defines plagiarism as follows:

*The presentation of the work of another person or other persons as if it were one's own, whether intended or not. This includes published or unpublished work, material on the Internet and the work of other student or staff.*

It is still plagiarism even if you re-structure the material or present it in your own style or words.

*Note: It is, however, perfectly acceptable to include the work of others as long as that is acknowledged by appropriate referencing.*

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalised severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- cancellation of your mark for an assessment or a fail grade for the course
- suspension from the course or the University.

Find out more about plagiarism, and how to avoid it, on the University's website at [www.vuw.ac.nz/home/studying/plagiarism.html](http://www.vuw.ac.nz/home/studying/plagiarism.html).

## **Students with Impairments**

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities the same opportunity as other students to demonstrate their abilities. If you have a disability, impairment or chronic medical condition (temporary, permanent or recurring) that may impact on your ability to participate, learn and/or achieve in lectures and tutorials or in meeting the course requirements, please contact the Course Co-ordinator as early in the course as possible. Alternatively, you may wish to approach a Student Adviser from Disability Support Services (DSS) to discuss your individual needs and the available options and support on a confidential basis. DSS are located on Level 1, Robert Stout Building, telephone (04) 463-6070, email [disability@vuw.ac.nz](mailto:disability@vuw.ac.nz). The name of your School's Disability Liaison Person is in the relevant prospectus or can be obtained from the School Office or DSS.

## **Student Support**

Staff at Victoria want students to have positive learning experiences at the University. Each Faculty has a designated staff member who can either help you directly if your academic progress is causing you concern, or quickly put you in contact with someone who can. Assistance for specific groups is also available from the Kaiwawao Māori, Manaaki Pihipihinga or Victoria International.

In addition, the Student Services Group (email [student-services@vuw.ac.nz](mailto:student-services@vuw.ac.nz)) is available to provide a variety of support and services. Find out more at [www.vuw.ac.nz/st\\_services/](http://www.vuw.ac.nz/st_services/).

VUWSA employs Education Co-ordinators who deal with academic problems and provide support, advice and advocacy services, as well as organising class representatives and Faculty delegates. The Education Office (telephone (04) 463-6983 or (04) 463-6984, email [education@vuwsa.org.nz](mailto:education@vuwsa.org.nz)) is located on the ground floor, Student Union Building.

### **Manaaki Pihipihinga - Maori and Pacific Mentoring Programme (Faculty of Commerce and Administration)**

This is a mentoring service for Maori and Pacific students studying at all levels. Weekly one hour sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade, and Room 210 and 211, Level 2, Railway West Wing. Sessions cover drafting and discussing assignments, essay writing, and any questions that may arise from tutorials and/or lectures. A computer suite networked to Cyber Commons is available for student use.

To register with Manaaki Pihipihinga, please contact one of the following:

Puawai Wereta  
Room 210, Level 2  
Railway West Wing  
Tel. (04) 463-8997  
Email: [puawai.wereta@vuw.ac.nz](mailto:puawai.wereta@vuw.ac.nz)

Fa'afai Seiuli  
Room 109 B  
14 Kelburn Parade  
Tel. (04) 463-5842  
Email: [faafoi.seiuli@vuw.ac.nz](mailto:faafoi.seiuli@vuw.ac.nz)