

## School of Government

### MMPM 504

## FINANCIAL MANAGEMENT IN THE PUBLIC SECTOR (15 Points)

Trimester 2 / 2009

### COURSE OUTLINE

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#### Names and Contact Details

**Course Coordinator:** **Professor David Macdonald**  
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Room RH 702, Level 7, Rutherford House, Pipitea Campus  
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**Office Hours:** 8.30am to 5.00pm, Monday to Friday

#### Trimester Dates

**Trimester Dates:** Monday 13 July to Saturday 14 November 2009

**Teaching Period:** Monday 6 July to Saturday 24 October 2009

#### Class Times and Room Numbers

<b>Module One:</b>	Wednesday 8 July 2009	8.30am – 6.00pm
<b>Module Two:</b>	Wednesday 2 September 2009	8.30am – 6.00pm
<b>Module Three:</b>	Wednesday 21 October 2009	8.30am – 6.00pm

**Location:** Classes will be held on the Pipitea Campus of Victoria University in Wellington. You will be advised of your classroom one week prior to each module by email.

## Course Learning Objectives

By the end of this course, students should be able to:

- ❖ Analyse whether, and how, financial management in New Zealand answers the four questions that citizens want answers to regarding the operations of the Government:
  - Is it managing its financial affairs prudently? [*the money thing*]
  - 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? [*governance, capability & risk management*]
  - Are its activities being carried out in accordance with the law and expected standards of conduct and probity? [*authority and probity*]
  
- ❖ Understand the elements of the *integrated management cycle* – strategic planning, budgeting & resource allocation, operations & budget implementation, and monitoring and reporting. (This involves integrating finance, human resources and organisational resources into the overall planning structure.)
  
- ❖ Understand 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 critically assessing whether:
  - Public expenditure is better managed.
  - Resources are more effectively allocated.
  - There is too much emphasis on ‘accountability’ and not enough on ‘performance’:
    - Is the accountability to the right stakeholders?
    - Does a high level of accountability (reporting, monitoring, auditing, and the front page of the Dominion Post) bring about efficient and effective performance?
    - Do public servants spend more effort ‘gaming’ accountability requirements than striving for performance?
    - What is the relationship between risk management and accountability?
  - Stakeholders are able to evaluate whether outcomes have been achieved and why.
  - Parliamentary scrutiny serves a useful purpose.
  
- ❖ Assess whether significant current developments (such as the current focus on outcomes, preparation of Statements of Intent, and emphasis on ‘risk’ and ‘capability’) answer the issues raised by recent critiques of the New Zealand financial management system.
  
- ❖ Understand 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; to 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 8 to 22 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 will be referred to reasonably often:

- **Scott, Graham**, *Public Management in New Zealand*, Centre for Law and Economics Australian National University Canberra, Melbourne, Wellington, April 2001 (Textbook for 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 (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/publications/guidance/publicfinance/pit> [Please note that some of this publication is now out-of-date.]
- **The Treasury**, *A Guide to the Public Finance Act* (August 2005) - can be downloaded from <http://www.treasury.govt.nz/publications/guidance/publicfinance/pfaguide>

In addition, throughout the course reference will be made to the following accountability documents for the **Department of Corrections**:

- *Estimates for Vote Corrections in the New Zealand Government's Estimates of Appropriations for the year ended 30 June 2008*. Available from the Treasury website at: <http://www.treasury.govt.nz/budget/2007/estimates/est07corr.pdf>
- **Department of Corrections**, *Strategic Business Plan 2008 – 2013*. Available from the Corrections website at: <http://www.corrections.govt.nz/public/pdf/publications/stratbusplan.pdf>
- **Department of Corrections**, *Statement of Intent 2007/08*. Available from the Corrections website at: [http://www.corrections.govt.nz/data/assets/pdf\\_file/0005/255677/corrections-soi-2007.pdf](http://www.corrections.govt.nz/data/assets/pdf_file/0005/255677/corrections-soi-2007.pdf)
- **Department of Corrections**, *Annual Report 2007/08*. Available from the Corrections website at: [http://www.corrections.govt.nz/data/assets/pdf\\_file/0005/295241/07-08-Annual-Report.pdf](http://www.corrections.govt.nz/data/assets/pdf_file/0005/295241/07-08-Annual-Report.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 **21 August 2009**, worth **50%**
2. An *Assignment*, to be submitted by **9 October 2009**, worth **50%**

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

**Due Date:** 21 August 2009      **Max length:** 3,000 words      **Worth:** 50%

Over the last 20 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 to illustrate your discussion.

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

**Due Date:** 9 October 2009      **Max length:** 2,500 words      **Worth:** 50%

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.

*Note: If you do not work for a public sector organisation, or you are a foreign student, you will need to talk to the Course Coordinator [David Macdonald] to arrange modified Essay and Assignment topics.*

**Please submit ALL assignments IN HARD COPY to:**

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

Assignments that are submitted in person should be placed in the secure box at School of Government reception (Level 8, Rutherford House, Pipitea Campus) during office hours of 8.30am to 5.00pm, Monday to Friday. The assignment box is cleared daily, and assignments will be date stamped.

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

*Note: Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.*

## **Mandatory Course Requirements**

Submit or participate in all pieces of assessment required for this course.

## **Class Attendance**

The School expects you to attend all three modules for the course. If, before enrolment for a course, you are aware that you will not be able to attend a module, you must notify the Director of Master's Programmes when you enrol explaining why you will not be able to attend. The Director of Master's Programmes will consult with the relevant course coordinator. In such circumstances, you may be declined entry into a course.

If you become aware after a course starts that you will be unable to attend a module or a significant part of a module (i.e. more than two hours in any given day), you must advise the course coordinator before the module explaining why you will be unable to attend. The course coordinator may excuse you from attendance and may also require you to complete compensatory work relating to the course content covered during your absence.

## **Deadlines and Failure to Meet Due Dates**

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 per cent for every day by which the assignment is late and no assignments will be accepted after five working days beyond the date they are due. For example, if you get 65% for an assignment,

but you handed it in on Monday when it was due the previous Friday, you will get a mark of 50%.

If ill-health, family bereavement or other personal circumstances beyond your control prevent you from meeting the deadline for submitting a piece of written work or from attending class to make a presentation, you can apply for and may be granted an extension to the due date. You should let your course coordinator know as soon as possible in advance of the deadline (if circumstances permit) if you are seeking an extension. Where an extension is sought, evidence, by way of a medical certificate or similar, may be required by the course coordinator.

## **Course Delivery**

This course is delivered in a modular format, which includes a minimum of 24 hours contact. The 24 hours are broken up into three separate days of eight hours each (a 'module'). There are three modules in the course with approximately five to six weeks between each module. Attendance is required at all three modular teaching days (8.30am – 6.00pm).

## **Expected Workload**

The learning objectives set for each course are demanding and, to achieve them, candidates must make a significant commitment in time and effort to reading, studying, thinking, and completion of assessment items outside of contact time. Courses vary in design but all require preparation and learning before the first module. Regular learning is necessary between modules (students who leave everything to the last moment rarely achieve at a high level). Expressed in input terms, the time commitment required usually translates to 65-95 hours (excluding class contact time) per course.

## **Communication of Additional Information**

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

## **Withdrawal Dates**

Students giving notice of withdrawal from this course after **Monday 20 July 2009** will NOT receive a refund of fees.

Students giving notice of withdrawal from this course after **Monday 12 October 2009** are regarded as having failed the course, unless the Associate Dean subsequently gives approval to withdraw.

Notice of withdrawal must be in writing / emailed to the Masters Administrator. Ceasing to attend or verbally advising a member of staff will NOT be accepted as a notice of withdrawal.

## Course Structure

### Lecture Programme 2009

Module	Topic	Lecturer
<b>Module 1</b> 8 July	1. <i>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>	David Macdonald
	2. <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>	David Macdonald
	3. The NZ Government’s budget process	Rose Anne MacLeod
	4. Accounting concepts, including: <ul style="list-style-type: none"> <li>• Cash Vs accrual accounting</li> <li>• Operating Vs capital expenditure</li> <li>• Is the public sector different?</li> <li>• Financial Reporting Standards</li> </ul>	Rose Anne MacLeod
<b>Module 2</b> 2 September	5. Accounting – Applying the Concepts – Case Study	Rose Anne MacLeod
	6. Financial Reporting – Accountability to External Parties	Rose Anne MacLeod
	7. Service performance reporting	David Macdonald
	8. Local government – what’s different?	David Macdonald
<b>Module 3</b> 21 October	9. Governance and ethics	Rose Anne MacLeod
	10. Role of audit and the Auditor-General	David Macdonald
	11. A CFO’s view of relationships with, and information needs of, stakeholders	Rose Anne MacLeod
	12. Class discussion – key issues arising during the course	David Macdonald Rose Anne MacLeod

## Course Content

1. ***Setting the scene: the NZ public sector financial management system***
  - **concepts and 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.

### **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.

### **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**

### **Other references**

- **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/publications/guidance/publicfinance/pit>
- **The Treasury**, *A Guide to the Public Finance Act* (August 2005) - can be downloaded from <http://www.treasury.govt.nz/publications/guidance/publicfinance/pfaguide>

### **Questions to consider when reading the background material [refer Course Objectives on page 2]**

- 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?
- Does good accountability mean effective performance?



## 2. *Are we on the right track: public sector financial management in NZ – 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, session 1, and session 7 on Service Performance Reporting are an important resource for your essay.*

### 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.*

### Readings

- *Is there now a ‘New Zealand Model’?* **Jeff Chapman & Grant Duncan**, Public Management Review, Vol 9, issue 1, 2007 1-25 (ISSN 1471-9037)
- *What we might know (but aren’t sure) about Public-Sector Accrual Accounting* **Mark Christensen**, Australian Accounting Review, Mar 2007,17,1; p51-65
- *A Wolf in Sheep’s Clothing? Wider Consequences of the Financial Management System of the New Zealand Central Government*, **Susan Newberry & June Pallot** (Financial Accountability & Management, 21(3), August 2005, 0267-4424)
- *Modernising Government: The Synthesis*, **Alex Matheson** (2004)
- **State Services Commission**, *Working Paper # 18, Whither Accountability?* **Bruce Anderson & Lynne Dovey** (9/2003)
- *Managing for Outcomes: Accountability and Thrust*, **Karen Baehler** (Australian Journal of Public Administration, 2003)
- *Whither the New Zealand Experiment: Thermidorean Reaction or Rediscovering the importance of Capacity – Some views from New Zealand*, **the editors** (Australian Journal of Public Administration, 62(4):3-6, December 2003)
- 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

- **Treasury Working Paper 01/06, Review of Evidence on Broad Outcome of Public Sector Management Regime**, **Murray Petrie & David Webber**, 2001  
<http://www.treasury.govt.nz/publications/research-policy/wp/2001/01-06/twp01-06.pdf>

- *Obedient Servants? Management Freedoms and Accountabilities in the New Zealand Public Sector*, **Richard Norman**, Victoria University Press, 2003
- *Departmental Uptake of the Managing for Outcomes Initiative (8/2003)*, **Economic & Strategy Group** (ISBN 0-478-24436-3)  
[http://www.ssc.govt.nz/upload/downloadable\\_files/Dept\\_Uptake\\_MFO\\_Initiative.pdf](http://www.ssc.govt.nz/upload/downloadable_files/Dept_Uptake_MFO_Initiative.pdf)
- *The Challenge of Evaluating Systemic Change: The Case of Public Management Reform*, **Jonathan Boston** (December 2000)

## ***Are we on the right track: public sector financial management in NZ – Is it providing the ‘right answers? What could we do better?’***

### **Questions to consider when undertaking background reading**

- 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 much emphasis on ‘accountability’ and not enough on ‘performance’?
    - Is the accountability to the right stakeholders?
    - Does a high level of accountability (reporting, monitoring, auditing, and the front page of the Dominion Post) bring about efficient and effective performance?
    - Do public servants spend more time ‘gaming’ accountability requirements than striving for performance?
    - What is the relationship between risk management and accountability?
  - 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?

### 3. 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.

#### 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 –including the concepts of 'zero-based' budgeting, 'incremental' budgeting and 'reprioritisation'.*

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

#### Readings

- PowerPoint presentation – *Budgets, Appropriations and the Public Finance Act*
- **Marti, Caridad**, *Accrual Budgeting: Accounting treatment of Key Public Sector Items and Implications for Fiscal Policy*, Public Budgeting & Finance, Summer 2006
- **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)

#### On The Treasury Website

- **Working Paper 01/24**, *Budget Management That Counts: Recent Approaches to Budget and Fiscal Management in New Zealand*, **Angela Barnes & Steve Leith**  
<http://www.treasury.govt.nz/publications/research-policy/wp/2001/01-24/twp01-24.pdf>
- *The New Zealand Fiscal Management Approach – An Explanation of Recent Changes (January 2003)*  
<http://www.treasury.govt.nz/publications/guidance/budget/fmapproach/fmapproach.pdf>
- *Budget Process Guide*  
<http://www.treasury.govt.nz/publications/guidance/budget/process/>
- *A Guide to the Public Finance Act* (Appropriations, pages 11-28)  
<http://www.treasury.govt.nz/publications/guidance/publicfinance/pfaguide>
- **The New Zealand Government**, *2008 Budget Policy Statement*, which includes government goals for 2008 <http://www.treasury.govt.nz/budget/2008/bps/bps08.pdf>

#### Questions to consider when undertaking background reading

- 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?

## 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 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?

### 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’.

### 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)
- *Introduction to accrual accounting & IFRSs in Australia* (2005)

### Other references

- Accounting Terms – financial & management accounting
- **Department of Corrections**, *Annual Report 2007/08*.  
[http://www.corrections.govt.nz/data/assets/pdf\\_file/0005/295241/07-08-Annual-Report.pdf](http://www.corrections.govt.nz/data/assets/pdf_file/0005/295241/07-08-Annual-Report.pdf)

### Questions to consider when undertaking background reading

- 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. Accounting – Applying the Concepts – Case Study

### Topic Description

Accounting information has implications for management action. The module highlights issues surrounding accounting, ethics, incentive alignment et al and forms an interesting context on which to look at accounting and financial management. This module looks and discusses the issues.

Students **are required** to read the following case study prior to this module.

- Case Study: The New Zealand Teachers Council's First Year (A) and the New Zealand Teachers Council Annual Report 2002/3

### Desired Learning Outcomes

The learning outcome is to gain an understanding of accounting principles and be able to understand and apply them.

### Readings

- Case Study: The New Zealand Teachers Council's First Year (A) and the New Zealand Teachers Council Annual Report 2002/03
- PowerPoint presentation – *Crown Financial Management & Fiscal Responsibility*
- PowerPoint presentation – *Financial Analysis*
- *Freedom or Coercion? NPM Incentives in New Zealand Central Government Departments*, **Susan Newberry & June Pallot**, (Management Accounting Research 15, 2004, 247-266)
- 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)
- **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

### Annual reports

- **The New Zealand Teachers Council**, *2007/08 financial statements*.

### Questions to consider when undertaking background reading

- How do you know whether or not your organisation is doing well?
- What aspects of your organisation's financial performance can you control? How and by whom is the financial performance of your organisation 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 well is the capital charge working in your organization in determining whether to lease or purchase equipment?

## 6. Financial Reporting – Accountability to External Parties

### Topic Description

A key component of the financial management system is the use of accrual accounting. This session will look at the techniques in assessing financial performance.

### Desired Learning Outcomes

This session is designed to understand financial reports in the public sector.

### Readings

- Mindmap, *Public Sector Reporting to Stakeholders*, **David Macdonald**
- PowerPoint presentation – *Financial reporting: New Zealand Government & Departments*
- **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]*
- **Jensen, Gwenda** (2002), *Financial Reporting Developments and Their Impact on Central Government Entities*, IIR Master Course

### Further Reading

- **The Treasury**, *Putting it Together - An Explanatory Guide to the New Zealand Public Sector Financial Management System*  
<http://www.treasury.govt.nz/publications/guidance/publicfinance/pit>  
*[Please note that some of this book is out-of-date.]*
- **The Treasury**, *A Guide to the Public Finance Act* (August 2005)  
<http://www.treasury.govt.nz/publications/guidance/publicfinance/pfaguide>
- **Institute of Chartered Accountants of New Zealand (ICANZ)**, *Framework for Differential Reporting* (1997)

### Annual Reports

- **Wellington City Council**, *2007/08 Annual Report*  
<http://www.wellington.govt.nz/plans/annualreport/0708/pdfs/2007-2008annreport.pdf>
- **Department of Corrections**, *Annual Report 2007/08*  
[http://www.corrections.govt.nz/\\_data/assets/pdf\\_file/0005/295241/07-08-Annual-Report.pdf](http://www.corrections.govt.nz/_data/assets/pdf_file/0005/295241/07-08-Annual-Report.pdf)
- **Government of New Zealand**, *2007/08 financial statements*.  
<http://www.treasury.govt.nz/government/financialstatements/yearend/jun08>

### Questions to consider when undertaking background reading

- 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?
- 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?

## 7. Service Performance Reporting

### Topic Description

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

### 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 on the next page are framed to provide a range of topics for you to discuss.

### Readings

- PowerPoint presentation – *Service Performance Reporting in NZ Public Sector*, **David Macdonald**
- PowerPoint presentation – *Current Issues in Service Performance Reporting*, **David Macdonald**
- **The Treasury & State Services Commission (in consultation with the Auditor-General)**, *Performance Information Measures and Standards in the SOI and Annual Report*
- *Public Service Management by Numbers: Why does it Vary? Where has it Come From? What are the Gaps and the Puzzles?* **Christopher Hood** (Public Money & Management, April 2007)
- **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 & Anderson, Bruce (March 2000)**, ‘Performance Reporting for Accountability Purposes – Lessons, Issues, Future’, International Public Management Workshop
- 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?’

### State Services Commission website

- *Performance Measurement: Advice & examples on how to develop frameworks* [8/08] [http://www.ssc.govt.nz/upload/downloadable\\_files/performance-measurement.pdf](http://www.ssc.govt.nz/upload/downloadable_files/performance-measurement.pdf)
- *The Capability Toolkit: A tool to promote & inform capability management* [12/08] [http://www.ssc.govt.nz/upload/downloadable\\_files/Capability-Toolkit-December-2008.pdf](http://www.ssc.govt.nz/upload/downloadable_files/Capability-Toolkit-December-2008.pdf)



## Service Performance Reporting

### 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
- **State Services Commission in conjunction with the Treasury, September 2003. ISBN 0-478-24438-X.** *Doing the Right Things and Doing Them Right - Improving Evaluative Activity in the New Zealand State Sector*  
<http://www.ssc.govt.nz/display/document.asp?docid=3507>

### Questions to consider when undertaking background reading

- 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?
- In your organisation, is there a conflict between:
  - ‘Risk management’ and ‘accountability’?
  - ‘Performance’ and ‘accountability’?
- Does your organisation set out to ‘game’ accountability requirements?
- How is your organisation going to measure, and get audited, the ‘triple bottom line’?

## 8. 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.

### 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.

### Readings

- PowerPoint presentation, *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. <http://www.oag.govt.nz/2002/looking-back/docs/looking-back.pdf>
- *Local government – stakeholder “wicked issues”*, **David Macdonald**
- **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

### Questions to consider when undertaking background reading

- 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?

## 9. Governance and Ethics

### Topic Description

This session will focus on governance (the processes by which organisations are directed, controlled and held to account) and a subset of good governance - ethics. Guiding principles are discussed.

### 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 principles to apply in the public sector and gives you the opportunity to discuss with other students practices and models that have worked for your organisation.

As a subset of good governance ethics is an important issue. It is often debated 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. A framework for appropriate management action is discussed

### Readings

- *Continuous Improvement charts* (2)
- *Governance models elsewhere*, paper prepared for **NSW Government** (1998)
- *Overview of governance models*, **Institute on Governance** (2005)
- *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)
- **State Services Commission**, *Working Paper # 17, “Post-NPM Themes in Public Sector Governance*, **Gambhir Bhatta** (9/2003)  
[http://www.ssc.govt.nz/upload/downloadable\\_files/Post-NPM\\_Themes\\_In\\_Public\\_Sector\\_Governance.pdf](http://www.ssc.govt.nz/upload/downloadable_files/Post-NPM_Themes_In_Public_Sector_Governance.pdf)
- **Plant, Raymond**, *A Public Service Ethic and Political Accountability*. Parliamentary Affairs; Oct 1, 2003; 56, 4; Academic Research Library, pg. 560.

### Questions to consider when undertaking background reading

- 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?

## 10. The Role of Audit and the Auditor-General

### Topic Description

This section of the course will examine the role of 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.

### 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 2001. 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?”

### Readings

- PowerPoint presentation, *The Role of Audit & the Auditor-General*, **David Macdonald**
- Mindmap, *What’s different about a public sector audit?* **David Macdonald**
- *Service Delivery: The Audit Dimension*, **Pallot, June** (Australian Journal of Public Administration, 58(3): 43-49, September 1999)
- **Jacobs, Kerry**, *Value for Money Auditing in New Zealand: Competing for Control in the Public Sector* (British Accounting Review, 1998)
- **Buchanan, Robert and Simpkins, Kevin** (2001), *A New Age for Public Auditing*, (Chartered Accountants Journal of New Zealand, July 2001, pp 8-11)

### Auditor-General’s website

- *Frequently Asked Questions*  
<http://www.oag.govt.nz/about-us/frequently-asked-questions/controller-and-auditor-general.pdf>
- *Report on the Efficiency & Effectiveness of the Auditor-General by an International Peer Review Team*, March 2008  
<http://www.oag.govt.nz/2008/peer-review/docs/peer-review-report.pdf>
- *Annual Plan 2007-08*  
<http://www.oag.govt.nz/annual-plan/2007-08/docs/oag-annual-plan-2007-08.pdf>
- *Annual Report 2007-08*  
<http://www.oag.govt.nz/annual-report/2007-08/docs/annual-report.pdf>
- *Central Government: Results of the 2006-07 Audits*  
<http://www.oag.govt.nz/central-govt/2006-07/docs/central-govt.pdf>
- *Public Audit Act 2001* and a number of accompanying policy papers  
<http://www.oag.govt.nz/about-us/governing-legislation>

### Questions to consider when undertaking background reading

- 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!”

## 11. A CFO's view of relationships with, and information needs of, stakeholders

### 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.

### Reading

- **Deloitte Touche Tohmatsu**, *The Finance Revolution. Insights and issues facing New Zealand Public Sector CFOs* (2002)
- **Biddlecombe, Dene**, *The Public Sector and Financial Expertise*; Chartered Accountants Journal; October 2006, pg.4.
- **MacLeod, R. A.**, *'The CFO in Government departments'* Chartered Accountants Journal, November 2000. Vol. 87, Iss. 10; p. 55

### Questions to consider when undertaking background reading

- 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?
- Are accountants scorers, measurers and interpreters? Or, are they agents of maintaining the status quo or achieving social change?
- What is the role of the CFO in a public sector entity?
- What are the information needs of stakeholders and how can they be met?

## **12. Class discussion of Key Issues that have emerged during the course**

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; and
- consider any other “wicked issues” currently facing public sector managers.

*If there is any subject you would like discussed in this time slot, please let David or Rose Anne know before the day!*

## **Other Information**

For the following important information follow the links provided:

### **Academic Integrity and Plagiarism**

<http://www.victoria.ac.nz/home/study/plagiarism.aspx>

### **General University Policies and Statutes**

<http://www.victoria.ac.nz/home/about/policy/academic.aspx>

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

<http://www.victoria.ac.nz/fca/studenthelp/Contactus.aspx>

### **Manaaki Pihipihinga Programme**

[http://www.victoria.ac.nz/st\\_services/mentoring/](http://www.victoria.ac.nz/st_services/mentoring/)