Setting high professional standards for public services around the world

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 154,000 members and 432,000 students in 170 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 80 offices and centres and more than 8,400 Approved Employers worldwide, who provide high standards of employee learning and development.

For further information

Gillian Fawcett
Head of Public Sector, ACCA
gillian.fawcett@accaglobal.com

www.accaglobal.com

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This paper updates ACCA's policy positions on a range of themes for public services. It sets out ACCA's policies for members, employers and a wide range of external stakeholders with an interest in public services.

Key drivers for the paper are:

- to set out the criteria for achieving strong public financial management
- to highlight the key skills for finance professionals
- to demonstrate the importance of the quality of information available (both financial and service delivery) to help inform decision making
- to set out criteria for achieving good governance which considers both the 'hard' factors of systems, procedures and audit and the 'soft' factors relating to developing a strong ethical culture.

Foreword

I'm delighted to introduce the 2013 edition of *'Setting high professional standards for public services around the world'*. This paper sets out ACCA's updated policy positions and themes for public services.

There is little doubt that we are continuing to live in financially challenging times. The problems highlighted by the sovereign debt crisis are deeply rooted in poor institutional fiscal management and exacerbated by issues of poor public financial management, accountability and transparency. Although there is evidence of some improvements being made around the world there is still much more to be done. In many countries governments need to improve the way in which they manage their finances that both protects the public interest and investors in governments. Improvements are needed irrespective of whether countries are facing periods of austerity or economic growth as both sets of circumstances present their own different challenges.

This paper refreshes ACCA's policies that were set out in its 2010 paper and addresses a number of key areas that are fundamentally important for finance professionals working in a time of rapidly changing public services. It covers issues ranging from how ACCA defines public services to what we believe constitutes effective public financial management and reporting, together with the governance of public services.

Overall, I believe that public services will continue to be important because of the significance of public expenditure, but most importantly because of the public value they offer. I also strongly believe that finance professionals, working in the public interest will have a pivotal role to play in promoting public confidence and trust in the stewardship of public finances. Given the scale of the financial challenges ahead and the opportunities they pose for the work of finance professionals, I am pleased to present an update of ACCA's policies to make them fit for the future and relevant to our members, employers and stakeholders.

Best wishes

Datuk Wan Selamah
Chairman
Public Sector Global Forum, ACCA

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1. The importance of public services

The amount of expenditure on public services is significant: government expenditure accounts for more than one-third of GDP in most countries. Globally, public services are rapidly changing and the demands on public services are growing, together with the tax bill. In the case of some western countries government debt exceeds GDP. Governments around the world are wrestling with a number of difficult and complex challenges – aging population, healthcare costs, reform of welfare support, provision of quality education, the environment and climate change, defence costs, protection of natural resources, terrorism, crime and infrastructure costs – in which strategic reviews of services need to take account of the changing world. This is at a time when public expectations about the quality of public services are growing and long-lasting improvements are being sought in accountability and transparency of public funds.

Notwithstanding the above, the challenges of today are unprecedented. Concerns about mountainous government deficits and debt levels in some countries are continuing to create alarm in the financial markets. This has led to a downgrading of debt in some developed countries and a crisis in confidence in the markets. Some view the measures taken to address the financial problems as having no more affect than taking a 'financial aspirin' to numb the pain. In contrast, some countries have not suffered the effects of the financial crisis to the same degree and are experiencing considerable periods of economic growth. But rapid economic growth brings new challenges such as huge demands for investment in public services infrastructure and taxation impositions to tackle low national wealth. Also, emerging economies also bring new challenges such as building up financial expertise and capacity. With both contexts in mind, it is ACCA's view that it is more important than ever for governments and finance professionals to work together to tackle the current problems on four fronts: aggregate financial management, governance, operational management and fiduciary risk management.

Given the pace of change and size of expenditure it is critical that finance professionals working within public services are equipped with the right skills to deal with the challenges ahead. The spot light is on financial professionals like never before. Although financial professionals are held in high esteem by the public when compared to other professions according to *Closing the Value Gap: Understanding the Accountancy Profession in the 21st Century* (ACCA 2012), there is still more to be done to show how they deliver public value. ACCA is well placed to help tackle the challenges as it is has a large international membership, working in 170 countries in the public and private sectors. This means that organisations benefit from having finance professionals who adhere to a strong ethical code and are equipped with both private and public sector skills. More specifically, our members in public services work across a diverse range of organisations, including government departments, regulators and auditors, healthcare providers and in regional and local governments. This also means that they are well placed to spread best practice, experience and knowledge on a host of technical issues.

The composition of the public sector varies by country and there are many definitions of the public sector, but for the purposes of this paper we use the wider definition 'public services'. In our view this reflects the public sector landscape today most accurately. It recognises that public services may have some element of government funding, ownership, public direction or regulation, in different combinations, but there is no longer a need for direct government ownership. The different definitions and our rationale for using public services are set out in Appendix A.

2. Strong public financial management

KEY CHALLENGES

There is an increasing focus on improving the quality of public financial management around the world, with many countries making important and impressive achievements in strengthening public financial management.

Nonetheless, much still remains to be done. The scale of the sovereign debt crisis that needs tackling reflects this. The role and size of the public sector are under increasing scrutiny with greater emphasis on fiscal management and discipline, and prioritisation of expenditure, financial reporting and value for money. As a result it is now even more important that governments, national and local institutions, auditors, regulators and professional accountancy bodies work together in partnership to achieve long-lasting improvements, transparency and accountability in public financial management.

In addition, improving public financial management is seen by many as a priority as governments grapple with achieving fiscal sustainability and managing fiscal risk. There is even greater emphasis than in the past on achieving effective budgeting and resource allocation. Governments and public services will have to work more effectively to ensure that budgets are linked to policy objectives and that value for money is secured, as well as to improve the credibility of financial reporting.

Similarly, the revenue raising capabilities of governments through taxation is a key a part of a modern public financial management system, not least because of the problems of an ever increasing tax burden and poor tax collection rates by some governments. The efficient collection of resources and budget allocation are both essential components of good financial management. In *The Twelve Tenets of Tax* (ACCA 2011b) we encourage governments to design simple tax systems and have set out what we believe makes an efficient and just tax system.

Strong leadership and the support and political will of national governments are vital to the success of any financial management change programme for strengthening fiscal management across a country. There is no 'quick fix', as many of the improvements may require legislative, structural and cultural changes, which take a significant amount of time to implement and embed. In emerging economies and developing countries these challenges extend to accessing resources to develop the necessary skills, capacity and cultural change.

OBJECTIVES OF FINANCIAL MANAGEMENT

ACCA, like the IMF, the World Bank, INTOSAI, OECD and International Public Sector Accounting Board (IPSASB), believes that public financial management is absolutely critical to improving the quality of public service outcomes, decision-making and long-term sustainability of public services. It affects how funding is used to address national and local priorities, the availability of resources for investment and the cost-effectiveness of public services. Also, it is more than likely that the general public will have greater trust in the public services and the finance professional if there is strong financial stewardship, accountability and transparency in the use of public funds. There are four key objectives that effective public financial management should cover:

- **aggregate financial management** – fiscal sustainability, resource mobilisation and allocation
- **operational management** – performance, value for money and strategic financial planning and management
- **governance** – transparency and accountability
- **fiduciary risk management** – controls, compliance and oversight (Parry 2010).

Finance professionals will need to address these objectives for improving financial management and budgeting by responding to changes in financial reporting, securing better regulation, strengthening institutions, improving risk management and governance, and tackling fraud and corruption.

KEY FINANCIAL MANAGEMENT SKILLS

Developing effective strategic financial management skills is a pre requisite for strong financial management. At ACCA's international public sector conference 'audit and financial management adding public value' in December 2011 speakers identified strategic financial leadership as a key ingredient for making public services more efficient and effective, together with effective public financial management systems to support the delivery of service outputs and outcomes. A modern day finance professional was identified as being fleet of foot, capable of having a perspective on the bigger picture, as well as having the capability to affect what is happening and judging the right time to make an intervention. Equally, skills for delivering public value, underpinned by a strong code of ethics and public service ethos, are critical for effective public financial management. Requirements include:

- strategic leadership skills, such as developing and influencing the policy imperatives of public services expenditure and taxation
- organisational and change management skills
- creative thinking and effective decision-making skills
- technical skills
- communication, negotiation and influencing skills
- team-working skills, and
- ICT skills.

What is more, the most effective financial managers were identified as those that encouraged openness, shared knowledge, learnt from their mistakes and challenged the norm. Technical skills were sometimes seen as a given and most of those present stressed the importance of 'getting the basics right'. An important part of a finance manager's role is to communicate and present financial information in ways that are helpful to the wider business so that it can be acted upon. Overall, accountancy skills coupled with knowledge of systems and processes and how the business operates provide a good platform on which to develop a wider set of skills. Recognising the importance of strategic financial leadership, ACCA is taking forward the theme and has commissioned research to understand more about how finance professionals are displaying financial strategic leadership in public services. A report will be published in May 2013.

THE EFFECTIVE FINANCE FUNCTION

A financial management function should be as efficient and effective as possible, so that the public receive the best possible service outcomes at the lowest possible cost. The best financial management functions help to build a strong financial culture across an organisation and promote a wide understanding of financial management with non-finance professionals. Research conducted in the UK across central government departments has shown that the biggest barrier to continuous financial management improvement is the lack of awareness and financial acumen of non–finance staff (NAO 2008).

For many countries the current financial environment means that severe spending cuts will pose new challenges and skills, there will be an increased emphasis on budget setting, planning and monitoring and on finance professionals' understanding of the cost basis and their ability to provide accurate financial management information. The most effective finance functions will avoid hampering improvements; enable them to facilitate comparisons with best practice to gain a sense of what is possible; build infrastructure, systems, processes and partnerships; integrate financial management and performance management; and place a strong emphasis on governance and financial management. Meeting the following criteria would set an effective finance function apart from an ineffective one:

- The finance function is a key enabler helping to facilitate a culture of strong financial management.
- There are clear success measures in place, for example, financial statements prepared on time with minimum audit amendments.
- There is corporate ownership and recognition of the wider role of finance.
- Appropriate financial management skills are in place.
- Financial planning, monitoring and control are integrated in performance management.
- There is a strong emphasis on budgetary control, reporting and decision making.

For emerging economies and developing countries the criteria underpinning the effective finance function is an aspirational goal. It is often assumed that they have access to resources and capacity, as well as the necessary cultural and institutional behaviours in place. These are some of the inherent challenges they face. ACCA's publication *Improving Public Financial Management in Developing and Emerging Countries* (ACCA 2010a) recognises that improving public financial management and the finance functions are not without their difficulties. Drawing upon five country case studies it outlines how challenges such as developing finance skills for the public sector have been overcome. It also provides an assessment of tools and frameworks applicable to the developed as well as developing countries.

There are a number of other helpful codes and standards published that provide good benchmarks and standards for good financial and fiscal management that ACCA supports. First published in 2005 and updated in 2011 the Public

Expenditure and Financial Accountability Framework (PEFA) is widely accepted for promoting better financial management. The IMF's code of good practices of fiscal transparency (the Code) gives guidance supporting effective public financial management (IMF 2007). The Code identifies a set of principles and practices to help ensure that governments provide a clear picture of the structure and finances of government. Implementation of the Code can help countries provide assurance that the robustness of fiscal policy can be reliably assessed. Also, the Social Development Resource Centre (GSDRC) has a dedicated website on improving public financial management, which provides a gateway to the most up-to-date resources on public financial management and accountability, including material from OECD, World Bank and Asian Development Bank etc. (GSDRC 2009).

3. Financial reporting

Over the years expectations of the quality of financial reporting in the private sector have increased dramatically. As a result it is of crucial importance that private sector financial reporting is used as a benchmark when considering financial reporting in public services. In our view public interest issues associated with transparent financial reporting are arguably more prominent in public services because of the public accountability imperative.

We fully endorse IFAC's policy position as set out in its letter to the G20 (IFAC 2012) that public sector financial reporting is important for the following reasons:

- participation of governments in the capital markets
- economic significance of governments, and
- implications for efficiency and effectiveness in the use of resources.

We also believe that the types of financial information required from public services can only be provided through high quality, robust and effective financial reporting. Governments around the world should be aiming to provide financial information based on international accounting standards to improve both transparency and accountability and to get a tighter grip on fiscal management. We recognise that this is a challenge for many countries, with some still struggling to produce cash based accounts. We also recognise that there are no quick fixes and transition is often complex, however, there are many examples of how governments have improved financial reporting and lessons can be learnt from their experiences. We know, for example, of seven countries (Australia, Canada, France, New Zealand, Sweden, UK and US) publishing consolidated government accounts. In most cases they have been doing so for some time.

Therefore, it is important for professional accountancy bodies, standards setters, donors, auditors and governments to promote improvements in financial reporting and provide guidance and support to those countries setting themselves a goal of moving to accruals based financial reporting. With this in mind we have set out below our policy positions on accounting standards.

ACCOUNTING STANDARDS

ACCA supports the development of global accounting standards and recognises that the main responsibility for this rests with the International Accounting Standards Board (IASB), which issues International Financial Reporting Standards (IFRSs). ACCA also supports the role of the International Public Sector Accounting Standards Board (IPSASB), which works closely with the IASB to interpret IFRS accounting standards for the public sector and the development of International Public Sector Accounting Standards (IPSASs).

A close working relationship between the two standard-setting bodies will facilitate the future convergence of national systems of accounting standards on the principles of global standards. Both standards setters rightly intend to develop a single set of high-quality, understandable and enforceable global accounting standards that are transparent and present comparable information.

In our view there should not be any conflict between IFRS and IPSAS standards for use in the public sector. IPSAS standards have an important role to play in dealing with specific public sector issues for which there is no IFRS, such as service concessions: grantors, revenue and non-exchange transactions, presentation of budget information in financial statements and disclosure of financial information about the general government sector. There are currently 33 IPSAS standards including the cash standard and five of these including the cash standard are not based on IFRS. Whichever accounting standards are used by public services (IFRS or IPSAS) they should contribute to:

- helping with the operation of public services across the world by improving the flow of financial information and reducing the burden of regulation and compliance

- assisting understanding by a wide range of users of financial information, which will help all users, but is of particular importance to stakeholders' understanding of the financial performance

- reducing the costs of preparation of financial statements and reports by decreasing the amount of restatement of information and reports in different countries

- helping to simplify the education and training of accountants by having common principles to understand, which will also help remove a barrier to the portability of their skills and qualifications

- raising the credibility of the accountancy profession by removing unjustified differences in the treatment of similar items between different countries.

ACCA very much supports IPSASB's current work on developing a separate conceptual framework to underpin the accounting standards it develops. It was appropriate for the IPSASB framework to use relevant parts of the IASB framework as that is developing in parallel. The IPSASB was right to make this a stand-alone public sector document and not simply to elaborate areas of difference with the IASB framework for commercial enterprises. The framework is helpful as a means of:

- setting any specific public sector standards on a consistent basis
- rationalising the differences between IPSAS and IFRS and ensuring that these differences emerge on a coherent basis.
- highlighting the gaps in the current standards, particularly on compliance issues (eg budget comparisons) and non-financial reporting (eg on service deliveries or outcomes).

The implementation of financial accounting and reporting standards in public services varies by country. In a significant number of countries public bodies follow the IPSAS cash accounting standard or IPSAS accruals accounting standards. There are some exceptions to using IPSAS standards: notably, the Australia, Canada, New Zealand, UK and US which have adopted International Financial Reporting Standards (IFRSs) or National Accounting Standards.

Overall, there is a mixed picture across the world and continuing debates in many countries about whether to account for public funds on a cash or accruals basis. Both methods are used by both developed and developing countries. It is important to recognise the context and political choices made by governments and the base from which some countries are starting. Some developing countries are starting from a low base and therefore a decision to adopt the IPSAS cash accounting will be a significant first step forward, whereas others are either in transition to accruals or have been operating on an accruals basis for some considerable time. ACCA continues to support public services irrespective of whether they are accounting on a cash basis or accruals basis. Nonetheless, in the long term the accruals basis of accounting is the right way forward for accounting for public funds as it increases transparency and accountability. ACCA continues to actively encourage countries to move to accruals based accounts as we believe that accruals accounting:

- provides greater opportunities to develop reliable cost and management information, which affects decision-making. For example, when planning large projects it is important to understanding the underlying public entities assets and liability base
- provides valuable information about the value of assets, allowing organisations to assess whether these are being used efficiently and cost effectively, eg information on the trade-off between spending and repair and letting the assets deteriorate
- allows for the identification of the cost of capital
- highlights critical policy areas that cash accounting would not reveal, eg financial liabilities such as pension costs
- gives external users of the accounts better quality information about debtors, creditors and assets
- reduces the scope for selectivity of accounting policies
- improves longer-term financial sustainability as it recognises for example that large infrastructure projects need a longer lead time.

This list of benefits for accruals accounting is not exhaustive, but sets out some of the reasons and rationale for supporting the accruals basis of accounting for public funds.

4. Audit and scrutiny

The stewardship of public funds is critical for public accountability and transparency. The roles of external and internal audit make a valuable contribution to providing re-assurance to the public and management that public money is being spent wisely and that the organisation represents value for money. Audit and the wider scrutiny functions of the Legislatures also have a valuable role in promoting public trust and confidence.

As reported in *Restating the Value of Audit* (ACCA 2010b), strong ethical standards and technical audit skills are intrinsic to the training of a professional accountant, providing insight and experience and engendering the values of healthy professional scepticism and independence. ACCA supports the work of the International Auditing and Assurance Standards Board (IAASB), the International Organization of Supreme Audit Institutions (INTOSAI), and the Institute of Internal Auditors (IIA) in setting auditing standards around the world that provide high-level assurance to the users of financial statements; these bodies also issue guidance and develop the auditing profession as a whole. We believe that Supreme Audit Institutions (SAIs) have a valuable role to play in strengthening the accountability and integrity of government and public entities financial reporting as set out in an INTOSAI exposure draft *The Value and Benefits sf SAIs – Making a Difference to the Lives of Citizens* (INTOSAI 2012). Our views on the specific auditing standards are outlined below.

INTERNATIONAL STANDARDS ON AUDITING (ISAS)

We are of the view that the audit of financial statements is essentially the same in the private and public sectors, therefore we support the adoption and implementation of ISAs for public bodies. To our knowledge 125 jurisdictions around the world have adopted ISAs or have used them as a basis of their national auditing standards. There is no conflict between the standards developed by INTOSAI, as its Financial Auditing Guidelines include ISAs.

International standards of supreme audit institutions (ISSAIs)

We support the development and adoption of international standards of supreme audit institutions (ISSAIs) by governments. As set out above, the financial auditing guidelines are drawn from ISAs. However, they go one step further by recognising that the objectives of auditing public services may go further e.g. compliance and value for money. In our view these auditing standards underpin high quality audit and assurance of government organisations.

IIA standards

We believe that it is crucial that public services are subject to the practice of professional internal auditing and are evaluated for their performance. Equally it is important that internal audit's organisational independence and internal auditors' objectivity are protected, and to this end we support the adoption of IIA standards as authoritative guidance for the internal audit of public services.

COMPARISON OF PRIVATE AND PUBLIC AUDIT

ACCA maintains that there are there are many similarities between auditors in the public and private sectors. Auditors in both sectors adhere to the same high ethical principles, use the same basic methods and apply the same independent auditing standards to financial auditing. In both sectors, auditors are not responsible for the preparation of the financial statements of the entities they audit, but provide a level of assurance about whether such statements meet the standards expected of them, as laid down by the law and technical rules or official standards.

Nonetheless, there are some key differences in that company auditors are appointed by the shareholders, whereas in public services it is normal practice for parliament to appoint the auditor general of a Supreme Audit Institution (SAI) as the auditor of all national government entities and, depending on the country, some local public sector entities too. We are aware that in some countries there is no separation between the accountant's general office and auditor general's office. We believe that this type of arrangement impairs accountability and transparency. Where this is the case, we believe that governments should seek a separation of functions to ensure both auditor independence and accountability.

The structure and scope of external audit of the public sector differ from country to country. For example, a number of developing countries and emerging economies are only beginning to grapple with performance / value for money audit. Whereas, in most developed countries performance or value for money audits are the norm. Also, the scope of audit and assurance work differs widely between the private and public sectors. The most distinguishing factor is that a central feature of audit within public services generally is a regulatory objective, whereby the auditor is required to provide assurance that the transactions recorded in the financial statements are in accordance with the relevant authority, legislation and regulations. In most cases the auditor generals of SAIs are required to fulfil this statutory duty.

When comparing the private and public sectors, it is appropriate for the public sector to have a wider audit remit, which covers not only a true and fair opinion on the financial statements but also aspects of corporate governance and arrangements to secure value for money (ie the economic, efficient and effective use of resources). This is because most public entities provide services rather than make profits and as a result their financial statements only give limited information about their performance, so external audit in the public sector is an essential part of the process of accountability for public money and the governance of public services. In the UK, for example, the National Audit Office (NAO), Audit Scotland, the Wales Audit Office, the Northern Ireland Audit Office have a wider remit for assessing governance arrangements and value for money. This scope of audit is predominant around the world.

AUDIT REPORTING

There is a greater diversity of reporting in public services than in the private sector, possibly driven by its multiple stakeholders and the need to report on performance and not profit. The audiences for the reports differ from those for private sector reports. In the case of limited companies, the primary audience, for the financial statements and the audit report, is the body of shareholders. (Note also the legal position, at least in the UK and in other sovereign states that follow its principles, is that the main purpose of a company's accounts is to allow shareholders to judge the directors' stewardship of their company.) In the public sector, there are multiple stakeholders for an organisation's accounts, including Parliament, institutional investors and citizens etc. As a result, innovative methods of reporting have been explored, including score cards. Audit reporting in the public sector continues to be controversial as it attempts to satisfy such diverse audiences. The public's information needs are very different from those of politicians and managers, yet audit reporting attempts to satisfy them all. In the private sector there is increasing pressure to recognise the reporting needs of a broader range of stakeholders and the experiences of the public sector may provide valuable learning as to what reporting models are achievable.

CHALLENGES FOR AUDIT

The challenges for auditors in both the public and private sectors are similar. Following the banking crisis and a catalogue of company failures, the 'Big Four' and other auditing firms need to rebuild the confidence of investors and other stakeholders and manage shareholders' expectations about audit. As noted above, confidence may be rebuilt in the private sector if more attention is paid to extending the scope of the audit by engaging with clients on issues of risk management and corporate governance (ACCA 2010c). In public services, SAIs and other related audit bodies have a valuable role to play in building public trust and confidence about the proper stewardship of public funds, particularly in light of public service failures and high-profile scandals.

There can be little doubt that public services in any country are high profile. If one picks up a newspaper, the headlines are often about austerity, high taxes or pensions in public services. Improving the stewardship and accountability of public money will be a continuing challenge for auditors. Although reducing the burden of bureaucracy is important in the current environment, the value of audit should not be under estimated. Audit institutions are adept at working in ways to deliver proportionate and risk based audits.

In low-income countries there are also the challenges of responding to the issues identified through the audit process. Oversight is critical and there is a need for a greater understanding of public finance and accounting issues within civil society to draw attention to audit findings and create a demand for corrective action. Also, one of the key challenges ahead is to provide better education and create improvements in the transparency of the audit process; in particular, to rebuild the confidence of the public.

WIDER FINANCIAL SCRUTINY

Financial scrutiny by the Legislature of public spending is an equally important component of modern democratic systems. In our view effective financial scrutiny ensures that governments are held to account for their actions and fiscal policy decisions, as well as allowing the Legislature to monitor both public service provision and value for money. The paper *Parliamentary Financial Scrutiny in Hard Times* (ACCA 2011a) highlighted that parliaments will need to improve their performance in this area if they are to keep pace with budget and accounting reforms, as well as financial developments. The evidence from the study suggests that financial scrutiny may not been taken seriously enough nor seen as strategically important. This finding is particularly worrying because of the significance of public spending.

With the above in mind, ACCA supports the work undertaken by organisations such as the Commonwealth Parliamentary Association in training and capacity development programmes. We have worked with the

Association on a 2nd Westminster Workshop on public accounts committees in early 2012. We have also supported the work and sharing of best practice of regional associations such as the Asian Regional Association of Public Accounts Committee (ARAPAC) and Southern Africa Development Community Organisation of Public Accounts Committees (SADCOPAC). Most recently, we worked with ARAPAC and World Bank on a programme to build the capacity of public accounts committees and supreme audit institutions across the region. Overall, our study highlighted that effective financial scrutiny by parliaments required the provision of high quality financial reports and accounting information and effective independent audit.

5. Tackling fraud and corruption

There is growing recognition around the world of the devastating impact that fraud and corruption has on countries, economies and the public. Fighting fraud and corruption is a priority for most governments, particularly given that the vast majority of countries surveyed by Transparency International's (TI) for the Corruption Perceptions Index 2011 showed a high propensity for fraud and corruption. It identified the following concerns.

- No region or country in the world is immune to the damages of public-sector corruption, the vast majority of the 183 countries and territories assessed score below five on a scale of 0 (highly corrupt) to 10 (very clean).
- New Zealand, Denmark and Finland top the list, while North Korea and Somalia are at the bottom.
- 2011 was a unique year in that corruption was reported on protestors' banners whether they were rich or poor. Citizens were demanding more accountability and transparency from governments.

Fraud and corruption increase the cost of doing business and betray the trust of public. The financial cost of fraud does not fully reflect the personal impact it can have on victims. In public services around the world, any money lost through fraud directly affects the public by increasing national and local taxation levels or threatening essential services such as healthcare, housing and education. ACCA argues, however, that this is being tackled by governments and public services more generally, with the development of some important initiatives to combat fraud and corruption. ACCA supports the work of organisations such as Transparency International in leading the fight against corruption by bringing people together in a worldwide coalition to stop the devastating impact of corruption on the public around the world.

As countries face the many and varied pressures caused by the poor state of economies around the world, few commentators expect that the risk of fraud will reduce. Most anticipate that internal and external pressures on organisations will increase the risk of fraud and threaten counter-fraud defences. In addition, changes in the way that public sector organisations deliver services can affect the incentives to tackle fraud. The poor, whether in developing or highly industrialised countries, are the most penalised by corruption. They are also more pessimistic about the prospects for less corruption in the future.

Organisations such as the OECD provide valuable guidance to governments and policy makers to promote the integrity and high standards of conduct across the public and private sectors. The OECD's guidelines on 'conflict of interest' and 'lobbying' are particularly pertinent to the public sector. For example, the OECD's guidelines for managing conflict of interest provide a comprehensive international benchmark to help governments review and modernise their policies in this area. Conflict of interest has become increasingly topical in recent years, particularly because of the breaking down of barriers between the public and private sectors through the privatisation of services, public/private partnerships and exchange of personnel. This has created grey zones and opportunities for corruption. The guidelines will be helpful for officials to promote a culture in which conflicts of interest are properly identified, resolved and managed.

The OECD principles for improving transparency and integrity in lobbying are also an important instrument for providing guidance to decision-makers on how to promote good governance. The principles are based on evidence and lessons learnt from government regulations and from self-regulation of the lobbying industry. Given the perception that lobbying by financial institutions had an impact on weakening regulatory frameworks over time, the relevance of these principles is particularly high. The principles support decision makers in identifying the key elements that make a sound framework for transparency and integrity in lobbying.

We believe that finance professionals are in a pivotal position to make a difference in this area and ACCA is determined to ensure that its members across the world have the skills, ethics, training and the professional encouragement to do so. All ACCA members are now required to update their knowledge and awareness of ethical issues on a regular basis.

There is little doubt that finance professionals have a critical role to play in building public trust and confidence by championing the cause of developing anti-corruption procedures and cultures, as well as promoting best practice. Sound financial management is inextricably linked with anti-fraud and corruption cultures. Finance professionals should work hand in hand with other stakeholders to help eradicate fraud and participate in initiatives such as education, fraud-awareness programmes and training in forensic accounting. We also believe that a single action that finance professionals can take is to promote the importance and adoption of whistleblowing legislation and policies with governments around the world.

6. Good governance and risk management

Good governance in public services is simply:

> 'Ensuring the organisation is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner'

AUDIT COMMISSION UK 2009.

There are many definitions for governance, mainly derived from corporate governance developments in the private sector. But in our view the definition above seems to be the most appropriate and up-to-date definition. In our publication the *Corporate Governance and the Risk Management Agenda* (ACCA 2008), we set out broad principles as a framework for developing specific governance and risk management policies for different sectors and regions. As set out below these principles provide a starting point for considering how policies might be applied and adapted to public services.

- To ensure that the board, as representatives of the organisation's owners, protects resources and allocates them to make planned progress towards the organisation's defined purpose
- To ensure that those governing and managing an organisation account appropriately to its stakeholders
- To ensure that shareholders and, where appropriate, other stakeholders can and do hold boards to account.

Although most principles are straightforwardly applicable to the public services, there are a number of areas where the specific context for public services needs to be fleshed out more fully. These are:

- accountability to the public
- diverse models of governance in public services, and shared accountability
- risk and public services
- good conduct at the individual level.

ACCOUNTABILITY TO THE PUBLIC

The defined purpose of public services is to serve the public in some way (delivering services, setting standards, improving well-being, for example) rather than to increase shareholder value. The more general principles on corporate governance advise that boards account to shareholders and, where appropriate, other stakeholders for their stewardship, noting that in a shareholder company, shareholder interests are paramount but their long-term interests will be best served by considering the wider interests of society, the environment, employees and other stakeholders as well. For public services, the overall accountability is to the public (through Parliaments or democratically elected representatives of the public).

As with the private sector, no single model of accountability will be appropriate for public services. Accountability to the public may be structured in a number of ways, including:

- electoral accountability
- transparency of decision making
- transparency of accounting practices
- performance management reporting on organisational objectives as well as on financial management
- stakeholder or service user involvement in decision making, for example through consultation or participative bodies.

For the public to hold public services to account, information needs to be understandable, accessible, clear and timely. Therefore, ACCA is supportive of the definitions set out by the Centre of Public Scrutiny (UK) for promoting transparency, accountability and inclusiveness of information in public services. Depending on the governance model, effective accountability is likely to require some level of training in financial and management skills, either for the public at large or (more often) for those undertaking a representative or advocate role (eg elected officials or non-executive directors).

DIVERSITY OF GOVERNANCE MODELS AND SHARED ACCOUNTABILITY

Not all public services are governed by a board and shareholders (or stakeholders) model as is common place within the private sector, though some are. There are usually parallels of stewardship and accountability to be drawn with the board and shareholder model, which may require adaptation to public services, but depending on their structure, many will need to consider:

- the relationship between elected government officials and professional management, with clearly defined roles, responsibilities and rules of conduct and probity

- the reporting or oversight relationship with other organisations within or outside public services, with clarity about responsibility and shared standards of governance

- ways of ensuring accountability and managing risk without preventing flexible partnership or service delivery arrangements developing to fulfil the organisation's goals.

In our 2008 publication we recommended that boards should be balanced between non-executive and executive members and that no single individual should dominate decision making. In public services that are led by directly elected politicians, there will in some cases be a single individual who is formally accountable for decisions. Nonetheless, boards should still aim to work collaboratively, and to enable all their members to have a sound understanding of financial and management issues, and of the organisation's public welfare priorities, including sustainability in its broadest sense.

Government organisations are often viewed by the public as responsible for a range of outcomes that may not be wholly under their control (perhaps because of cross-border effects or unexpected natural disasters). When establishing a common understanding of the purpose and scope of corporate governance, boards or governors should be clear about where the organisation does or does not have control (as opposed to responsibility). For example, good governance standards might establish contingency planning and decision making in anticipation of or response to a natural disaster, perhaps worsening or mitigating its impacts, but they may not be able to prevent the incident from occurring.

The governance of many public services and agencies is complex, and sometimes the boundaries between public, private and third-sector provision can be blurred. Where services are contracted out from one agency to another, good governance arrangements would ensure that the contract includes obligations to report on processes, decision making, financial arrangements and outputs in a way that enables the commissioning organisation to fulfil its responsibility to its own stakeholders to the same standards as if services were being delivered directly. To avoid governance failures in partnerships, accountability for spending public money should be clearly understood by all bodies contributing to the partnership, with a clear statement of financial risk being assumed by each of the partners.

Partnership arrangements that involve shared responsibility for outcomes, but that may not involve legal contractual arrangements, have existed for some time between different agencies of government in many countries (such as the Netherlands, Sweden and Germany), and are becoming increasingly institutionalised in others (including New Zealand, UK and Zimbabwe). Such flexibility can be a valuable way of developing services that focus on the public's needs rather than the organisations' structures. Forms of governance should be found that enable such arrangements to take place while maintaining opportunities for stakeholders to hold boards to account both as separate organisations and, if appropriate, collectively. Governance arrangements should guard against the potential for partnership and collaborative working to be used as an opportunity for blame avoidance.

RISK MANAGEMENT

The need to consider both risk and reward over time in order to avoid creating a risk-averse culture is important, as well as the need for risk management and control to be objectively challenged. These principles also apply to public services, and risks and rewards for outcomes should be considered alongside financial issues. Organisations should work to a model in which reasonable risks can be taken, with a clear and competent justification of the reasons why they are necessary.

Risk management should be treated as a form of intelligent decision making, rather than a way of attributing blame to other parts of the organisation or to external bodies. Treating risk management as an inflexible formula can result in the missing of unanticipated risks. The objective and imaginative challenge of risk management and control, independent of line management, should be treated as a mechanism for avoiding over-simplistic risk management that focuses solely on procedure.

Many public services are considered too important to be allowed to fail, which is why they are part of the public sector rather than operating in pure market conditions. Risk to delivery might therefore be seen as the equivalent of risk to financial position. Boards should ensure that both aspects of risk are taken seriously and independently challenged. Finance professionals have a key role in developing a risk management policy, implementing and monitoring risks.

MICRO-LEVEL ACCOUNTABILITY

Our 2008 publication notes that 'boards should lead by example' and monitor their organisation's 'ethical health'. Many public services already have codes of conduct that provide guidelines for ethical behaviour for employees at all levels, and guidance on individual relationships. In our view the process of developing, updating and monitoring of this guidance should be transparent and inclusive of the organisation and its stakeholders, including the public. Equally, for the development of and implementation of any ethical standards, there is a place for codes of practice and principles' developed by organisations and regulators to support strong organisational cultures. Experience within the private sector also shows that 'it can be dangerous to impose on an organisation, from above, standards of morality which appear to be well meant, but which have the potential to conflict with the effective running of the organisation' (ACCA 2010c). To be effective, ethical codes and practices need to be relevant to the way each public service operates.

However, it cannot be assumed that all countries and public entities have an institutionalised approach to ethical behaviour. Where this is the case, it is all the more important that there is strong ethical leadership and leaders 'set the tone from the top'. ACCA has previously recommended that organisations should encourage the adoption of ethics based cultures that have the aim of ensuring they act transparently and with an appreciation of the long-term interests of their stakeholders (ACCA 2009). Irrespective of the ethical arrangements in place organisational leaders should adopt as a minimum the seven principles of public life as set out by Nolan (1995). An ACCA report *The Rules for Risk Management: Culture, Behaviour and the Role of the Accountant* (ACCA 2012) highlights that much has been done across all sectors and highlights that finance professionals have a key role in encouraging the seven corporate governance principles.

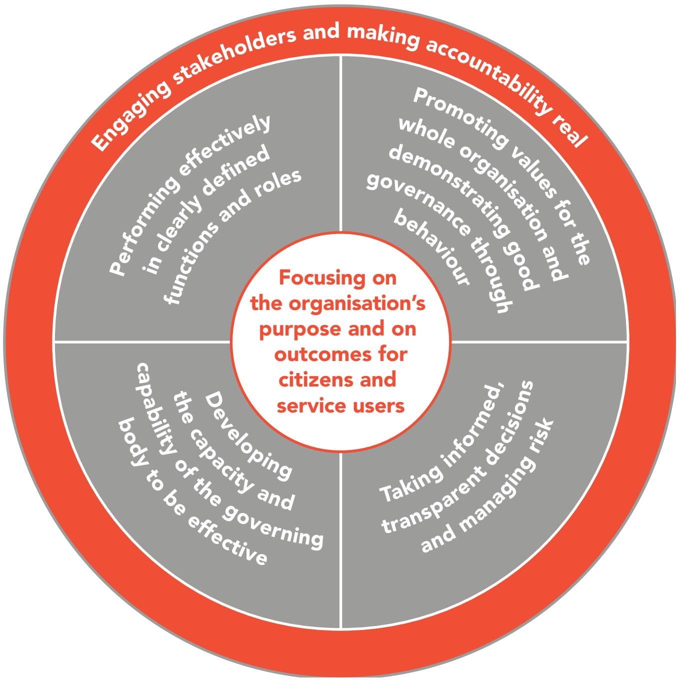
Our 2008 publication includes a recommendation on transparent remuneration for executives to promote organisational performance. Transparency and levels of remuneration in public services can attract significant public attention because they are paid from public funds. Organisations should produce transparent principles for remuneration, for instance making comparisons with similar leadership positions in other sectors. In some cases, remuneration of elected officers may be necessary in order to allow equality of access to political representative roles. Where this is the case, the pay must be transparent and open to a level of challenge from the public. It may be therefore necessary for the contracts of senior staff (anywhere in the world) to include a requirement for them to disclose remuneration within the annual report as standard, with no option to refuse. The World Bank's *Annual Remuneration of Executive Management, Executive Directors and Staff* is a good example of transparent reporting (World Bank 2009).

MODELS AND FRAMEWORK FOR GOVERNANCE

There is little doubt that in virtually all countries public services plays a major role in society, and effective governance can encourage the efficient use of resources, strengthen accountability for the stewardship of those resources and improve service delivery. There is a diversity of frameworks and models which set out the principles behind good governance and provides guidance to support organisations. Not least are the OECD six principles of corporate governance (OECD 2004) which are used extensively worldwide as a benchmark for standard setting and identifying best practices. The PEFA (updated 2011) framework referred to earlier includes a strong element on governance and the IMF's Code (2007) sets out guidelines on governance to support improvements to the architecture of an international financial management system.

A notable practical governance framework is the Good Governance Standard (the Standard) developed by the Independent Commission on Good Governance UK (2005). Although developed for public services in the UK, in our view this standard has wider applicability and provides useful guidance for organisations seeking to improve their governance arrangements, particularly at the Board level. The quality and skills of members on the Board is what makes an effectively governed body. We are not advocating a 'one-size fits all' model or approach, as many public sector organisations will have different governance structures, but we are of the view that the Standard can help everyone concerned with the governance of public services not only to understand and apply common principles of good governance, but also to assess strengths and weaknesses of current governance practice and how to improve it. There are, of course, other models, but the six core principles of good governance have resonance with most public services (see Figure 1).

Figure 1: The good governance model for public services



The core principles of good governance are:

- focusing on the organisation's purpose and on outcomes for citizens and service users
  - being clear about the organisation's purpose and its intended outcomes for citizens and service users
  - making sure that users receive a high quality service, and
  - making sure that taxpayers receive value for money
- performing effectively in clearly defined functions and roles
  - being clear about the functions of the governing body
  - being clear about the responsibilities of non-executives and the executive
  - making sure that those responsibilities are carried out, and
  - being clear about relationships between governors and the public
- promoting values for the whole organisation and demonstrating the values of good governance through behaviour
  - putting organisational values into practice, and
  - insisting on behaviour by individual governors that upholds and exemplifies effective governance
- taking informed, transparent decisions and managing risk
  - being rigorous and transparent about how decisions are taken
  - having and using good quality information, advice and support, and
  - making sure that an effective risk management system is in operation
- developing the capacity and capability of the governing body to be effective
  - making sure that appointed and elected governors have the skills, knowledge and experience they need to perform well
  - developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group, and
  - striking a balance, in the membership of the governing body, between continuity and renewal
- engaging stakeholders and making accountability real
  - understanding formal and informal accountability relationships
  - taking an active and planned approach to dialogue with and accountability to the public
  - taking an active and planned approach to responsibility to staff, and
  - engaging effectively with institutional stakeholders.

Source: Independent Commission on Good Governance in Public Services, 2005.

7. Narrative reporting

Narrative reporting provides critical contextual non-financial information that is shown alongside financial information so as to give a broader and more meaningful understanding of an organisation's activities. Public entities around the world have been required to publish financial statements for many years, and have increasingly been required to provide explanations to enhance accountability.

While many public entities are required to follow the ASB Reporting Statement, the guidance allows some flexibility. A variety of approaches have developed over time with different types of practice being employed by different public entities. These range from single comprehensive annual reports to separate publication of financial statements and other specific reports. The types of information reported also vary, from issues of current relevance to links between the overall financial performance to the strategic plan of the public entity. Arguably, there is considerable variation in the quality and standards of reporting practice and the diversity of reporting can hinder organisations in making direct comparisons with one another.

There continues to be a lot of activity in this area at an international level, particularly by IPSASB. Narrative reporting and sustainability reporting are increasingly being linked in discourses across the public services. The terms are often used interchangeably, for example, reporting an organisation's performance on environmental issues can be described as either narrative or sustainability reporting. ACCA would therefore welcome a common understanding and language.

We continue to fully support the work of IPSASB in developing a set of reporting standards to promote consistency in contextual and non-financial information. We support the introduction of the accounting standard 'financial statement discussion and analysis'. In 2012 we have commented favourably on exposure drafts for financial statement discussion and analysis, service performance reporting, reporting on the long-term sustainability of public finances. Details of our responses can be found at **http://www.accaglobal.com/en/technical-activities/technical-policy/archive-policy/public-sector.html**

8. Sustainability reporting

Sustainability reporting and corporate social responsibility (CSR) activity have grown rapidly in recent years, and since 1990 ACCA has been active in promoting this in the private sector. As outlined in *Sustainability Reporting Matters: How is Sustainability Reporting Understood and Managed by National Governments?* (ACCA 2010d), there is a need to be aware of the differences between the private and public sectors for sustainability reporting. They vary in terms of purpose, motivation and responsibility. In considering sustainability reporting for the public sector there are four factors to bear in mind:

- what is meant by 'sustainability'
- what is specific about the public sector in relation to sustainability
- the different approaches to sustainability worldwide
- the role of accountants in sustainability reporting, and the challenges and opportunities it may present for them.

WHAT IS SUSTAINABILITY?

Nearly every definition of sustainability or sustainable development refers back to the 1987 UN report *Our Common Future*, also known as 'The Brundtland Report':

> 'Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.'
>
> BRUNDTLAND 1987

Commonly, sustainability is considered to have three elements: environmental, social and economic sustainability. These elements of sustainability are interconnected and ACCA champions the inclusion of social and environmental aspects of business in reporting (ACCA 2007).

To date, the focus of sustainability reporting in public services has been on reporting the environmental aspects. This has yet to develop fully in many countries. There are a number of reasons for this, for instance climate change and reductions in natural resources are seen by governments as requiring urgent action and it has been easier to reach a degree of political consensus on what constitutes environmental sustainability than on social sustainability. There has also been the development of explicit financial incentives and penalties (such as carbon taxes). This is not to suggest that environmental sustainability reporting is without its own difficulties. There remain gaps in reporting (for example, on biodiversity: TEEB 2009); and it is unclear what impact the act of sustainability reporting has on actual actions to promote sustainability.

The measurement of well-being has become an issue of major international interest in recent years, and a number of significant initiatives to develop research and practice in this area are currently underway, many of them involving accountants as well as economists, statisticians and other professions.[1] Well-being, like sustainability, can be defined in a range of ways, but there is a growing consensus that traditional measures such as GDP do not completely capture the concept of societal value, and that questions such as health, education, inequality and even happiness should be taken into account when assessing the success of a society. This debate presents challenges for measurement, eg attempts to capture some of these issues through monetised values (nef 2010).

There are many parallels between the developing work on measuring and reporting on well-being and on sustainability, but they are not necessarily the same thing. A key element of sustainability practice and reporting is the importance of the well-being of future generations as well as of present populations. This presents challenges for accountants, not least because reporting can be seen as inherently retrospective rather than future-focused; and because reporting projected future impacts of current action necessarily involves estimation and uncertainty, with implications for the implementation of robust assurance processes.

Sustainability should be considered in all its social, environmental and economic elements, with a strong focus on implications of actions now for the future. This is likely to require work with narrative reporting, developing new indicators that adapt over time and between regions, and working in collaboration with economists, sociologists, environmental scientists, statisticians and other professions. Some countries are leaping forward, for example, Malaysia's Government Transformation Programme (GTP) and Vision 2020 sets out a commitment to nine goals encompassing economic, political, social, spiritual, psychological and cultural dimensions of present and future growth.

1. Stiglitz Commission, INTOSAI work, OECD, EU Beyond GDP, European Policy Centre, State of the US, other national initiatives including Russia.

The adoption of the private sector models of sustainability reporting has not been widespread in public services globally. Even so, many public services do take account of sustainability issues in different forms. Frameworks developed for sustainability (such as the Global Reporting Initiative (GRI) which is a standard-setter in the field of sustainability reporting; GRI 2005) have not fully assessed the number of differences between the context of sustainability in the public and private sectors, namely organisational purpose, organisational responsibilities and motivations for reporting.

ORGANISATIONAL PURPOSE

The purpose of public services is generally grounded in improving well-being in some way, rather than increasing shareholder value. As a result, elements of sustainability are likely to be core to the organisation's goals in a way that may not be commonplace in the private sector.

ORGANISATIONAL RESPONSIBILITIES

Most private sector sustainability reporting frameworks focus on the organisation's direct impact on the environment, society or the wider economy. Public services also have responsibilities for the effects of their policy or regulation, and for a holistic overview of the economy, society and the environment.

MOTIVATIONS FOR REPORTING

The GRI framework, and others, suggests that a key incentive for public services to embrace sustainability reporting is pressure to act as an example for the private sector. Public services will also be encouraged to report where there is political pressure for sustainability from the electorate, other nations and NGOs.

Although lessons from private sector sustainability reporting and CSR are valuable, an understanding of the importance of sustainability action and reporting in public services should take account of the nature of the purpose, motivations and responsibilities of public services, rather than attempting to adopt wholesale an approach to reporting that may be more appropriate to the private sector.

HOW MIGHT PUBLIC SERVICES SUSTAINABILITY REPORTING VARY GLOBALLY?

Existing practice in public services sustainability does vary, both between and within countries. There is widespread interest in a global standard for sustainability (and well-being) reporting. A barrier to this is the difficulty of reaching a meaningful consensus on what 'sustainability' or 'well-being' may mean. Arguably, this can be addressed by recommending a set of central principles that can be adapted to national or local circumstances.

Different parts of the world will have different priorities within sustainability practice and reporting. This could be owing to local circumstances such as the physical environment, or social structural factors such as inequalities between specific groups. For example, congestion may be an issue for (economic, social and environmental) sustainability in London but less so in Canberra. There will also be difference in emphasis between types of public services – for example, a local government may produce a report on the state of the area, while this may not be so relevant for a school. Any sustainability reporting framework should, of course, be appropriate to local and organisational circumstances.

Different organisations and different regions or governments may have different motivations or requirements for sustainability reporting. For example, governments that receive international aid may be required by donor organisations to account for their sustainability performance.

An informed debate about what constitutes sustainability should continue with a view to an approach to reporting that is appropriate to local and organisational circumstances. Nonetheless, reporting should not neglect the impact that organisations may have on issues, places or communities outside their immediate jurisdiction. The role and priorities of different parts of public services should be borne in mind when developing sustainability reporting frameworks, measurement standards and assurance processes.

THE ROLE OF THE FINANCE PROFESSIONAL IN SUSTAINABILITY REPORTING

There are a range of areas of accountancy practice within public services where sustainability considerations could be taken into account. These include:

- budget and strategy setting
- assurance
- procurement
- performance measurement
- risk management
- accountability and governance.

Sustainability reporting creates a number of challenges of for finance professionals, such as difficulties of estimation and projections, understanding links between actions and impact, establishing robust indicators, and verifiability and assurance. In addition, it is also imperative for finance professionals to work with leading standard setters such as GRI, governments and the International Integrated Reporting Committee (IIRC) to ensure that reporting does not become overly burdensome and outweigh the benefits that can be derived from it.

We are keen to see that public services are taken on board when developing reporting frameworks and have said in our response to an IIRC consultation (2011), that whilst the reporting frameworks being developed are targeted towards big business, it will be important that public services are not forgotten in the development phases. It shouldn't be assumed that an integrated reporting framework developed for the private sector will necessarily meet the needs of public services now or in the future and that there are fundamental differences that need to be understood before an integrated reporting framework can be developed for public services.

9. Performance management

Performance management in public services varies widely in its nature and extent across the world and between types of organisation. As with other forms of management and regulation, ACCA's general view has been to support the emphasis on value for money (economy, efficiency and effectiveness) in public services. Central performance management systems and targets can be valuable, but that they should be intelligent, streamlined, and sensitive to local delivery needs. This view engages with a number of perennial key debates. These are:

- The tension between top-down measurement for accountability and equality of provision, and flexibility of local organisations to meet local needs.
- The risk that performance measurement can create perverse incentives where the delivery and measurement of an indicator becomes the focus of work, rather than improvement in outcomes for the public.
- The increasing public services focus on qualitative outcomes and preventative measures (see also Chapter 9 above on sustainability reporting) where measuring performance using traditional quantitative or financial metrics may be very challenging.
- The opportunities and challenges of increased partnership working between public services and with organisations in other sectors, particularly in assessing collective performance improvements and establishing accountability for performance.

THE GOALS OF PERFORMANCE MANAGEMENT

Performance management should provide transparent information about how well public services are delivering and whether they are delivering value for money and how and where they can improve. Systems of performance management should not create an excessive burden of monitoring and reporting, but they should be relevant, easily understandable and usable in performance improvement. There are many ways of capturing the criteria for good performance targets, such as SMART analysis – assessing the degree to which targets are Specific, Measurable, Attainable, Results focused and realsitic and Time-bounded. This is a reasonable guideline for setting targets, although it should also be noted that target setting is not the only available form of performance management.

There seems to be a convergence among developed countries towards greater performance management of public services by central government, in order to ensure efficiency and equality of service. In developing countries and emerging economies, pressure for performance management and improvement may come equally from international bodies and donor institutions, keen to see efficient and effective use of funds. ACCA supports those goals, but emphasises that bodies that monitor, regulate and audit performance should bear in mind the additional burdens of cost and resources that excessive or ill-designed performance management frameworks can require.

CENTRALISED PERFORMANCE MANAGEMENT AND LOCAL FLEXIBILITY

As concern is increasing among governments globally about the need for financial management and efficient use of resources, the drive for effective performance management and targets in local, regional and central government is also increasing. Nonetheless, in the UK the government is moving rapidly away from centrally driven performance targets. Currently this is uneven, but of growing importance, perhaps given impetus by international treaties on climate change through which there has been widespread consensus about the need for targets and the measurement and reporting of performance (Rose 2003; Bloomfield 2006). The UK public services has a reputation for very strong and detailed performance management from the centre, particularly between central and local government, with a national indicator set of 188 targets, and with some local authorities and their partners reporting to central government departments on as many as 706 additional performance indicators, although efforts to reduce the reporting burden are underway (HM Treasury 2010). Canada and Australia have also developed fairly comprehensive sets of formal indicators and reporting requirements though not to the extent of the UK. By contrast, local government in France operates relatively autonomously while in Denmark and the Netherlands central government has become increasingly interested in managing and monitoring the performance of local government, particularly where greater powers and functions are given to municipalities. The Netherlands' municipalities' association has developed work on benchmarking performance indicators: publicly available information that can be used to assess the strengths and weaknesses of comparable organisations, rather than as part of a central enforcement function. Similarly, New Zealand's local government performance management system focuses on accountability to the local community rather than on centralised league tables (Gough 2009).

The pressure for increased performance management to ensure that services provided by public services justify their use of public funds tends to increase when public services are provided on behalf of government by the private or voluntary sector. This is often countered by an argument that emphasis on centrally defined targets can limit the freedom available to innovate and respond to local needs. ACCA argues that the best way to manage this potential tension is through a balanced approach that streamlines reporting to ensure accountability while limiting information requirements to a manageable level, within a framework that allows for negotiation between the bodies being held to account and those monitoring them.

PERVERSE INCENTIVES

A common criticism of performance management regimes is their potential to become ends in themselves. When organisations become more focused on meeting targets than on delivery of outcomes the performance management framework should be revised. Poorly designed targets, indicators or benchmarks can add to this problem, as delivery may become focused on an organisational output (such as number of appointments held at an employment office) rather than an improved outcome for citizens (such as the number of people found appropriate employment). As with systems for managing the balance between regulation and innovation, performance management frameworks should be lean and well-designed. Efforts to ensure that a limited number of effective measures are used are a better investment than a hastily designed and cumbersome framework that does not give information on the real outcomes with which public services should be concerned.

MEASURING QUALITY AS WELL AS QUANTITY

Traditional performance measures are based on numerical data, tending to measure the quality of service delivery in terms of some dimension of quantity. There is now increasing international attention given to how less tangible aspects of public goods such as 'well-being' and 'progress' may be measured (eg Stiglitz et al. 2009; Theodoropoulou and Zuleeg 2009).[2] Most often these are translated into traditional numerical metrics, either by using existing proxies or by gathering survey data on the perceptions of citizens, which are then analysed using quantitative methods. In these cases, the relationships between inputs, outputs, outcomes and measurement indicators may be increasingly hard to assess reliably. The design of performance management systems that are 'lean' and well thought-through again becomes a priority, and the addition of a narrative to provide context for numerical data may be essential for a proper understanding of performance. In some cases, it may be that numerical data are not the best resource, and that performance is best understood through purely narrative reporting. Well-designed performance management frameworks will make use of narrative reporting where this is the best method.

MEASURING PERFORMANCE OF PARTNERSHIPS AND ATTRIBUTING SUCCESS

Increasingly, public services are working in partnership, whether with the private or voluntary sector or with other public service bodies. Broadly, there are two types of partnership and these present different performance management challenges. The first is the traditional contract relationship where the delivery of services is carried out by one organisation on behalf of another – some of the debates about this type of performance management have already been discussed. The relationship between and separate responsibilities and accountabilities of partners in such cases should be spelt out clearly in the contract and revisited periodically. Alternatively, more collaborative partnerships in which responsibility for delivery or, in particular, outcomes, is shared (such as through Local Area Agreements in the UK, community partnerships in New Zealand, and SMART partnerships in Zimbabwe and elsewhere) create different challenges for performance management. Equally, the Virginia Planning Model used in the USA and Scotland is a useful template for setting a national framework on which service performance measures can be applied http://vaperforms.virginia.gov/

The goal of working collaboratively across organisations and/or sectors is to recognise that many organisational goals are shared, and could be more efficiently met through joint efforts. The challenge for performance management of partnerships where funding, goals and outcomes are shared is that it may seem more difficult to hold specific organisations to account for their performance if this is managed only jointly. Nonetheless, it is already the case that investment by one part of the public services may see improvements in outcomes that are success criteria for another organisation – for example, better hygiene education provided in schools could reduce admissions to hospital. Joint performance management and targets could therefore be seen as simply making this relationship explicit. Internal organisational performance management will still need to be carried out, but this should be proportional and should not duplicate joint management frameworks.

2. See also www.beyond-gdp.eu, www.stateoftheusa.org and www.oecd.org/progress

10. Outcome-based budgeting

Outcome based budgeting may not be a subject which is not going to set the pulse racing, but nevertheless, it is an important one, enabling governments to link resource allocation to outcomes. It can also provide a long-term approach to public sector financial management, whereby, the impact of government policies on resources can be recognised beyond the political cycle. Irrespective of whether governments are experiencing periods of austerity or growth we believe that it is critical for them to improve the link between policy outcomes and budgets. We believe that this is an area which finance professionals should be seeking to further engage with governments.

Public services are often charged with so-called wicked, intractable problems that have no obvious solution. Often these problems, such as anti-social behaviour, improving health and well-being or the rehabilitation of offenders, need to be managed by several agencies working together towards jointly agreed outcomes. In our view adding budgeting to the equation makes the link between resources and what public policies seek to achieve. But because of the complexities involved in determining outcomes, let alone adding resources into the equation, it is perhaps not surprising that it is rarely practiced around the world. Outcome based budgeting to date has primarily been the domain of developed countries. An OECD review of developments in its member countries showed that:

- Most governments include performance information in budget documentation and half subject this information to audit.

- Reporting of performance against outputs and outcomes is variable, with several formats being used and up to half of the countries surveyed not covering the whole range of government activities.

- Half of the surveyed countries used performance information to inform budgetary allocations.

Generally, in times of growth governments focus on how to distribute the increment, whereas, in harder times the focus is on the allocation of scarce resources. In many countries, budgeting is still input-based and involves allocating monies to different types of spending on an annual basis. This process ends in a rush at the end of the fiscal year, with little thought as to how the current year's activities relate to programmes stretching over several years and beyond. Additionally, public services are delivered to a greater or lesser extent in a political environment, and, all too often, politicians seek to align policy cycles with political cycles. In our view this process does little to encourage sustainability and financial planning for public services, nor effective planning nor evaluation.

Despite this, initiatives have proliferated to reform budgetary processes to develop closer links between budgets, programmes and performance. In recent years, several OECD countries, including the UK, US and New Zealand, as well as the wider international aid community, have made moves towards so-called results-based management, where the focus is on which results are achieved in terms of outputs and outcomes, in return for inputs. This has required a number of questions to be addressed, such as:

- What do we mean by outputs and outcomes?

- How they relate to each other?

- How do we determine the relationship between inputs and outputs?

There are a number of examples to draw up on where public bodies have attempted to address these questions and link outcomes with budgets, including the European Commission. It considered undertaking complex reform of the European Social Fund to use external providers to provide employment services. This resulted in services being for achieving results.

There is little doubt that outcome-based budgeting and policymaking can make significant demands on the intellectual and skills base of policymakers, managers and financial professionals. It has the potential with a strong evidence base to make public service delivery more rational and more productive in the sense of achieving desired outcomes. However, one must never ignore the political factors with both large and small 'p's' and the pressures for decisions that meet the demands of external priorities. In our view public services and in particular governments should refresh their thinking on outcome-based budgeting, learning the lessons from the past. Going forward finance professionals have a key role to play in promoting the benefits of longer term budgeting and linking resources to outcomes to governments. In order to create the maximum benefit of outcome based budgeting governments should strive to migrate to accrual accounting so the costs of services can be better understood and more readily linked to service outcomes.

Appendix: Definitions of the public sector

The composition of the public sector varies by country and there are many definitions of the public sector, but in most countries it includes such services as the police, military, public roads, public transit, primary education and healthcare. There are many definitions of the public sector, which reflect different conceptual bases. ACCA has therefore considered a number of definitions as highlighted below.

DEFINITION 1

The Organisation of Economic Co-operation and Development (OECD) defined the public sector as 'comprising of the general government sector plus all corporations including the central bank'.

The rationale behind the definition is that the scope of the public sector can be defined in a variety of ways. One option has been to base it on the status of employees. Although this criterion is satisfactory in some countries, in which the vast majority of government workers are civil servants, it is not in others. There are a number of exceptions, particularly where countries employ contract staff and where salaried workers in both the public and private sectors are subject to the same labour legislation. This has been the case in New Zealand. As a result, the OECD has concluded that to define the scope of the public sector on the basis of the employer's identity would seem more satisfactory. This is the criterion used by the OECD's public service in its work on public sector pay trends.

DEFINITION 2

The United Nations (UN) defines the public sector as including 'general government and public corporations' (UN 2008). Within the definition of 'general government' is the notion of 'government units', a term which refers to entities established under political processes that have legislative, judicial or executive authority. Some non-profit institutions (NPIs) are also included within the public sector definition, but specific conditions for control by government must be considered; for example, the degree of financing by government, and risk exposure, the appointment of officers, and legal and contractual agreements. Also, to be classified as a public corporation (for example, railways, airlines, public utilities and public financial corporations) the organisation must not only be controlled by a government unit, but that government unit must also have the ability to determine the general policy or programme of the corporation.

The UN clearly sees the public sector as unique. It recognises that within a single economy there can be different levels of government, such as central, state or local. It also highlights that the powers, motivations and functions and the range of goods and services provided by government are based on political and social considerations rather than on profit maximisation. Most recently, the Federation of European Accountants (FEE) used the UN definition to underpin its policy statement on sustainability in the public sector (FEE 2010).

DEFINITION 3

The International Monetary Fund's *General Financial Statistics Manual* (IMF 2001) defines the public sector as including general government (central government, state government and local government) and public corporations (financial public corporations controlled by general government units, non-financial public corporations, monetary public corporations such as the central bank, and non-monetary financial corporations). This definition is consistent with that applied by the International Public Sector Accounting Standards Board (IPSASB) for financial reporting (IFAC 2010).

DEFINITION 4

In 1992 Broadbent and Guthrie define the public sector and its domain with a focus on ownership and control. The assumption at the time of their original research was that the public sector comprised the publicly funded, owned and operated organisations providing services to the public. The public sector landscape has now changed; increasingly, public sector functions are contracted out to the private sector. Because of this, Broadbent and Guthrie argue for the re-naming of the public sector as 'public services'. This would recognise a domain much wider than just local and central government. It would take into account public services that are available for all members of a particular society (Broadbent and Gutherie 2008).

Broadbent and Guthrie suggest that the notion of a public sector that requires public funding, ownership and operation of services is no longer appropriate. Instead, the provision of public services may be organised in a variety of ways and control achieved through different organisational and regulative mechanisms. Public services may have some element of government funding, ownership, public direction or regulation, in different combinations, but there is no longer a need for direct government ownership for the involvement in provision of these public services. While in many cases public service functions have not changed, there has been considerable change in funding, governance and accountability for control and operation of these public services, as well as the accounting and auditing of them. There have also been some structural changes and more private sector involvement, as well as the introduction of private sector approaches to service provision.

Broadbent and Guthrie (2008) state that 'to use a definition of the domain of public services that relies on the perceived nature of the services and the regulatory regime around it is nevertheless complex'. They identify two key issues, the first being that public services are determined largely by the context in which they are provided; the boundary for public services is not fixed, but varies from country to country. For example, the provision of healthcare in the US differs from that in the UK. Therefore, things that are seen as public services in one country may not be judged as such in others. Secondly, they argue that sectorial boundaries change over time; for example, through the privatisation of public activities. Broadbent and Guthrie conclude that if ownership is used as the basis for defining public services, then the definition will be different in different jurisdictions and may also differ over time, even within the same jurisdiction.

Each of the four definitions above have their own merits, but arguably the wider definition 'public services' (definition 4) reflects the public sector landscape today most accurately. It recognises that public services may have some element of government funding, ownership, public direction or regulation, in different combinations, but there is no longer a need for direct government ownership. Also, the definition is flexible enough to recognise that the structure and composition of the public sector vary by country and over time. In addition, we believe that this definition is not at odds with those set out by IMF and IPSASB but, rather, it enhances them.

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ACCA 29 Lincoln's Inn Fields London WC2A 3EE United Kingdom / +44 (0)20 7059 5000 / www.accaglobal.com