

## **Keeping Pace with the Changing Role of the Public Sector Accountant**

### **Steve Freer, CIPFA**

[SLIDE 1 – TITLES]

Throughout the world public sector organisations are engaged in very challenging change programmes. In developing countries energies are focused on building and strengthening the basic infrastructures of the education and public health services which are the bedrocks of progress and the front-line in the fight against poverty. And in developed economies significant modernisation programmes are underway to engineer a more customer-centred service with special emphasis on improving access through new media and better use of new technologies.

Universally, the rate of change and progress which institutions are straining to achieve is ambitious by any standards. In some cases it is breathtakingly so, with real dangers for the capacity of the system to cope. If public services ever appeared to offer a rather safe if unexciting career option, those days are now long past. Today's public sector careers offer an exciting and, from time to time, painful journey. Today's public servants are much more likely to leave the public sector for a well deserved rest than they are to go in search of a more challenging environment.

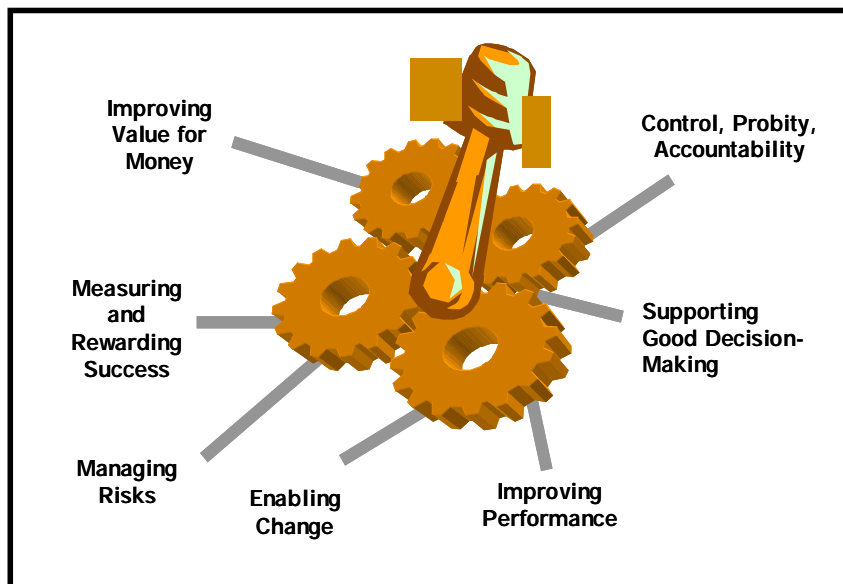
At the heart of many of these reforms are the public sector accountants. [SLIDE 2 ] To say that they have a key role to play is an understatement. Finance is connected to most, if not all, of the key business processes within the organisation. It should be steering the stewardship and accountability systems which ensure that the organisation is conducting its business in an appropriate, ethical manner. It is critical that these foundations are firmly laid.

So often they are the litmus test by which public confidence in the institution is either won or lost.

Finance should also be providing the information, analysis and advice to enable the organisations' service managers to operate effectively. This goes beyond the traditional preoccupation with budgets – how much have we spent so far, how much have we left to spend? It is about helping the organisation to better understand its own performance. That means making the connections and understanding the relationships between given inputs – the resources brought to bear – and the outputs and outcomes which they achieve. It is also about understanding and actively managing risks within the organisation and its activities.

By helping the organisation to make better decisions, the accountants can help the public sector to change in a very positive way which delivers increased value for the taxpayer's investment. It can also help to incentivise progress and to ensure that reforms are sustainable and effective in the long term, by ensuring that success is appropriately recognised in both the formal and informal reward systems of the organisation.

Fig 1 – Accountants at the heart of public sector reforms.



Some of these roles relate directly to the functions which are most naturally associated with the accountants – the financial and management accounts, activity costing, financial appraisal, and so on. These are where the accountants enjoy the luxury of dealing in facts and professional opinion. Others are part of the broader financial management system or framework which the accountants create and manage – the system which embraces all of the decision-making within the organisation. This is where the accountants are in the business of trying to influence behaviour. This is a much more ambitious project and it is where the truly outstanding public sector accountants come to the fore.

I want to stress in particular that my definition of financial management is a wide one, covering much more than the activities of the finance department. For me, it embraces many of the actions and decisions which are taken by the general managers of public services.

Let me illustrate this point by posing a very simple question. Does an organisation exhibit good financial management if its accountants provide timely, accurate, well presented information to all managers at regular intervals? The answer, I'm afraid, is "no", or more charitably "it depends". It depends upon what the managers do with that information, whether they understand it, whether they use it at all, whether they use it wisely, whether they misuse it.

The fact that the accountants are providing good information is a very helpful starting point. But it is not an end in itself. We have not achieved our real goal until the organisation is using good information to make good decisions.

This a particularly challenging goal in large, multi-service public bodies. The teachers, doctors, police officers, social workers, fire-fighters and other specialists did not choose their careers in the expectation that they would need to become financial wizards. Nevertheless they do need to grow a level of financial literacy and acumen if they are to operate effectively and manage well, and the accountants do need to help and support this process.

Much will hinge upon the relationships between the accountants and the service managers they support. If the organisation is tuned in to money, if it makes good use of financial information, if it thinks in numbers as well as words - these are the hallmarks of an organisation with a well-connected, well-respected finance function. But if the organisation exhibits very different characteristics, its finance function will almost certainly be far less accomplished. It may even be part of the problem rather than part of the organisation's solution.

This raises some important questions about where the finance function is focused and where it attempts to bring its influence to bear in the organisation. Traditionally finance has been identified very strongly with the corporate centre of the organisation. [SLIDE 3] Often that is where the finance staff are physically located, remote, in more ways than one, from the organisation's front-line service delivery action. Over the past couple of decades this model has changed significantly. We now see many more accountants whose role is explicitly focused upon the front-line. [SLIDE 4] Increasingly frequently, they are not only focused in this way but they are also located close to the service delivery action, often quite literally as part of the service delivery team.

In some cases this shift has led to a diluting of the finance role at the centre. But, if organisations subscribed to the view that this was a logical reaction to strengthening front-line support, most have now discovered the error of their ways. Accountants do need to support front-line managers and services effectively but they need to do so *as well as*, not instead of, supporting the leadership and strategy functions at the heart of the organisation. Sometimes there are discernible tensions in these dual roles, and they certainly add new dimensions of difficulty to the management of the finance function. Should the accountants always tow the corporate line or should they help to fight the service corner? This is the sharp edge on which professionalism is tested in modern organisations.

This engagement at the rim as well as the hub of the organisation is given extra impetus by the increasing tendency of modern public bodies to engage in partnerships and joint ventures with other public, private and voluntary organisations. [SLIDE 5] Much of the action of negotiating these partnerships takes place close to the rim – the venture may relate, for example, to a particular locality, or a specific facility or a relatively narrowly defined service. Whatever the nature of the particular initiatives it is absolutely critical that the accountants are involved from an early stage and that they have the opportunity to influence both how these arrangements are structured and how they raise or lower the organisation's risk profile.

The arrangements which I have spoken about so far represent an outline of some important aspects of best practice – finance should be underpinning the stability of the organisation by developing strong processes to ensure accountability and probity; and at the same time it should be helping to drive performance, improvement and change. Accountants should be supporting the leadership of the organisation and the development of corporate strategy and at the same time they should be part of the front-line service delivery team supporting the

good management of services and the creative processes which aim to ensure that services are continuously improved.

But, of course, not all organisations – public or private – have yet achieved *best* practice. For a variety of reasons many public bodies are some way back up-stream. It may be because they started from a particularly low base and have a long journey to undertake; it may be because the pace of reform is simply unrealistic; there may be problems securing the resources necessary to support all of the relevant reforms; there may be a shortage of really skilled finance professionals to lead and make change happen. Welcome to the real world!

So what is the current state of the financial management art in real world organisations? Those that we have observed exhibit three distinct styles of financial management. [SLIDE 6]

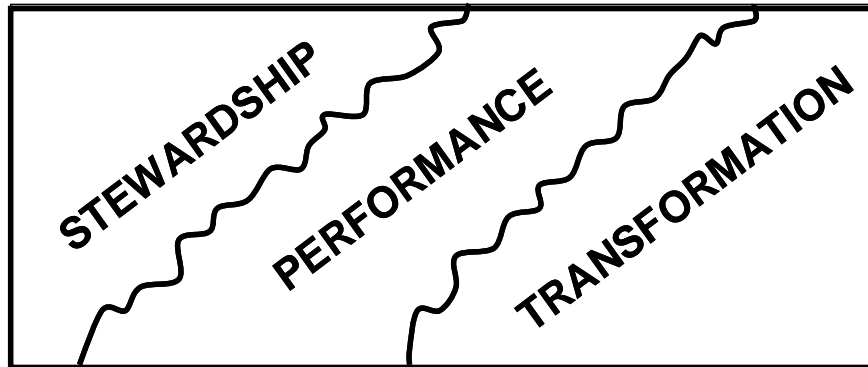
The first we call the ‘stewardship’ style. This places emphasis on achieving compliance with rules or requirements laid on the organisation by, say, an Act of Parliament; on establishing internal rules to ensure strong audit trails; on ensuring good discipline and clear accountabilities; on managing key relationships with regulators, auditors, funders, etc.

The second model, we call the ‘performance’ style. This engages more strongly with the organisation’s objectives. It places emphasis upon providing the right information at the right time to enable managers to understand and use their skill and knowledge to adjust the drivers and inhibitors of performance.

The third model, we call the ‘transformational’ style. This positions finance as a key player in the leadership of the organisation’s strategic agenda. It supports the work to re-engineer

the organisation to operate in a different way and to make step-changes in performance. As well as helping to shape new strategies, structures and systems it seeks also to actively manage and influence the organisation's culture.

Fig 2 – Contrasting financial management styles



The three styles are not mutually exclusive. For example, a transformational approach which ignores stewardship is clearly high risk and likely to end in tears. Ideally the third model will subsume the previous two. Sound stewardship arrangements are fundamentally important in all organisations and all the more so when public money is being spent.

However, even if the joins between these styles are more blurred in practice than my diagram suggests, there is a real value in seeing the three models as distinct points on a continuum or destinations on a journey.

We can then ask and debate which model is right for our organisation. The answer will depend very much upon the age and maturity of the organisation. A new and relatively immature organisation will need emphasis upon the fundamentals – the stewardship style. Its sights will be set on becoming fully operational before it begins to develop a more ambitious agenda. A more mature, longstanding organisation may have all the basics but need a more

performance or transformational style to help kick-start its improvement, to help raise its sights and its game.

Finance professionals might also ask: which style do we exhibit and is this the style which our organisation needs at this stage in its development? If the organisation is transforming while the accountants are in stewardship mode, how long before finance is perceived as a constraint rather than an enabler of progress?

In practice we have to do more than broadly synchronise the organisation's financial management style with its overall agenda and outlook. Ultimately we also have to address quite fine calibration. Sometimes the accountants and the financial management has to lead the organisation to encourage it to reform more ambitiously and more quickly; and sometimes it has to lag, to make the organisation temper its ambition with realism, to keep its feet firmly on the floor.

Finally, if a finance team wants to change and develop a new financial management approach the three styles can help them to evaluate various improvement options and to test where they will have most impact. For example, work to deepen awareness and improve adherence to existing accounting standards will contribute most strongly to a strengthening of the stewardship style. In contrast, work to introduce accruals-based accounting would be likely to impact across all three models. It should help to improve accountability and stewardship; to provide better, more intelligible information to help drive performance; and by getting that information into the organisation's bloodstream it should help to change the way that managers think and manage, contributing significantly to the culture change which is key to transformation.

Let me conclude by returning to the “exciting but painful journey” which I referred to earlier. Today’s public sector is a cauldron of change. It needs skilled accountants who understand the landscape like never before. They have a vital contribution to make. But their vision has to range beyond the traditional roles – accounting, costing, auditing, etc – which define the science of our profession, and beyond the power which vests at the centre of the organisation – important though these roles and perspectives are. Today’s public sector accountants have to develop a much longer reach which aims to influence service delivery and its improvement, and behaviour and organisational culture. Judging the style and pace of the financial management strategy which delivers this bigger contribution is a critical skill. This – and financial management in the public sector – is art as well as science.

Chairman, I hope that the picture I have painted and the challenges I have outlined are ones which delegates recognise. In my experience there is much common ground between us all in the problems we are tackling and the progress we are striving to make.