Allan Barton Memorial Research Lecture 2023:

The Changing Role of Chief Financial Officers in the Australian Public Service

Commentary by Tom Moloney, Partner, KPMG Canberra

I would firstly like to congratulate Janine for delivering this year's Allan Barton Memorial Lecture. This time of year is not exactly a quiet time for CFOs, including year-end reporting, budget preparation and Senate Estimates to name a few. Thank you, Janine, for such a comprehensive insight into the Changing Role of the public sector CFO, and my commentary will not be able to cover all of the topics that you discussed.

I would also like to acknowledge and honour Allan Barton. After first learning from Professor Barton while attending ANU in the early 1990s, I was lucky enough to work on the first audited whole of government financial statements in 1996 and the first accrual budget in 1999. While I had a small role working on the public sector accrual reforms at the turn of the century, it was Allan's published lectures and real-time critiques of the reforms that helped me to understand the bigger picture. If you get the chance and have an interest in this space, I encourage you to read his lectures and speeches on public sector finances, a number of which are still online and are just as relevant today. He was especially active in presenting his views on the differences between the public and private sectors and the dangers in adopting a "one size fits all" approach to accounting. This certainly helped me at the time to adapt my textbook thinking.

Today, Janine gave us great insight into role of the CFO, how it has evolved and how it will continue to be reshaped to meet Government and citizen expectations, including fiscal and environmental sustainability. While Janine's lecture quite rightly focused on the challenges of today and the opportunities of the future, it would be remiss of me as an accountant not to also measure performance and how the role of the modern day CFO compares to what was originally planned.

To do this, I'm going to go back to the period I briefly touched on before, being the period leading up to the year 2000. As Janine noted, this was a period of significant public sector financial reform in Australia. In addition to the full adoption of accrual accounting and budgeting, there was a focus on outcome-based performance reporting, new technology and - perhaps of most significance to today's lecture - the decentralisation of financial management accountability to individual agencies.

In particular, the former Financial Management and Accountability Act and Commonwealth Authorities and Companies Act - along with the Auditor-General Act of 1997 - replaced the previous Audit Act which had been in place since 1901 when Australia was federated. Among a range of other changes, the new legislation devolved responsibility for financial management and governance to individual CEOs. Prior to this point, much of the financial management and accounting in the APS had been centralised within the Finance Department with budget estimates compiled and managed by central supply officers and payments made through a central cash system.

So, what did this mean for the public sector CFOs?

As an immediate consequence of devolution, the responsibilities of agency CFOs immediately broadened. In particular, the newly accountable CEOs were expected to run their organisations more like a business and therefore needed direct access to advisors with expertise in corporate governance, accrual-based accounting, and budget costing. The seeds for the modern-day CFO were sown.

With an expansion in role, there was also a change in expectations. As to what these expectations were, I'm not going to rely on my own memory and will instead draw from a study commissioned by the APS Management Advisory Board as the new financial management legislation was being introduced, titled 'Beyond Beancounting'.

< Slide 2 – Beyond Beancounting Cover>

By way of background, the Management Advisory Board was similar to today's Secretaries Board in that it comprised the heads of departments and selected agencies and was tasked with advising the Government on the management and reform of the APS. Following the recommendations of the 1996 National Commission of Audit that Janine mentioned, the Management Advisory Board commissioned the 'Beyond Beancounting' Report in 1997 to evaluate the readiness of Commonwealth agencies to implement the financial management reforms recommended by the Commission and reflected in the new legislation. The reason I am referencing this Report today is that it also outlined the Advisory Board's expectations for how the role of the public sector CFO would change moving into the 21st century.

At a tactical level, the Board noted that the legislative and policy reforms would require all CEOs and CFOs to introduce:

- Corporate planning with costed outcomes and outputs;
- Monthly accrual financial reports, inclusive of financial and non-financial KPIs;
- Integrated financial systems to support decentralised budgeting and reporting on an accrual basis; and
- Teams with accounting and financial acumen to advise senior and divisional management on financial performance and financial position.

These are all characteristics that we take for granted today. However, and of more relevance to today's lecture, the Management Advisory Board also set out expectations for what they called "The Modern Chief Financial Officer". In the interest of time, I'm just going to call out three of the key changes the Board envisaged for public sector CFOs in the new century. These were:

- Firstly, a larger proportion of career CFOs with professional qualifications;
- Secondly, the requirement for a direct line between the CFO and the departmental secretary or agency head as strategic decisions would need to be supported by detailed financial analysis and costings; and

- Thirdly, modern CFO teams would soon transition from transaction processers to financial data assurers, reflecting a view even back then that the day-to-day stuff would be largely automated through technology.

If I reflect on the responsibilities and challenges that Janine outlined today and compare these to the expectations set just over 25 years ago, I cannot help but feel that in a number of areas the role of the CFO has extended well beyond what was envisaged but in other areas the challenges remain unchanged.

Clearly, the breadth of responsibilities that Janine outlined are broader than what was envisaged only two decades ago, with her responsibility for procurement, project management and property being examples not envisaged in the original blueprint. I was also very interested to hear Janine talk about her role in leading the ATO's response to measuring and reporting on net zero.

However, I am at risk of going well overtime unless I focus my commentary on the three key strategic changes envisaged by the Management Advisory Board – firstly, a professional CFO career path; second, a direct line between CEOs and CFOs; and thirdly, a changing focus due to technology.

< Slide 3 – Towards a professional CFO career path>

Towards a professional CFO career path

In relation to the CFO workforce and career path, the 'Beyond Beancounting' report stated that (and I quote) "agencies should seek to employ a CFO who is professionally qualified and a full member of a recognised professional body". The Report included benchmarking which found that 58 per cent of CFOs were professionally qualified but only 10 per cent of finance staff.

<Slide 4 – Percentage of qualified finance staff>

The focus on professional qualifications was driven by comparisons to the private sector at the time. But is this the best metric for measuring suitability? In one sense, it's a useful guide and my own quick survey of the larger Commonwealth agencies found that almost all of the current CFOs had professional qualifications. However, Janine highlighted the importance of individuals that can manage multiple stakeholders, drive corporate culture, and influence strategic decision-making, skillsets which clearly extend beyond technical qualifications,

I was also very interested to hear about the work being undertaken to develop an APS Accounting and Finance workforce strategy and capability framework, a summary of which is available on the Department of Finance website. The Capability Framework lists professional qualifications as one competency, but also sets out leadership, strategy, communication and influencing as core competencies of a successful public sector CFO.

<Slide 5 – CFO Career Pathway>

The competency framework is also one of the first comprehensive attempts as setting out a career pathway that is specific to the accounting and finance job family in the APS, which is commendable.

That said, if I was to set the next challenge for current and future CFO professionals – and to be clear I have no right to do so – it would be to influence the career pathway into the most senior levels of the public sector.

In the private sector – and this will be my only direct comparison to the private sector - the CFO is often seen as a pathway to CEO leadership. Indeed, some 40 per cent of the current CEOs in Australia's largest companies are former CFOs. In the public sector, no current departmental Secretary is a former CFO. Now I appreciate my comparison is simplistic and I note an obvious point of difference concerns the absence of profit motive in the public sector. However, it is also arguable that the CFO skillset remains underestimated in the Service. After hearing the breadth of strategic responsibilities that Janine outlined today, it is clear that CFOs in the APS have in fact moved 'Beyond Bean Counting' but it is less clear whether the perceptions of CFOs have also moved. Perhaps time will tell as the role and remit of the CFO continues to expand beyond the financial. To be fair, I should also recognise the strides that have been made in the recognition of the role of the CFO in the APS, including the number of CFOs now in the Senior Executive Service, which was not the norm 25 years ago. This brings me to the second strategic change envisaged at the turn of the century, which was that public sector CFOs would need to have a direct reporting line to the departmental secretary or agency CEO.

<Slide 6 – A direct line between CEOs and CFOs>

A direct line between CEOs and CFOs – 'A seat at the table'

This was initially driven by a push for the adoption of commercial business models in government agencies with the Management Advisory Board Report noting that (and I quote) "the top management teams in modern commercial organisations typically include the Chief Executive, directors of the major business divisions and the CFO" In comparison, the Report authors noted that the Executive leadership teams of public sector organisations largely consisted of the senior policy advisors and questioned why the person with strategic financial responsibility was generally well down the seniority line in many public sector agencies at the time.

The Report included a benchmarking survey across the APS and found that in most Commonwealth agencies, there were at least three degrees of separation between the CFO and the CEO, with the 'CFO equivalent' reporting to a corporate services head who reported to a Deputy Secretary or Chief Operating Officer who then reported to the Agency Head.

<Slide 7 – 1990s 3 degrees of separation>

As I noted just before, it was not common for CFOs to be in the Senior Executive Service, even in large agencies.

The Management Advisory Board recommended that public sector agencies consider a direct line of communication and I have interpreted this to be either through the organisational hierarchy or through the CFO being a member of an entity's Executive Board or other Senior Committee chaired by the CEO.

<Slide 8 – MAB expectations >

So, has this changed?

In preparation for this session, Commonwealth public sector agencies were split into four groups:

- The 16 departments of state;
- The 30 other general government non-corporates and corporates that the Department of Finance classifies as material;
- A sample of 31 small agencies; and
- The eight Government Business Enterprises, such as Australia Post and NBN Co.

For each entity, I reviewed the organisational structure charts, governance disclosures and key management personnel disclosures to identify the current lines of reporting from the CFO to the CEO.

<Slide 9 – Now >

These results are summarised on the slide.

What I found was that, on average, there is now two degrees of separation between the CFO and the CEO compared to the previous 3 degrees of separation. However, most surprising to me was the variability in the CFO-to-CEO relationship that exists across the APS, from CFOs such as Janine that are members of their entity's governing committee – and therefore at 1 degree of separation consistent with the Management Advisory Board recommendations - through to CFOs where there is still three degrees of separation as was the norm 25 years ago.

For example, in the Departments of State, no CFOs that report directly to the CEO were identified, but several CFOs were full-time members of the Department's most senior committee, other CFOs attended the Executive Board or equivalent regularly but were not members, while other CFOs were by invitation only.

Understandably, there is a higher proportion of direct reporting relationships in smaller agencies , while the exception continues to be the GBEs where the CFO reports directly to the CEO alongside the COO in all cases.

I appreciate that some may question whether it really matters how many lines of separation there are between the CFO and the CEO, as long as the CFO is listened to on financial matters and financial pressures. Nonetheless, the Beyond Beancounting authors envisaged a direct line of communication between the CEO and CFO, and I would argue that a direct relationship should continue to be viewed as better practice, especially when Governments and agencies are facing significant cost and inflationary pressures post-COVID.

Evolved role due to technology

For my commentary today, I will finish with the 3rd strategic change envisaged in the Beyond Bean Counting Report, which was that public sector CFO teams would become data assurers rather than data processers.

<Slide 10 – From data processer to data assurer>

The prediction was that technology would soon automate routine accounting processes.

This prediction has been made many times since, with some studies forecasting that the accounting profession would be made obsolete, although I also note more recent research has toned down these predictions.

While researching for today's discussion, I was interested to read a number of recent media reports citing accountants as one of the top 10 professions most at risk to being replaced by ChatGPT and other AI. Alarmed by the imminent loss of livelihood for myself and many others here today, I decided to ask ChatGPT myself whether technology and AI will make CFO teams obsolete.

<Slide 11 – Chat GPT question>

After getting one of my colleagues to show me how, the response I got was as follows:

<Slide 12 – Chat GPT response>

"Technology and AI have the potential to transform the role of CFO teams by automating routine financial tasks, improving data analysis, and streamlining reporting processes, which may reduce the need for some lower-level finance positions. However, the core functions of CFO teams, including strategic financial planning, decision-making, risk management, stakeholder communication, and ethical oversight, rely on human judgment, expertise, and leadership skills that technology and AI cannot fully replicate. Instead, technology and AI can empower CFO teams by providing valuable insights and freeing up time for more strategic and value-added activities, making them more effective and efficient in their roles"

So, despite what is reported in the media, it seems that that the even the technology that is supposed to replace us instead acknowledges the ongoing need for CFOs and their teams. Comforted by that fact, I was also particularly interested in the CFO responsibilities that Janine outlined today and how closely these align to the 'human' strengths acknowledged ChatGPT, including leadership, relationship management and strategy.

This is not to say that technology, especially automation and AI, is not having a big impact. As Janine identified in her discussion of ‘finance online’, finance teams are increasingly shifting the way they operate to leverage technology.

Earlier this month, KPMG released its latest report into the Future of Finance, titled the “CFO agenda for elevating finance”. We also recently undertook a survey of Australian CFOs. I should note there are a number of similar surveys and publications released by other professional organisations that also provide useful point-in-time thinking on the evolution of finance functions. I’m just safe on copyright grounds referencing these ones.

The results of these studies reaffirm what we heard from Janine today. While the take-up of automation is perhaps slower than the ‘Beyond Beancounting’ authors envisaged a quarter of a century ago, the evidence is showing that adoption is now occurring at pace. Internationally, we found that over 70 per cent of the surveyed finance leaders are investing in automating transactional processing and reporting while two thirds of high-performing organisations have plans to increase investment in AI and machine learning over the next 2-3 years despite also reporting reduced budgets and inflationary pressures.

Interesting, we found that one of the key factors behind the increase in automation and similar technologies is the shortage of people. In our survey of finance executives, 80 per cent either agreed or strongly agreed with the finance team of the future being ‘headcount-lite’ which was, in turn, a key factor driving investment in technology.

<Slide 13 – Headcount lite>

With that said, I cannot help but find it a little ironic that – despite the claims that automation and AI would reduce the demand for accountants and make us obsolete– it is actually the reduced availability of accountants that is driving the increase in automation and AI in finance. Perhaps not surprisingly in this post-covid era, it is reduced supply rather than reduced demand that is creating the impetus for change. When you add to this the requirement for citizenship and security clearance in the Commonwealth public sector, the available talent pool becomes quite shallow. While territory and state jurisdictions are currently less restrictive in security eligibility, I am told that similar challenges are arising.

For these reasons, it was not surprising to hear Janine talk about the need for a strong Employee Value Proposition or EVP to attract and retain accountants and finance staff in the Service. And I can assure you this challenge is not unique to the public sector. Gone are the days when EVPs, job families and capability frameworks were largely the domain of the HR professional. As Janine made clear, talent management is now an essential tool in the CFO toolkit. Our recent international survey of finance leaders found that 65 per cent of high-performing organisations now have specific finance-focused talent strategies that include rotations, leadership development programs and digital fluency programs.

When we asked about the finance skills of the future, the key areas of growth identified by finance leaders internationally were consistent with the focus areas that Janine raised in her lecture. These include digital skills – in particular data analysis and data governance – and interpersonal skills. According to the research, the work distribution is changing, with leading organisations seeking to reduce staff involvement in transaction processing by more than half and to also substantially reduce the time dedicated to reporting. While business intelligence and analytics are key growth areas, it is actually in business partnering where the expected growth in demand is greatest.

<Slide 14 – Changing work distribution>

While the studies I am referencing were not public sector specific, one of my takeaways from today's lecture was how closely the above focuses align to the direction that the public sector is taking, as Janine outlined today. And perhaps most importantly, the evidence is showing that the future finance team is an evolution of our existing skillsets and not a replacement. CFOs and their teams are already doing data analysis and business partnering with demands in these areas only set to grow further. To date, the main impediment to this growth has been the time doing BAU as the full benefits of technology have yet to be extracted.

As I close out my commentary, I appreciate it would be naïve for me to say that the technology is the answer. We can all likely name system projects or upgrades that didn't deliver and CFOs and their teams are often the first to see the cost and schedule overruns in progress. That said, what I heard from Janine today and fully agree with is that finance teams are uniquely positioned to drive business-led technology transformation and innovation. This is consistent with what the studies show: that CFO teams are a natural source of data and information; they are already structured to engage across organisational silos; and they are skilled in objective analysis and measuring progress.

Conclusion

In conclusion, I would again like to thank Janine for the significant effort and time that she put in today's lecture. Janine highlighted three key challenges for public sector CFOs in the years ahead, these being: how to attract and retain talent in a 'headcount lite' environment; how to embrace and ultimately realise the value that technology can bring; and thirdly how to lead with purpose when change is the only constant. Without even mentioning an accounting standard, Janine showed there is both a future, and a need, for the public sector CFO team, and it also seems that the APS leadership is appreciating the capability that these teams bring to the broader service. Linking back to the basis of my commentary, which was to measure achievement against the plans set out in the Beyond Beancounting roadmap, I would be comfortable to note "KPI progressing". Thank you.