

Allan Barton Memorial Research Lecture 2021:

Public Sector Accounting

Commentary by Nathan Williamson, Deputy Secretary, Governance and Resource Management, Department of Finance, Canberra

Thank you Mike for delivering this year's Allan Barton Memorial Lecture. The contribution of Allan Barton to accounting in the public sector was enormous, both in Australia and internationally, as you have summarised so well. However, I'd also like to also acknowledge your contribution Mike, because you also have a long involvement in accounting and auditing across numerous public sector organisations. I recall during my time at the ANAO the high regard that the Tasmanian Audit Office was held in under your leadership. And congratulations on your appointment earlier this year as a Member of the Order of Australia.

Mike, you acknowledged that your comments were delivered from your experience primarily with State Governments. I must confess that my comments in reply are from my experience with the Commonwealth Government.

I'll open with a couple of my takeaways from the lecture.

First, that despite the immense progress made over the last 30 years in public sector financial reporting, with Australia being amongst the leaders, there are still some areas where we "could do better". Accrual accounting has provided more comprehensive financial information for use in strategic decision making, but still needs to realise its full potential in allowing better understanding of government financial performance. Although I'd argue that, at least at the Commonwealth level, we have enough experience at long term fiscal sustainability through our Intergenerational Report to produce a high quality outcome. We remain world leaders in joint reporting under accounting and statistical standards. And our performance reporting continues to develop.

Second, consistent frameworks assist a common understanding of financial and non-financial performance in government. Accounting standards achieve this for historical financial reporting,

both domestically with the AASB and internationally with IPSASB. The Uniform Presentation Framework developed by Treasury also allows for budget comparisons between Commonwealth, State and Territory jurisdictions. However there is still some way to go with consistent frameworks for long-term future financial reporting, and performance reporting in Australia, and the Recommended Practice Guides of the IPSASB provide us food for thought. I think there is also potential for greater consistency across jurisdictions in reporting the details of employee remuneration and the Commonwealth has devoted resources to enhance remuneration reporting in the annual reports but outside the financial statements. I note that remuneration reporting is an item that the AASB has on its work program after a long absence.

And the last takeaway I wanted to highlight is to underline one very key point Mike made about the importance of the public interest. Unlike the for-profit sector, the public sector is accountable to all Australians. The public, through parliaments, have a clear interest in receiving sufficient, high quality information to make decisions and strengthen accountability – what we call transparency. And Australians should have confidence in that information, enhanced by a strong and effective assurance function through the Auditors-General and their offices. Mike not only catalogued our past achievements but also mentioned some of the future challenges. Even if the future is influenced by past events, it is still the future to which we need to devote our efforts.

And with that in mind I'd like to briefly discuss three future challenges that Mike's lecture has brought into focus for me – the accounting workforce, technology, and extended external reporting. Co-incidentally, Australia is well advanced in all three.

Workforce

Recruiting, retaining and developing high calibre accounting and financial management staff is a constant challenge in the public sector in Australia. I have heard it is also a challenge for the private sector at the moment, with the COVID pandemic restricting immigration and people moving from the larger cities to the regions.

The challenge of recruitment is particularly acute for the public sector in the ACT. where I am based, away from the main labour markets. The public sector offers a variety of experiences, opportunities and career pathways not available elsewhere, and I think there are major career advantages in joining the public service as an accountant. But we need to promote these better. We are not very good at explaining what we do, nor what our value proposition is, particularly to school leavers and university graduates. We need to sell more what a great place the public sector is to work and develop, while ensuring that staff have the right skills, not only to do the accounting but to move on in the future to financial and other strategic and leadership roles. In this area the Commonwealth has recently started taking a broader whole of service stewardship approach, with the Department of Finance driving the creation of an APS Accounting and Finance Working Group with Chief Financial Officer representatives from portfolio and a small number of large agencies. The Group was established to implement a strong foundation for ongoing collaboration, support and development of finance and accounting professionals within the APS. While still in the establishment phase, the Group has already agreed on principles for mentoring and coaching, recruitment, and secondments, and is now starting to focus on attracting talent and securing a pipeline of, and career pathways for, future CFOs. This work is a positive step towards further professionalising accounting and finance in the APS and will position us to respond to ongoing demand and supply issues in the workforce, including at senior CFO levels. There is a small team driving this work and I'd particularly like to acknowledge the leadership of Tracey Carroll and Amy Fox.

Technology

We all hear that technology will change the way we work and accounting is no different. At best it will relieve us of the routine work and allow us to concentrate on more strategic matters. At worst we will all be replaced by robots. The reality is likely to be somewhere in the middle, with technology emerging now to improve information to both internal and external users in three generic ways:

1. Automation: this is well underway in government accounting, with many back office accounting operational activities now done by automation in shared service centres such as the Service Delivery Office in the Department of Finance, and elsewhere in the Australian Public Service.
2. Use of data: visualisation, which of course accountants have been using as a reporting tool for a long time, is now becoming more accessible with more powerful but easy to use software tools that are able to process large data sets and deliver sophisticated graphics. You will have all noticed an increase in decision-making tools such as dashboards, placemats and slidedecks. The evolution of this is data analytics, what some people call artificial intelligence. Accounting generates a mass of useful data, particularly transactional data, which can be analysed for many purposes, including policy development, service delivery and marketing. The Department of Finance uses analytics to assist in budget formulation and analysis. Use of data also has an increasing role in auditing. I know the Australian National Audit Office has been examining the role of data analytics in its work, and I assume other auditors are pursuing the same objective.
3. Digital reporting: financial reports have traditionally been two dimensional and paper-based, which has necessarily limited the way that information can be presented. Newer technologies potentially allow for different types of reporting, again in the public interest. I don't intend to go into much detail, but I will say that these could include user-defined reports, reporting at different levels ranging from highly summarised to highly detailed, and transaction levels of detail.

Technology has the power to transform accounting and auditing to provide better information, but I have one cautionary note. Some of these technologies have actually been around, if not universally accessible, for at least two decades. But they weren't immediately taken up because they came with a high cost, or duplicated existing work for little perceived benefit. The cost of using the newer technologies must be less than the benefits received from it. And this is so even if the benefits are often intangible. In the Commonwealth we have developed the Transparency Portal, at

transparency.gov.au, as the new central repository of publicly available corporate information for all Commonwealth bodies, bringing together financial and non-financial information. Over time, we aim to make the portal the single definitive source of Commonwealth corporate information, providing easy access to the information for the Parliament and the public.

Extended External Reporting

As Mike identified, developments in this field are moving rapidly, so much so that there is not yet even agreement on what it should be called and what its scope is – the terms ESG reporting, sustainability reporting, climate change reporting, and others are all used.

However described, they recognise that reporting might include information other than financial information. Recently the current process to establish an International Sustainability Standards Board, brings together the existing players and stakeholders to develop appropriate standards. In Australia the standard-setting policy and development bodies (the Financial Reporting Council, Australian Accounting Standards Board and the Auditing and Assurance Standards Board) are taking a keen interest and providing feedback internationally. The international work has focussed on the listed public company market so far, but it is something that other types of entity, including the public sector, will need to consider in the future. In not-for-profit entities such as those in the public sector there are issues that would need to be resolved to ensure this reporting would be a meaningful exercise. The relationship with performance reporting, the assurance requirements, and integrated reporting are just a few. And we shouldn't lose sight of the fact that sustainability includes financial sustainability of entities, since if they are not financially sustainable entities will have a much lessened ability to achieve their other goals - here in Australia, on behalf of the Commonwealth, the Department of Finance publishes sustainability indicators or ratios, and these are available on the Transparency Portal. Internationally, I believe Australia is the only country to publically make available this information.

Conclusion

In conclusion I would again like to thank Mike for his insightful lecture tonight. He highlighted the progress in public sector accounting, and particularly the better information for financial management and scrutiny that comes from accrual accounting, long term fiscal sustainability and performance reporting. He articulated that there are future challenges in each of these areas, and also mentioned the emergence of sustainability reporting. And as always he highlighted the contribution to the public interest made by assurance over reported information, whether it be over long term financial sustainability, performance reporting or extended external reporting.