



LOCAL GOVERNMENT
ASSOCIATION OF
QUEENSLAND INC.

Internal Reporting

Best Practice Simplified Internal and External Reporting for Local Governments in Queensland

Prepared for the

Local Government Association of Queensland

March 2002

BDO *Kendalls*



1. INTERNAL REPORTING

This chapter examines the research around the world in relation to the content of financial reports required to cover the three areas of importance – achieving community objectives, enhancing operating capacity, and managing financial risk. The chapter then examines developments in improving internal reporting techniques.

1.1. Key Points

- Financial reporting needs to be part of the organisations knowledge management framework.
- It should be one of the organisation’s main feedback, learning and improvements processes.
- Financial reporting needs to be linked to the achievement of the organisation’s objectives.
- There is widespread dissatisfaction with traditional internal financial reporting.
- Management can only assimilate a limited amount of information, so reports must be focussed. More is not better.
- For financial information to be useful, the literature suggests it must be:
 - accurate, timely and reliable;
 - coupled with analysis (based on analytical tools), and insights on the implications for the achievement of objectives;
 - forward looking (forecasts etc);
 - in a language or format preferred by the reader (usually non-numeric –

1.2. Internal Reporting Content

As outlined in Framework and Methodology Chapter (Chapter 3), local government financial management needs to manage and monitor three inter-related areas: achieving community objectives, managing financial risk, and enhancing operating capacity. This implies that local government accountants have a wider role than their traditional role of management reporting and the production of statutory external reports. In ‘New Roles for Management Accountants’, Kaplan makes the following observations:

- Technological advances have allowed management accountants to become part of the organisations value added team.

- _ Management accountants must participate in the formulation and implementation of strategy, then help translate strategic intent into operational and managerial measures.
- _ Accountants need to move away from being scorekeepers and to become the designers of the organisations critical management information systems.
- _ Existing measurement systems focus on improving existing processes. The Balanced Scorecard, by contrast, focuses on what new processes are needed to achieve breakthrough performance objectives for customers and shareholders.
- _ This new environment requires greater cost and performance information on the organisation's activities, processes, products, services and customers.

Achieving Community Objectives

One of the major developments in internal management reporting over the last decade has been the increasingly widespread use of the Balanced Scorecard (BSC), initially published by Kaplan and Norton in 1992 (Harvard Business Review). Under the balanced scorecard, key performance measures are developed in four perspectives in a way intended to underpin the organisation's strategy. In other words the measures are aimed at measuring the progress towards achieving the strategy. The four perspectives are normally financial, customer, internal processes, and people/innovation and learning. It is intended that the balanced scorecard measures become the main focus of management attention rather than traditional management accounting reports. Interestingly, this is very similar to Drucker's suggestion previously outlined since competence is related to innovation and learning, productivity is related to internal processes, and the foundation information is related to the financial perspective. It is also a highly correlated to our three areas outlined in the framework and methodology-community objectives, financial risk and operating capacity. The comparison is shown in the following table:

Balanced Scorecard	This Review	Peter Drucker
Customer	Community objectives	-
Financial	Financial risks	Foundation information
Internal Business Processes	Operating Capacity	Productivity
People/Learning and Innovation	-	Competencies

Therefore, we will be applying a scorecard approach to monitoring the finances of the organisation in the following four perspectives:

- _ Achievement of Community Objectives;
- _ Managing Financial Risks;
- _ Enhancing Operating Capacity; and

— Financial Competencies and Learning.

The City of Charlotte is portrayed by Kaplan and Norton as a best practice example of using the balanced scorecard in the public sector, and was the first U.S. City to adopt the balanced scorecard approach. Charlotte's interest in the balanced scorecard approach resulted from their interest in using a more strategic, forward-looking framework to organise and implement performance measures. Prior to using the balanced scorecard, they had been measuring performance for decades in a more traditional management-by-objectives context.

In 1990, Charlotte City Council chose five areas (community safety, transportation, economic development, neighbourhoods, and restructuring government) on which to focus its strategic plan. These priorities formed the basic categories in their "corporate" level scorecard. In the mid-1990s, several Council members advocated for more outcome or results-oriented measures. During the first year of implementation in 1996, the City Council established the city's "corporate" scorecard, and city staff from four pilot business units began developing their balanced scorecards. By the end of 1997, all 13 of the city's business units had at some level developed their measures and balanced scorecards based on the corporate scorecard.

Charlotte is pursuing a balanced scorecard approach to performance measurement in the more formal sense. That is, they categorise measures according to the four "perspectives" typically associated with a balanced scorecard: financial, customer, internal business processes, and learning/growth. All thirteen of the city's business units participate in the measurement system, tracking a total of 266 measures. The customer perspective is the most emphasised of the four perspectives, accounting for 38% of the total measures. The other three perspectives account for the following: internal processes, 27%; growth and learning, 21%; and financial, 13%.

The next steps that Charlotte plans to take to improve its balanced scorecard system include the following:

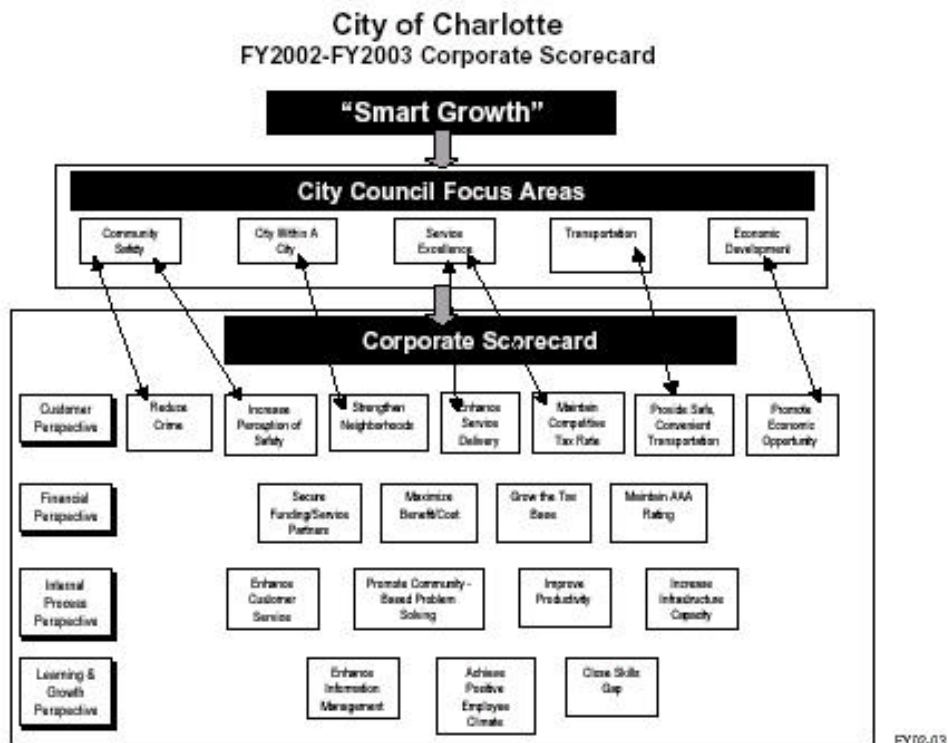
- condense the current list of performance measures to the "critical few";
- continue refining their business unit plans and scorecards;
- move to a quarterly reporting system (from the current semi-annual schedule), and eventually
- link performance results and resource allocations.

Charlotte uses their balanced measures for several purposes: to communicate performance information to elected officials and the public, as input in their strategic planning process, in annual business unit and employee performance plans, and to identify areas for further evaluation and improvement. It is claimed that the City of

Charlotte's performance measurement effort has provided value to the city in the following ways:

- measuring performance has clarified vague concepts like strategic goals;
- the balanced scorecard helped to integrate common goals across departments;
- it has allowed them to set their performance measures into a more comprehensive, strategic context;
- it has encouraged them to narrow their list of performance measures to those that are more meaningful and useful; and
- building the scorecards has developed consensus and teamwork throughout the organisation.

FIGURE 8: CORPORATE SCORECARD FOR CHARLOTTE, US



The balanced scorecard minimises information overload by limiting the number of measures used. Companies rarely suffer from having too few measures. Disparate elements of the organisation are brought together in a single management report. Kaplan and Norton strongly recommend using the balanced scorecard to monitor progress in achieving the organisations strategies. This requires the measures used to be linked into a strategic framework.

Although Charlotte City applies the standard four perspectives developed by Kaplan and Norton (Customers, financial, internal processes, and people and learning) alternative ways of using a Balanced Scorecard in the public sector have been

advocated and used by others. Olve, Roy and Wetter (in 'Performance Drivers: a practical drive to using the balanced scorecard') advocate applying the different perspectives in the public sector: Performance, Relationships, Activities/programs, and Future.

Similarly, in the US, the General Accounting Office (GAO) notes:

'Some of these agencies, ... used a balanced scorecard approach, which is intended to provide a balanced perspective regarding agency results, customer satisfaction, and employee feedback. At one [agency's] regional offices, for example, computerised information is continuously displayed on video screens providing employees with current performance information.'

The GAO itself applies the balanced scorecard to evaluating programs and IT projects. However, it substitutes 'Strategic measures' for the financial perspective.

In CPA Australia's 'Applying the Balanced Scorecard', the experience of organisations in using the balanced scorecard in Australia was examined. The researchers found: In practice the balanced scorecard refers to any set of financial and non-financial measures. Balanced Scorecard is a shorthand way of putting all critical variables for running the organisation on one page. This includes balance among performance measures: balance between the leading and lagging; financial and non-financial; internal and external; and balance between the single minded financial view of the world with additional focus on non-financial ones.

The Balanced Scorecard can be used to articulate strategy, communicate its details, motivate people to execute plans, and enable executives to monitor results. The main advantage cited is improved decision-making. Financial measures, used alone, give an incomplete picture of an organisation's performance, which is equated to driving along a windy road through the rear-view window. The balanced scorecard was also claimed to:

- improve performance continuously;
- Implement more complex strategies;
- run lean, decentralised organisations;
- feed systems for organisational learning; and
- drive organisational change.

Much of an organisation's success depends on managing external relationships: partners, suppliers, customers, shareholders and other stakeholders. Therefore organisations should use measures that translate vision and strategy into concrete directions for action, for example:

- **Financial** – how can we show our strategy is succeeding financially.

- **Customer** – how can we show we’re delivering to customers the value they expect.
- **Internal Business Process** – what processes must we excel at to deliver value to our customers.
- **Learning and Growth** – what action must the company take to prepare the people and organisation for the future.

The CPA Australia publication suggests cascading the scorecard down the organisation structure to the personal scorecard, and advises organisations to ensure that the corporate scorecard:

- must support the manager’s scorecard;
- include a mix of lead and lag indicators; and
- must not exceed 15 measures.

In Australia, the Brisbane City Council is regarded as a leader in the introduction of the balanced scorecard in the public sector in Australia. In the Council’s Annual Report, also published on their website, the Council outlines its achievement against the scorecard as follows:

Customer and Community Outcomes

- 74% community satisfaction with Council’s rubbish and recycling services
- 69% community satisfaction with Council’s water and sewerage services
- 71% community satisfaction with Council providing festivals and cultural events
- 74% community satisfaction with Council parks, gardens and open space areas

Financial Outcomes

- Maintenance of Standard and Poor’s AA+ credit rating

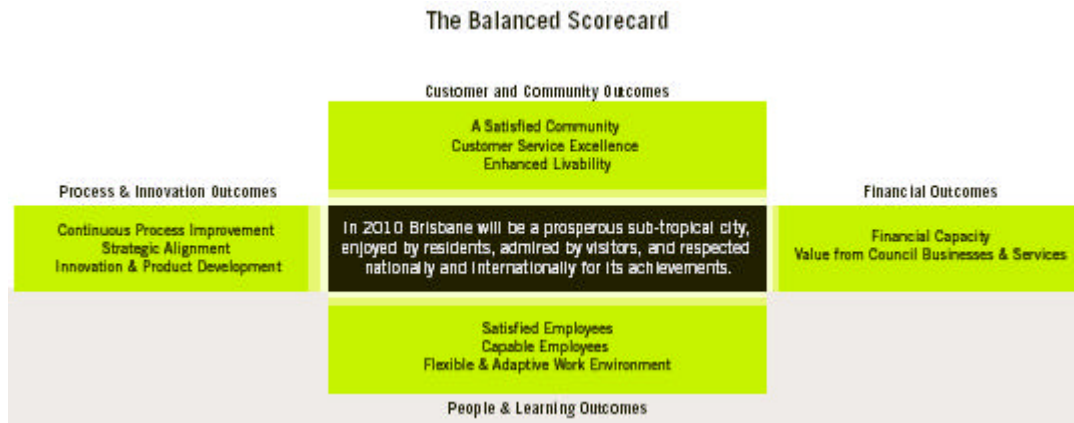
Process and Innovation Outcomes

- 71% of staff understand how their job directly contributes to the objectives of the Corporate Plan

People and Learning Outcomes

- 76% of employees see Council as a good place to work
- Productivity lost to workers’ compensation reduced (target 0.45%, result 0.38%)

FIGURE 9: BALANCED SCORECARD FOR BRISBANE CITY COUNCIL



As part of our research we have reviewed actions being taken in terms of performance management including performance reporting by two Queensland Government Departments and a Government Owned Corporation. We have noted that both of the government departments reviewed have or are in the process of upgrading internal and external reporting through the use of a Balanced Scorecard approach.

The Quarterly Performance Review of one of the departments which is provided to the Senior Management Group is structured to report on a range of performance measures under the following broad headings:

- Stakeholder Relations;
- Financial and Delivery Performance;
- Internal Processes and Practices; and
- People and Learning.

The department has adopted a planning and performance management model which integrates the balanced scorecard into the overall framework. The overall model is structured within the context of the Government Priorities and the Managing for Outcomes framework.

The department further developed its performance management reporting practices including incorporating the Balanced Scorecard around 2 years ago and has recently reviewed its progress in implementation. This has led to a process of ongoing refinement of the performance management framework including further development of the performance measures in use.

For external reporting purposes the Annual Report of the Department incorporates a three-page report in Balanced Scorecard format.

Enhancing Operating Capacity - The Accountant's Role

Most traditional financial reporting focuses on financial results, which we have seen underpin the public sector requirement to monitor and enhance the operating capacity of the organisation. This has traditionally been the main role of management accountants.

The GAO published its research into 'Creating Value through world-class financial management' in April 2000. It found that Management Accountants in all sectors are increasingly being asked to supplement their traditional role with more financial analysis and management consulting.

World-class finance organisation can be defined in terms of business outcomes:

- _ Improved business analysis;
- _ Innovative solutions to business problems;
- _ Reduced operating costs;
- _ Increased capability to perform ad-hoc analysis; and
- _ Improved overall business performance.

The best organisations made financial management improvement an entity-wide priority by building a foundation of control and accountability that supports external reporting and performance management.

In another publication, the GAO has stated that 'to reap the full benefits of financial reform, federal finance organisations must go beyond the audit opinion toward:

- _ establishing seamless systems and processes;
- _ routinely generating reliable cost and performance information and analysis;
- _ undertaking other value-added activities that support strategic decision-making and mission performance; and
- _ building a finance team that supports the agency's mission and goals.'

In a book by leading management theorists Kaplan and Cooper "Cost & Effect: Using Integrated Cost Systems To Drive Profitability And Performance" 1998, the authors note that internal systems are required to provide feedback for learning and improvement within the organisation. They claim that most companies have financial systems which meet external financial reporting requirements and collect costs by responsibility centres, however this approach provides feedback to managers and employees which is too late, aggregated, and financial instead of providing useful feedback to improve business processes. More advanced organisations have operational feedback systems which provides managers and employees with timely, accurate information, both financial and non-financial, on the efficiency, quality, and cycle times of business processes.

According to Maskell in his provocative book “Making The Numbers Count: The Accountants As Change Agent On The World Class Team”, world class companies are those with fully evolved organisation-wide process improvements and performance measures and can be characterised as follows:

- the business is run primarily on non-financial measures;
- cost accounting has been eliminated;
- budgets are high level and only used for planning purposes;
- many aspects traditional accounting systems have been eliminated; and
- the focus of accounting staff’s effort is on process improvements and re-engineering.

Maskell also claims that the management accounting profession has been under fire over the last few years due to criticism of the traditional techniques and management accounting. Much of information traditionally provided by management accountants in the private sector is seen as wasteful, misleading and causing more problems than it solves. More relevant management accounting activities are emerging in best practice organisations including:

- activity based costing;
- activity based management;
- customer profitability;
- performance measurement;
- value added analysis;
- process mapping;
- target costing;
- value engineering;
- variety effectiveness process;
- life cycle costing;
- quality function deployment; and
- competitive benchmarking.

Professors Kaplan and Johnson in "Relevance Lost: The Rise And Fall Of Management Accounting" 1987 were even more scathing about traditional management accounting by claiming that "cost accounting is the number one enemy of productivity." The key criticisms of traditional management accounting are that it is not directly related to the organisation's strategy, distorts costs, was inflexible, incompatible with world-class approaches and inappropriately linked to financial accounts.

In Australia, Ashton in the Management Accounting Centre Of Excellence (CPA Australia) publication 'Contemporary Perspectives on Management Accounting' 1999, observed

'In essence, the management accountant provides support of the decision-making process, providing management with information so needed it can select one course of action from a set alternative courses of action in the context of some predetermined objectives. In supporting the decision-making process, management accountants are also able to change managerial behaviour.

Management accountants will need to produce information about the operations of the organisation and those factors which may be affecting these operations. Management accountants will not be able to provide assistance nor will management, no matter how able, be able to function properly without an adequate flow of information. The degree to which a good decision can be made is governed by the quality of the analysis and information furnished. Therefore, it is apparent how important reporting and analysis are to the successful operation of business. There is often a general lack of perspective on modern management's real information needs at each level. As a result, the information and reporting systems fall short of what is needed and what is possible. The systems that do evolve are frequently disconnected, do not tie in with accounting records, and contain almost as many different reporting formats as there are managers demanding information. Such a situation hardly assures the best utilisation of company resources.'

According to Ashton, the criteria of a good reporting system are:

- it should mirror the company's organisation structure so that accountability for results is clearly shown;
- that for each organisational unit, it covers all the material control elements of performance that affect the unit's contribution to the overall organisational goals;
- it is represented, in total, an integrated plan of control, so that information is furnished to all levels of management; and
- it is, itself, under continuous control, so that it can be adjusted promptly to meet changing needs.

In New South Wales, the Auditor-General reviewed the financial reporting practices of a number of agencies in 2001, and found serious deficiencies. Therefore, he developed a better practices guide for the use by agencies. This guide is available on the Internet at http://www.audit.nsw.gov.au/guides-bp/IFR_contents.htm

The key theme of the report is the need to link financial results with indicators of performance of objectives, and simpler reporting. Since Auditor-General's report is very recent and higher relevant to the Australian public sector key aspects of the report had been reproduced below. The following are pertinent extracts from this guide:

- Sound internal financial reporting is essential for the proper management of resources and delivery of services. Ideally, the financial information included in these reports should be supplemented by non-financial information. Unlike

external financial reporting, there are no standards or prescribed minimum requirements for internal financial reporting by NSW public sector agencies.

- There is a need for agencies to manage their information needs. A sound internal reporting system is essential for proper management. Within such a framework, internal financial reporting is pivotal to ensure proper control of resources, the efficient application of those resources to processes and the direction of those processes to the production of defined outputs.
- Internal financial reporting typically comprises financial information on revenue, expenditure, assets and liabilities against budgets or pre-determined limits. For internal financial reporting to be truly useful as a management tool, there is a need for it to contain non-financial information that supplements and where necessary elaborates on the financial information.
- Accordingly, for internal financial information to be effective there is a need to ensure that:
 - the vision of the organisation is translated into clear objectives and strategies;
 - the risks to the achievement of these objectives are clearly identified and managed;
 - the responsibilities of managers being consistent with the objectives of the organisation; responsibilities need to be clearly defined, communicated and understood by all key stakeholders and managers accountable for responsibilities allocated;
 - performance measures integrate financial and non financial performance information; and
 - performance measures are linked directly to the objectives of the organisation.
- Organisations should establish a structured approach to collecting, analysing, producing and using financial information that helps managers at all levels to manage. Improved performance often relies on the access to, and the integration of, financial and non-financial information. Information to improve performance often requires access to a range of databases within an organisation from which information can be extracted, manipulated and analysed. To enable this interface information systems need to integrate or interface. This can be achieved by using a central integrated system which is based around one system.

NSW Auditor-General's Summary

Better practice organisations:

- translate the vision of the organisation into clear objectives and strategies and identify clearly the risks to the achievement of the objectives;

- have management accounting and information systems that support the organisation's strategic objectives;
- integrate financial and non financial information for measuring and monitoring performance;
- assign responsibilities to managers being consistent with the objectives of the organisation and their authority;
- measure performance against assigned responsibilities;
- adopt accrual based accounting and reporting on a continuous basis has been implemented;
- apply business simulation techniques and conduct 'what if' scenario modelling to explore options and help make decisions that will improve performance;
- undertake internal and external benchmarking of performance against the relevant industry, other levels and jurisdictions of government, and the private sector;
- have an integrated database or established access to interrogate a range of systems, supporting easy access to information required; and
- use their information for the evaluation of capital investment decisions.

Better practice organisations:

- identify the type of information needed at various levels of management;
- provide financial and non-financial information in a balanced way;
- establish clear line of accountability;
- link budget to strategic plan;
- identify components of budget (costs, income, assets etc);
- provide timely and accurate information as to variations;
- compare trends over time, allowing comparisons to the previous year or years' figures and/or for the same period last year, and undertake internal comparisons and benchmarking;
- have regard to information needs that may vary from year to year and the particular emphasis or focus that can vary according to the time of year, seasonal factors, changes in agency responsibilities or unusual events;
- require a simple and uniform structure for the chart of accounts and based on need, limit the number of cost centres and accounts in the general ledger;
- present internal reports as close as possible to the format of external reports including the financial statements contained in the Annual Report;
- require commonality of the year end projections used in internal reports and Treasury Financial Information System (FIS) monthly reports;
- establish a business case for new information required but is not readily available [that is the cost to collect and report the information versus the benefits of obtaining the information];
- institute legal and regulatory "sign offs" as part of the preparation of statutory financial statements
- periodically review what information is currently available;

- provide commentary on the remedial action that is being taken or proposed to be taken to remedy any performance problems highlighted in the report.

Inclusion of full accrual costs, including depreciation, a possible capital usage charge, and so on, are essential for managers to be able to make fully informed decisions about the optimal use of resources. Better practice management includes the requirement that a business case, or equivalent, be prepared to support all significant investment proposals. Source: *Beyond Bean Counting* (page 69).

Managing Financial Risk

In a leading text on corporate governance "The fish rots from the head" Garratt, 1997, makes the following observations: "behind the key performance indicators and the overseeing of management performance systems is the basic notion that the board needs to be able to know where the company is in where it should be so that deviations can be assessed and resources wisely allocated to correct the situation. Otherwise it is taking unnecessary risk. Risk is essential to an enterprise. If we had full knowledge of the future there would be no risk. We live in a gloriously imperfect world that allows for great rewards, harsh punishments and major disasters. Corporate risk management is the ultimate responsibility of the board. In the end boards still tend to return to assessing financial risk as the highest priority for the enterprise's and board's survival. One increasingly used technique by financial analysts is the Z-score. Ratios appropriate to the enterprise are selected, weighted and then added together to produce a single index. Whilst there is no single model the typical z-score would comprise performance indicators for at least: profitability, working capital, financial risk, and liquidity."

The Cadbury report "The Financial Aspects of Corporate Governance" 1992, recommends that the directors make statements in the annual report on the effectiveness of the internal systems of control is a way of assessing risk for shareholders'.

In New Zealand the Fiscal Responsibility Act 1994 specifies five principles of responsible fiscal management and strengthens government reporting requirements.

The five principles of fiscally responsible management are:

- reduction of government debt to prudent levels;
- maintaining prudent debt levels over a reasonable period of time;
- achieving and maintaining levels of Crown net worth;
- managing fiscal risks in a prudent manner; and
- pursuing policies consistent with predictability about the level and stability of tax rates for future years.

It can be seen that all of these measures relate to financial risk issues.

Similarly the Blair government in Britain introduced the Code for Fiscal Stability to improve standards of transparency and accountability. Again five principles of fiscal management are outlined:

- _ transparency;
- _ stability;
- _ responsibilities;
- _ fairness; and
- _ efficiency.

Specific commitments under this policy included fiscal and debt management policies, explicit fiscal policy objectives, debt management policies, and better practice accounting methods used in the production of public accounts.

In Australia, the Howard government introduced the Charter Of Budget Honesty Act 1998 which requires the government to conduct its fiscal policy responsibly. The Charter includes the requirement to 'manage risks faced by the Commonwealth prudently, having regard to economic circumstances, including by maintaining Commonwealth and general government debt at prudent levels'

Over the past decade, all Australian State and Territory governments have adopted some form of medium-term fiscal management. A major objective of these fiscal management policies has been the achievement of debt reduction through expenditure restraint. In Queensland the government's fiscal management policy requires full funding of accruing liabilities and restricting borrowing to projects which can generate sufficient income to service the debt.

The Joint Committee of Public Accounts (1995) in its report on fiscal responsibility legislation claims that some key indicators need to be specified which the government must report against. The range of indicators included:

- _ net financial position/worth;
- _ net debt as a percentage of GDP/GSP;
- _ operating deficit/surplus; and
- _ other indicators including net worth indicators and debt to revenue indicators.

The steering committee on national performance monitoring of GTE's specified and defined in number of financial performance indicators in relation to financial risk, these are debt to equity, total liabilities to equity, current ratio, and interest cover.

The Office of Local Government Commissioner in Queensland developed a number of financial indicators for assessing financial strength of local governments for the

boundary review and amalgamation assessments. Vulnerability indicators included reliance on grants and government projects, and reliance on revenue from particular industries or businesses. Flexibility indicators included operating surplus, interest cover, reserve and rate levels, and rate arrears.

It is interesting to note that one of the key indicators used by Charlotte City in its balanced scorecard is the maintenance of its AAA credit rating. Similarly, Brisbane City Council has a goal of maintaining its AA+ credit rating in its balanced scorecard. These credit ratings are issued by ratings agencies such as Standard & Poor. This organisation prepares credit ratings for a number of Local Governments, and includes the following criteria:

FIGURE 10: CREDIT RATINGS FOR LOCAL GOVERNMENTS



In assessing the financial position of local and regional governments, Standard & Poor's examines the following financial risk factors:

- liquidity;
- debt burden; and
- Off Balance Sheet Liabilities.

They also monitor financial flexibility and performance including reliance on particular revenue sources and financial flexibility.

1.3. Financial Management Issues

A number of financial management responsibilities were identified in the Councillor Focus Group (Discussed in Chapter 2. Background). These provide a useful framework to analyse the financial management role and responsibilities of

Councillors. These have been sorted into the balanced scorecard framework discussed above.

Community Objectives

Delivery of Promised Outcomes – Strategic & Operational Planning

Each council is accountable to the community for its performance. To ensure that there is a clear and common understanding amongst councillors and staff about the Council's desired goals, strategies and key performance measures, a strategic and operational planning process is needed.

The Council's strategic plan should set the framework for individual business plans to be developed by divisions, programs or business units which have ownership of the more specific strategies and measures used to steer their contribution towards achieving the Council's outcomes and goals.

The planning process should also link to the budget process so that the resources required for new initiatives are identified and allocated.

Value for Money

The need for efficiency and effectiveness in the delivery of services is a key responsibility. This includes:

- a fair and competitive procurement policy and process is in place;
- the use of benchmarks to compare performance across comparable organisations and to prompt questions about disparities;
- comparisons of actual results against targets and previous results to encourage continuing improvements; and
- periodic reviews of work practices having regard for technological change and ideas on best practice.

Financial Risk

Budget Setting and Monitoring

The Budget is a key direction setting and management control document for any organisation including for local governments. The *Local Government Act 1993* (section 518) requires that all local governments adopt a budget each year for their operating fund sometime between 1 June and 1 September (or a later date fixed by the Minister). The Act requires the budget to be developed consistently with the Council's corporate plan and operational plan, while the Local Government Finance Standards require, amongst other things, the use of accrual accounting.

Apart from the purpose of genuine emergency or hardship, a local government may not incur spending that is not authorised by its Budget (section 519). Councillors may be liable for disbursements made other than in accordance with the budget or for emergency or hardship reasons (section 523).

Integrity of Finances (Sustainable Revenue Policy)

Councillors have a responsibility to represent the overall public interest of their community. This public interest role includes the setting of rates that will provide a sustainable level of funding for the cost of services being provided for the current generation of ratepayers. This cost includes an allowance for the replacement of infrastructure and other depreciating assets. It also raises such issues as:

- equitable contributions toward the initial cost of facilities through developer contributions; and
- the need to subsidise or fund the expansion of commercial enterprises operated by Council.

Sustainable revenue policy means ensuring that a future generation of ratepayers will not need to pay for services which have been consumed by the current generation of ratepayers. Generally, the most significant issue of financial sustainability is the deferral of infrastructure replacement and the creation of maintenance backlogs. This question requires that these needs be identified and an assessment made of the extent to which annual depreciation costs are, or should be funded from rates or other revenue sources.

The Local Government Finance Standard requires that a council must adopt a number of financial management policies including:

- a policy on borrowings; and
- a policy about revenue (section 8).

In particular, the policy about revenue is to include:

- how rates and charges are decided, including the extent the rates and charges relate to relevant costs;
- any rebates and concessions on rates and charges;
- any limitation on increases in rates and charges;
- the extent that physical and social infrastructure costs for new developments are to be funded by charges for the development;
- whether it is intended to maintain, decrease or increase the operating capability of the local government and the extent to which it may be decreased or increased; and
- whether depreciation, or other non-cash expenses, are to be fully funded.

Borrowings

The Local Government Finance Standard indicates that a local government's policy on borrowings must include:

- new borrowings planned for the current financial year and the next 2 financial years;
- the purpose of the new borrowings; and
- the time over which it is planned to repay existing and proposed borrowings.

The Council also needs to have an understanding of the overall level of borrowings and to relate that in some meaningful way to the level of assets it is financing and the level of revenue required to support the annual financing costs (interest). The statement of financial position gives a useful snapshot view of a Council's level of assets and liabilities (including borrowings) – provided the values are current.

A useful indicator of debt servicing ability is the debt-servicing ratio, which covers both interest and debt repayments against operating revenue as follows:

$$(Annual\ interest\ expense\ +\ debt\ repayments) / annual\ operating\ revenue$$

Changes in this ratio over time indicate whether a Council's capacity to service its debt is improving or declining. There is no right level for all councils and the level will vary as interest rates change. Nevertheless, a council should consider adopting a target range and report against it regularly. Further, if it is considered that the debt level is currently too high, the council may adopt strategies aimed at meeting a target over time.

Capacity to Manage "Shocks" (Reserves)

Any organisation needs to maintain a level of reserves to cover unexpected events that cannot be reliably budgeted for. The level and nature of reserves is a decision to be taken by each Council and can include specific or general reserves.

Specific reserves can be set up for infrastructure – where funding is required over and above the replacement funding available from recovering depreciation expense through rates.

Grants, subsidies, developer contributions and other funding received in advance should be separately identified in the statement of financial position as "prepayments" or "unearned revenue".

Special funding or levies such as street mall improvements or bushland preservation would need to be separately identified as not being available to meet Council's normal operating costs.

Forward Financial Planning (more than the next term)

There are benefits for any Council to have some forward estimates for financial planning purposes. This is especially so when a Council is seeking to correct over time some element of the finances such as to reduce the level of debt servicing as a percentage of operating revenue.

It is noted that State governments adopt a three-year forward estimates process, while many utilities have financial plans extending out from 20 to 50 years.

Operating Capacity/Internal Processes

Paying Bills on Time (Cash Management)

Local Governments have a responsibility to ensure on an ongoing basis that they are meeting their financial obligations in a timely manner.

Effective cash management requires that an organisation should meet contractual and commercial terms of payment. As well, it requires that the organisation maximise the return on funds held (that is, paying neither early nor late). Council's financial management systems should have the capacity to record the due date for payment of bills and to manage payments accordingly (by electronic transfer where possible).

Managing Infrastructure

While Council engineers have always had a concern for whether, when and how infrastructure needs to be built and replaced, the introduction of accrual accounting has highlighted these issues from a financial perspective and made them an on-going financial management responsibility of Councillors.

Accrual accounting requires the annual cost of "consuming" an asset to be recognised as an expense. This recognition of depreciation expense is necessary to fairly represent the cost of the Council's operations each year - including to report on the extent to which those cost have been covered by revenues (that is, whether the Council has made an operating surplus or loss).

In addition, the effective management of infrastructure requires long-term asset management planning.

Adequate Provision for Depreciation

The Revenue policy mentioned above includes a requirement to assess whether depreciation is to be fully funded.

Assets are acquired with a combination of borrowings, grants and subsidies, internal reserves, use of depreciation funding, developer contributions, sale of other assets or a

special levy or charge. The decision on whether to fully fund depreciation needs to be considered in the light of future asset replacement planning requirements.

Asset managers can provide information, as part of the asset planning process, on expected asset degradation and the expected expenditure required for refurbishment, replacement and renewal of assets. In terms of expansion of the infrastructure base, there will need to be consideration of the level of funding required from internal sources to complement the contributions of developers, grants and subsidies and level of borrowings.

Systems, Processes, Controls, Auditability

The elected member has a responsibility to ensure that there are appropriate systems, processes and controls which help manage the financial risks a council is subject to and to facilitate the audit process.

There are a range of requirements which should be in place including:

- financial management policies clearly defined in a manual;
- where appropriate, an internal audit function (either in-house or out-sourced);
- an audit committee of the council or a process whereby the full council may meet as an audit committee;
- an independent appraisal of all business related systems and related controls in place at least once every three years; and
- a process to ensure that appropriate action is taken on issues raised by the Auditor-General as the external auditor whether there is an Audit Committee or not.

Competencies, Learning and Innovation

Innovation – Other Income Streams (Enterprise) – but take care

The focus group noted that innovation and enterprise are important aspects of the role of an elected member. Understanding of the risks and returns is a critical element of the up front assessment of the project or activity proposed.

All proposals requiring a significant level of funding should be supported by a proper business case which assesses the benefits, costs and risks.

External Funding Contributions

The role and responsibilities of councillors includes considering opportunities from funding initiatives of other levels of government, community groups, etc..

Even if these do not require Council to contribute funding up-front, the longer-term consequences need to be assessed. Council needs to consider:

- the ongoing operational and maintenance costs;
- any community expectations that the initiative will be continued after the external funding is exhausted; and
- the need to replace assets.

Employing Good Finance Staff

Like any organisation local governments need to ensure that competent staff are employed and that opportunities are provided for training and development. Even staff with accounting qualifications will need ongoing professional development.

For many isolated local governments, there are challenges in engaging and retaining quality financial staff. The need to access good quality financial management advice should not be overlooked.

Towards a Better Understanding of Financial Management

There is a need for Councillors to understand the financial and performance information which is, or should be, regularly presented to them.

The ability to read and understand financial information contained in a statement of financial position and operating statement is an essential, while the need to have clear and user-friendly reports is equally important.

Challenges of Smaller Councils

The focus group process noted the challenges for Councillors of smaller Councils and the need for assistance in terms of seeking best practice finance strategies. These Councils do not have the depth of qualified staff resources as compared with the larger Councils. Councillors from smaller Councils would welcome further guidance in terms of best practice finance strategies.

In assessing the scope of the issues identified by the focus group, BDO Kendall’s reviewed the issues against the following criteria:

Issue	Capability of Elected Members and Council staffing	Strategic Direction Setting	Management Control	Performance Management and Monitoring	Audit/Accountability
Delivery of Promised Outcomes		X		X	X
Budget setting &		X	X	X	X

Issue	Capability of Elected Members and Council staffing	Strategic Direction Setting	Management Control	Performance Management and Monitoring	Audit/Accountability
monitoring					
Integrity of Finances (sustainable revenue policy)		X			X
Borrowings		X	X		
Capacity to Manage “Shocks” (Reserves)		X			
Forward Financial Planning		X			
Paying Bills on Time			X		
Managing Infrastructure		X	X		
Adequate Provision for Depreciation		X	X		
Systems, Processes, Controls, Auditability			X		X
Value for Money			X	X	X
Innovation – Other Income Streams (Enterprise)		X			
External Funding Contributions		X			
Employing Good Finance Staff	X				
Understanding of Financial	X				

Issue	Capability of Elected Members and Council staffing	Strategic Direction Setting	Management Control	Performance Management and Monitoring	Audit/Accountability
Management					

Simple Local Government Balanced Scorecard

Although many smaller and medium sized Councils may feel that their Council is too small to warrant a Balanced scorecard, the Councillors at the LGAQ focus group clearly expressed a need for information which fits neatly within a balanced scorecard framework. Based on these findings, the following is a suggested framework of balanced scorecard measures that may be applicable to many local governments or used as a basis for establishing a balanced scorecard within the organisation. It is suggested that 15-20 of the most relevant indicators could be used for this purpose. It should be noted that a pure balanced scorecard as outlined by Kaplan and Norton contains indicators that are limited to the overall strategy rather than a collection of indicators in each area. However, most organisations usually start with a collection of indicators and gradually shift to a more strategic scorecard.

Community objectives

- Delivery of promised activities (by exception).
- Service level measures (e.g. library borrowing levels, roadwork activity).
- Customer or community satisfaction survey (if conducted).
- Numbers of complaints.
- Other key performance measures based on the corporate plan.

Financial Risk

- Liquidity (working capital or current ratio).
- Solvency (debt ratios).
- Revenue ratio.
- Overall budget variances (for operational revenue, operational expenditure, capital revenue, capital expenditure).
- Revenue sustainability (revenue forecasts compared to expenditure trends).
- Unrestricted reserve levels.

Operating Capacity/Internal Processes

- Corporate overheads as % of total expenditure.
- Rate arrears ratio.
- Percentage of bills paid on time.

- _ Percentage of funded depreciation.
- _ Internal and external auditor report issues.
- _ Operating expenditure per capita (excluding depreciation) compared to similar councils.

Competencies, learning and innovation

- _ Employee indicators:
 - average sick days per employee;
 - absenteeism; and
 - leave liability balances.
- _ Average training days per employee.
- _ Innovative changes in the organisation.
- _ Percent of revenue from innovative functions (special-purpose grants, private works, etc).
- _ Councillor and CEO satisfaction with financial reports.

1.4. Improving Reporting Techniques

Overseas Experience

The United States General Accounting Office “Executive Guide On Creating Value Through World-Class Financial Management”(April 2000) noted that ‘to effectively evaluate and improve the value derived from government programs and spending, ... decision makers must have accurate and reliable financial information on program cost and performance. Further, they must be able to rely on ... finance organisations to provide analysis and insight about financial implications of program decisions and the impact of those decisions on agency performance goals and objectives. Currently, financial data is not always useful, relevant, timely, and reliable enough to be used for ... decision-making, and many ... finance organisations are not yet well equipped enough to routinely provide analysis or advice related to this information.’

This report also noted a significant change occurring in the private sector. It noted a major study which had shown that in the 1980s, most CFO’S were spending 75 to 80 percent of their time on fiduciary issues, particularly external reporting, but today leading finance organisations owing to spend only 20 percent of their time on fiduciary duties in the remaining time providing strategic support activities including cost analysis of business performance analysis. Similarly, a 1996 report by the Institute of Management Accountants found that management accountants are being increasingly asked to supplement their traditional accounting role with more financial analysis and management advice.

The GAO report claims that leading finance organisations have eliminated, reduced or redesigned much of their old management reporting formats to meet the needs of the user. New reporting formats have been designed around key business drivers rather than organisational structures to provide management with relevant forward-looking information on business unit performance. It also claims that leading finance organisations present relevant financial information in an understandable, simple formats with suitable details and explanations. According to the research standardised reports are designed to present information which is analysed so as to highlight pertinent and fundamental issues. In United States changes are underway in many government agencies to develop meaningful, user-friendly accountability reports on individual departments and agencies. In addition to meeting statutory compliance requirements, reports in these agencies show the degree to which the organisation has met its goals and at what cost, and assist the reader in determining whether the organisation was well run.

Best practice examples provided by the GAO include exception reporting and presentation of information in the form of charts and graphs so as to enhance the readability of the report increasing, the impact on the message and being sensitive to the demands on the reader's time. In these reports actual financial performance is supplemented with forecasts so as provide a perspective on what has happened together with a view of what is expected to happen in the future. Such reports also provide benchmarks or "peer comparisons" that compares the organisation's key measures to those of other organisations in the industry. Management reporting in these best practice organisations is driven by the overall objectives of the organisation rather than traditional management accounting approaches.

New technology has made financial data more available, but without the ability to translate that data into relevant, understandable information decision-makers are left powerless. Best Practice organisations have changed management reports to be focussed around key business drivers (not necessarily around organisational structures). Use of web technologies allow use of drill down, short summaries and supplemented with more detail below.

Good reporting shows the degree to which an agency met its goals and at what cost and assists the reader in determining whether the agency is run well.

The GAO report advocates redesigning management reports around key business drivers provides decision-makers with relevant, forward-looking information. Traditional reports use a monthly report which is very detailed, comprised of static reports and schedules entirely based on what has happened and contains no external or competitive perspectives. By contrast, best practice executive summaries feature "exceptions" or those items specifically worthy of focus. In addition, information is

presented in charts and graphs. This approach enhances the documents readability, increases the impact of the message, and is sensitive to the demands on the audience's time. Good reporting need to be supplemented with forecasts so as to provide a perspective of what has happened with a view of what is expected to happen. Such reports also contains peer comparisons and benchmarking, since an external perspective is vital to assessing performance in a relevant context.

Maskell claims that many managers find accounting reports confusing and complicated. He notes that best practice organisations provide simpler standardised reports which are presented in a clear way focusing on key issues. For example, some provide for graphs on a single page for each area showing standard quality, cost, timeliness, and customer satisfaction measures used throughout the organisation.

In 'Towards better management reporting', the authors claim that excellent Financial Reports:

- Include Operational Data; and
- Include Updated Forecasts of Year End Results.

This requires management accounting reports to provide early warning of crises, so as to facilitate early corrective action. Reports also should provide advance indication of surpluses, to allow for better management of resources.

In 'Is Your Board Reporting Process Out Of Control': the author notes that current-reporting processes can be overly time consuming. To improve on this situation accountants need to:

- look to "variance to budget" reporting (look at YTD, not month variance);
- focus on key measures; and
- use icons and graphics in the reports.

Australian Experience

The experience in Australia mirrors that in public and private sectors overseas. In the Management Accounting Centre of Excellence, Report "contemporary perspectives on management accounting 1999", Ashton claim: 'in the past it was generally assumed that the more information management received, the better informed it was. We now know that in reality management can only assimilate a limited amount of information. Many reports included in indigestible amount of information in a form that contains too many lines and columns with irrelevant and excessive detail. One of the most common causes of this condition is the attempt to make a report serve too many purposes. Others do not draw the distinction between information should appear on regularly issued reports and output should otherwise be held in reserve for the benefit of special analysis and study.

One of the most disappointing aspects of many present-day reports is that even when all the right information is included, it is not presented in a simple, clear, meaningful form that will permit a manager to make the property valuations and decisions. Sometimes the very form in which information is presented will cause managers to take the wrong approach in analysing their operations. In other instances, it may be either impossible to interpret a report correctly, or the effort to do so is prohibitive.... The responsibility for this situation lies both general in financial management.

The characteristics of a good report include:

- it covers an element of performance that materially reflects the end result;
- it facilitates measurement of performance by comparing results of goals;
- it reports only essential information, so that the reader gets a complete picture without being confused;
- its segregated controllable and uncontrollable items so that responsibility of the means of action is not obscured;
- it focuses attention on matters that require action by highlighting significant trends from expected performance;
- it appears in a form that is easy to understand and use;
- it is expressed in the language of the reader;
- it is distributed only to persons who are concerned with the subject in the degree of detail in which it is presented;
- it is issued promptly, regularly, and at appropriate intervals; and
- it is prepared economically in comparison to the value it produces.

Reports that are cumbersome, difficult to read, fraught with error, untidy, too detailed, and not on time do not establish the most suitable environment for an effective relationship between management and management accountants."

A report by the NSW Auditor General in June 2001 was critical of internal financial reporting mechanisms in NSW government Departments. He revealed that some agencies miscalculated projected costs and others exceeded their full year projections by mid-year. 'The report showed a lack of appreciation by most agencies of the need for sound financial reporting. It shows a lack of understanding by senior management of basic financial measures. Most agencies had not yet identified and or were not reporting against key performance indicators. In some agencies, the internal financial reports contained little, or no, operational performance information. The report also found:

- Managers lacked skills and training;
- Financial reports tend not to contain information on performance of activities;
- Agencies are producing large amounts of irrelevant information;

— Distribution and use of reports has not kept pace with technology.

It claimed that many organisations produce large volumes of financial information, yet managers do not always find what is available is complete, accurate, reliable, timely, concise, user-friendly and relevant.

As a result the NSW Auditor General prepared a Better Practice Guide to assist agencies. This Guide raises the following issues:-

“The sheer volume of some agencies’ monthly internal financial reports raises questions about the relevance of the material included. The length of reports produced by agencies ranged from 18 pages to over 150 pages. Better practice suggests that about 10 pages for executive level reports should be sufficient.

According to the Auditor General, better practice organisations streamline reports, use exception based reporting and cull data that are either duplicated or not used regularly. In distributing and presenting the reports, there is a need to consider the format of management reports, including the use of visual aids.

The printing and distribution of voluminous pages of financial information is time consuming and costly and increases the risk that reports will not be used. In many instances better use could be made of technology eg *Intranet*, to distribute financial reports more efficiently. To assist and inform this process there is a need for:

- a basis to measure the efficiency and effectiveness of the delivery of programs, outputs and outcomes (key performance indicators);
- integrated financial and other performance information for decision-making by management;
- agencies to benchmark operations with other organisations and evaluate the options to ‘contract out’; and
- agencies to track the costs of various functions over time notwithstanding a tendency to restructure.

Better practice organisations tailor their internal financial reports to meet the needs of identifiable groups of users. They have a system for identifying: what information is needed:

- who needs which types of information;
- when the information is needed by particular users;
- what format the information is required to be in; and
- how best to distribute the information.

Better practice organisations:

- provide prompt advice and allocation of budget funding as close as is practicable to the commencement of the financial year;
- provide reports available to senior management within two to five days after month end;
- actively monitor delays in provision of the reporting information;
- have quality assurance processes so that the content of reports is reliable;
- update budgeted, actual and forecast information on a monthly basis; and
- provide reports to the Board/Executive Group about one week prior to the executive meeting.

Better practice organisations:

- limit reports to ten pages or less;
- report on key performance indicators to supplement traditional financial reporting;
- ensure the financial information is future focused and balanced with non-financial information;
- limit numerical information (no more than 20%) in favour of graphs and charts in reports;
- recognise the need for flexibility and compromise in determining the content and format of reports as needs vary within user groups;
- customise reports to the extent possible but do need to find the right balance between too much and too little information;
- consider what needs can be adequately met on an ad-hoc and/or specialist basis rather than building too much into the mainstream reporting; and
- maintain an inventory or catalogue of the financial management reports available to managers in an agency. The inventory is regularly reviewed to ensure the reports are timely, relevant and accurate.

It is important that departments have information systems that enable efficient and effective production of reports to meet their reporting responsibilities, which at times require production of reports at monthly, quarterly, half-yearly and annual intervals, and which may cover both financial and performance information.”

The report also noted that attention is being given to streamlining their information management and reporting processes to minimise the need to excessively extract and collate material for their various reporting requirements. It is important that departments and the central agencies distinguish between indicators that are relevant for internal management, central agency monitoring and external accountability.

Queensland Local Government Experience

ORION consulting recently conducted research for the LGAQ on the financial reporting needs of CEO's and senior managers. The survey findings were consistent with above research and found that:

- Accrual accounting has been widely accepted, but is seen as overly complex and too dominated by statutory requirements and complex jargon.
- There is confusion as to who is responsible for the Council finances. Ideally this needs to be clarified in the legislation, as it is for companies.
- Most Council executives feel that they are accountable for the financial performance of areas under their control, indicating that this is an important issue for them.
- Managers are feeling the pressure of cost increases, revenue pressures, increasing community expectations and the need to manage their existing assets. Interestingly, improved business unit performance is not seen as a major means to address these pressures.
- There appears to be a high level of usage of corporate and operational plans, with a large number developed prior to, or in conjunction with, the budget.
- Executives spend a relatively small proportion of their time reviewing financial reports, and this creates a need for short, simple to understand reports on a timely basis. Current reports do not always appear to satisfy this requirement.
- With improved reporting managers believe they will be able to:
 - Be more accountable;
 - Better manage the assets under their control within the same budget;
 - Improve financial performance in the Council and its businesses;
 - Improve community services and outcomes for the same budget; and
 - Be more able to stay within their budget.

- Preferences were expressed for the following reporting improvements –
 - Shorter reports (5-10 pages);
 - Simpler variance reports, by exception, which take account of major timing issues;
 - More use of trend and other graphs;
 - Improved linkages between expenditure and services/works performed;
 - Matching revenue and expenditure items;
 - Simpler terminology and additional training;
 - Online enquiries with drill-down capability;
 - Reduced statutory requirements coupled with improved internal reporting; and
 - Customised reports to individual readers, rather than each manager receiving the same whole-of-Council report.

Use of Graphs

All of the literature review stresses the importance of presenting financial information using graphs and charts. However some authors suggest that there are effective and ineffective ways of applying this technique. In the book 'How Well Do You Graph': the authors outline a list of do's and don't for use of graphing:

Do:

- consider length of time your audience will spend viewing the graph and the level of familiarity they have with the topic;
- use clearly defined data points;
- keep it simple;
- clean and uncluttered;
- bold contracts that differentiate groups; and
- no more than around 6 lines (we mentally de-construct graphs and commit information to short term memory, our short term memory can only cope with 8-10 items).

Use Caution with:

- perspective, since it can add numerous confusing visual cues and reading axes can be next to impossible; and
- pie charts, because it can be very difficult to rank slices in order of size.

Responsive Reporting and Systems

With the trend towards more responsive reporting many organisations are streamlining their accounting operations. This is often labelled as "Just In Time Accounting" or "One Day Reporting". John Petty and Stephen Ng outlined examples of this process in the Australian CPA (Aug 1999). Steps involved in process included process mapping, review of reports and information, identification of key drivers, system upgrades, and training and support.

Ipswich City Council applied many of these principles in its Financial Systems Streamlining Project, although it has not yet achieved a one day reporting cycle. Brisbane City Council is currently implementing its FILLIP project (Financial Leadership Improvement Project). A key component of this project is a 'System Benefits Realisation' project to make best use of the facilities which are available in its new financial software suite. This project was based on the GAO review outlined in 6.2.

The other aspects of this project are:

- **Accountabilities** (ensuring managers know their roles and expectations in relation to assets, tax, payroll, budgeting, revenue, purchasing, risk/internal controls, and financial performance reporting); and

- _ **Skills Development** (policy awareness training); and
- _ **Policies practices and procedures** (documentation of corporate practices on the intranet to create a 'no excuses' environment).

Both of the Ipswich and Brisbane projects involve monthly accruals so that the results are both timely and accurate. In contrast, most Councils in Queensland only perform accruals by annual or at best on a quarterly basis. It is common for One Day Reporting approaches to focus on the major accruals and to leave an exhaustive accruals process to a quarterly or annual review, however ignoring all accruals, monthly basis at best reduces the benefits of accrual accounting, and worst runs the risk that major expenses are missed and overspending could occur.

Another advantage of streamlining financial systems and processes is that it can release resources from returning functions to assist in analysis of financial results and advice on corrective action. In this way the overall resources in finance function need not be increased and can even reduce even though there is an increase in analytical and advisory resources. For example Ipswich City Council gradually reduced finance staffing levels by nearly 20% whilst nearly doubling the professional accounting resources.

It is therefore suggested that all councils should review their routine financial operations and make best use of facilities available in the computer software so as to release additional resources to analysis and reporting activities.

Impact of NCP/Business Management

The introduction of business management practices into local governments required by the National Competition Policy creates additional financial reporting requirements and sometimes may also change the governance arrangements. It is important for than these new financial reporting needs are incorporated into the financial software available to local governments so that this does not creates additional resource requirements. It is understood that are to Local Government Association Queensland is already addressing this issue with software suppliers.

1.5. Best Practice Management Accounting Framework

The following are the issues which need to be addressed within each council in order to achieve best practice management accounting:

Governance

- Mechanisms for elected members to monitor key financial information throughout the year, for example the finance committee or audit committee, at least on a quarterly basis.
- Such committee should be charged with responsibility for monitoring the council's financial risks (liquidity and long-term debt levels), operating capacity, and achievement of community objectives.
- Such committee should not focus on detailed variance reports or cheque listings.
- Instead, this committee should monitor the issues outlined in the suggested balanced scorecard (eg the simple balanced scorecard outlined above in 6.3).

Reporting

- Financial reporting should be linked to the achievement of the organisation's objectives
- Financial information needs to be:
 - Accurate, timely, and reliable;
 - Coupled with analysis (based on analytical tools) with insights on implications for the achievement of objectives;
 - Include forward-looking information such as projected end of year results;
 - In the format preferred by readers such as graphs, trends, charts and ratios;
 - Short (10 pages or less) focused on exceptions and pertinent issues which require management attention to corrective action; and
 - Include comparisons with targets or benchmarks with similar councils.

Systems and reporting processes

- Councils need to review their financial operating practices to make best use of the features and facilities available in their financial software, so as to expedite periodic reporting and release resources for analysis and exception reporting.
- Key elements of one-day reporting concepts should be applied including the accrual of major items for each reporting period.
- Reporting facilities of the financial software needs to incorporate the above reporting features.

Financial Management Competencies

- There needs to be a reduction in the resources used to prepare external reports and operate internal financial processes.
- These resources need to be applied to improve internal reporting based on the above principles.
- Accountants in Local Government need to ensure they have skills in:
 - Determining the information requirements of managers and councillors;
 - Understanding the corporate objectives and financial management implications
 - Interpreting accounting data and expressing this with non-financial methods;

- Developing efficient internal processes to meet the above reporting requirements;
- Distilling the key information which needs to be brought to councillor and management attention for corrective action;
- Assessing and monitoring financial risks, both short-term and long-term; and
- Communicating key issues to management and councillors using non-numeric techniques.