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Information Support Services

Benchmarking the Finance Function Follow-on Report

Benchmarking Study

Australian National Audit Office

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Canberra ACT
26 June 2002

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a benchmarking study in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this study, and the accompanying brochure, to the Parliament. The report is titled *Benchmarking the Finance Function Follow-on Report*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely



P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Summary and Key Findings

Summary

1. This benchmarking study is one of a series of benchmarking studies being undertaken by the Australian National Audit Office (ANAO) of common business processes. The primary purpose of these studies is to obtain and report quantitative and qualitative data on aspects of performance of the function or business process under review. It is part of the Information Support Services output of the ANAO.
2. The objective of the benchmarking study of the finance function was to obtain and report on over time, quantitative and qualitative data relating to finance function activities as they operate in Commonwealth organisations.¹ This study was designed to collect and report on data over a three year period relating to the financial years 1998–1999, 1999–2000 and 2000–2001 respectively. The results presented in this Report are based on a comparison of responses from participating Commonwealth organisations (the Commonwealth Group) and data from an international group (the Global Group) for each of the three years.
3. The results of the first year of the study (based on 1998–1999 data) were published in Audit Report No.25 of 2000–2001 *Benchmarking the Finance Function* in December 2000. In the first year of the study there were nineteen participants in the Commonwealth Group but only 14 organisations continued to participate in the subsequent two years. As a consequence, the results for the first year of the study have been adjusted to reflect only the results of the 14 organisations who participated in all three years of the study.
4. The Global Group used as a comparator throughout this Report is from the Andersen Global Best Practices® KnowledgeBase² and comprises more than 550 organisations from around the world.
5. While this study makes available benchmarks which can be used in the development of an organisation's performance improvement strategy, caution must be taken before attempting to compare individual results with publicly available benchmarks (including those presented in this Report). This is due the fact that organisations need to ensure that they apply the same parameters to the data collected so that the results calculated will be comparable.

¹ In this Report 'organisations' refers to agencies subject to the *Financial Management and Accountability (FMA) Act 1997* and statutory authorities subject to the *Commonwealth Authorities and Companies (CAC) Act 1997*.

² Andersen Global Best Practices® KnowledgeBase, <www.globalbestpractices.com>. Please note that some areas of the KnowledgeBase are available only to subscribers.

Key Findings

6. By the final year of the study (2000–2001), a review of the overall results of the Commonwealth Group in comparison to the latest Global Group results indicates that, at the median, organisations in the Commonwealth Group perform equal to, or better than, those in the Global Group in relation to:

- lower cost (finance function overall);
- lower cost (accounts payable, close the books, accounts receivable and billing);
- lower activity cost per transaction (accounts receivable, payroll and fixed assets);
- higher efficiency in terms of number of pays processed per FTE (payroll);
- higher quality in terms of lower activity error rates (fixed assets, accounts payable, accounts receivable and payroll);
- making greater use of shared services (overall finance function);
- lower number of annual organisation budgets prepared (financial budgeting and analysis) which is an indicator of better practice;
- lower number of days between invoicing and receipt of payment (accounts receivable); and
- higher utilisation of direct deposit and integrated/interfaced payroll/human resources systems (payroll).

7. The benchmarking results also indicate that opportunities exist for the Commonwealth Group organisations to improve their performance in relation to the activities where, at the median, they reported results less favourable than those of the Global Group. These areas include:

- higher cost (financial budgeting and analysis, fixed assets, payroll, travel and related costs, and tax);
- higher activity cost per transaction (accounts payable, travel and related costs, and billing);
- lower efficiency (financial budgeting and analysis, fixed assets, accounts payable, accounts receivable, and travel and related costs);
- higher error rates (close the books and financial reporting and billing);
- higher number of active vendors (accounts payable);
- making any travel reimbursements through accounts payable rather than payroll; and

- greater elapsed time between service provision and invoicing (billing).
8. Over the three year period of the study, the majority of organisations in the Commonwealth Group have shown an improvement in their quantitative and/or qualitative benchmark results across the range of finance function activities. It is this information on trends that shows signs of improvement or, in some cases, areas for attention that will give readers a snapshot of changes resulting over the past three years. Individual chapters in this Report discuss changes in the Commonwealth Group's performance against particular benchmarks.
9. Although this Report makes a number of comparisons between the two Groups, it is important to note that results against each of the benchmarks should not be assessed in isolation as this rarely provides useful insight into how different outcomes have been achieved. This Report does not provide specific reasons for differences in performance. However, it does provide guidance as to some of the better practices that participating organisations, and the wider public sector, may wish to adopt, or adapt in order to achieve improved performance in the activities of the finance function.
10. The nature of this benchmarking study precludes detailed recommendations. However, the ANAO suggests that, as part of a continuous performance improvement cycle, all Commonwealth organisations consider using benchmarking as a tool to evaluate aspects of their performance in terms of cost, quality, efficiency and better practice. Such tools can, for example, be used to diagnose activities that are likely to benefit from closer examination and improve an organisation's performance.

Benchmarking Study Findings

1. Introduction

Background to the benchmarking study

1.1 The Government financial improvement agenda aims to improve financial practices in Commonwealth organisations. Organisations are encouraged as part of their performance improvement cycle to identify, measure and compare their performance with others. The Government promotes the use of benchmarking for testing the cost and effectiveness of activities as part of the 'Performance Improvement Cycle'. The Department of Finance and Administration publication *The Performance Improvement Cycle—Guidance for managers*, defines benchmarking as an 'ongoing, systematic process to search for and introduce best practice into an organisation'.³

1.2 The finance function plays an important role in supporting the operations of an organisation. Research from the private sector indicates that finance is an expensive function in organisations, with significant scope for performance improvement. Therefore, benchmarking offers an opportunity to learn from other Commonwealth organisations and from private sector practices and make improvements.

Introduction

1.3 This benchmarking study is one of a series of benchmarking studies being undertaken by the Australian National Audit Office (ANAO) of common business processes. The primary purpose of these studies is to obtain and report quantitative and qualitative data on aspects of performance of the function or business process under review. It is part of the Information Support Services output of the ANAO.

1.4 The study was designed to collect and report on data over a three year period relating to the financial years 1998–1999, 1999–2000 and 2000–2001 respectively. The results presented in this Report are based on a comparison of responses from participating Commonwealth organisations (the Commonwealth Group) and data from an international group (the Global Group) for each of the three years.

1.5 The results of the first year of the study (based on 1998–1999 data) were published in Audit Report No.25 of 2000–2001 *Benchmarking the Finance Function* in December 2000.

³ Department of Finance and Administration, *The Performance Improvement Cycle—Guidance for managers*, March 1998, p. 25.

1.6 Although this Report makes a number of comparisons between the two Groups, it is important to note that results against each of the benchmarks should not be assessed in isolation as this rarely provides useful insight into how different outcomes have been achieved. This Report does not provide specific reasons for differences in performance. However, it does provide guidance as to some of the better practices that participating organisations, and the wider public sector, may wish to adopt, or adapt in order to achieve improved performance in the activities of the finance function.

1.7 As part of the study, the participating Commonwealth Group organisations have each been provided with a comprehensive report comparing their results with those of the other organisations in the Commonwealth Group and the Global Group. They have also been provided with better practice guidance to assist them in improving the performance of their finance function.

Study objective

1.8 The objective of the benchmarking study of the finance function was to obtain and report on over time, quantitative and qualitative data relating to finance function activities as they operate in Commonwealth organisations.

Scope of the study

1.9 The results presented in this Report, are based on a comparison of responses from participating Commonwealth organisations (the Commonwealth Group) and data from an international group (the Global Group). The Commonwealth Group consisted of 14 organisations. Of the 14 organisations who participated in the study, seven are covered by the *Financial Management and Accountability (FMA) Act 1997* and seven by the *Commonwealth Authorities and Companies (CAC) Act 1997*.

1.10 The Global Group used as a comparator throughout this Report is from the Andersen Global Best Practices® KnowledgeBase and comprises more than 550 organisations. The largest proportion of these organisations (47 per cent) is in North America and 10 per cent of the Global Group are federal, state or local government organisations. Further information on the profile of the Commonwealth and Global Benchmarking Groups is at Appendix 1.

1.11 It should be noted that there were 19 participants in the Commonwealth Group in the first year of the study but only 14 in the subsequent two years. As a consequence, the results for the first year of the study, as published in Audit Report No.25 of 2000–2001 have been adjusted in this Report to reflect only the results of the 14 organisations that participated in all three years of the study.

1.12 The ANAO study collected benchmarking data on the following activities:

- overall cost of the finance function (Chapter 2);
- financial budgeting and analysis (Chapter 3);
- fixed assets (Chapter 4);
- accounts payable (Chapter 5);
- close the books and financial reporting (Chapter 6);
- accounts receivable (Chapter 7);
- payroll (Chapter 8);
- travel and related costs (Chapter 9);
- billing (Chapter 10); and
- tax (Chapter 11)

1.13 Information relating to organisational expenditure,⁴ finance function expenditure and the number of employees in the finance section for the organisations in the Commonwealth Group is provided below.

Total organisation expenditure	Number of organisations 1998–1999	Number of organisations 1999–2000	Number of organisations 2000–2001
< \$100 million	1	2	2
\$100–\$500 million	9	5	5
> \$500 million	4	7	7
TOTAL	14	14	14

Total finance function expenditure	Number of organisations 1998–1999	Number of organisations 1999–2000	Number of organisations 2000–2001
< \$1 million	1	2	2
\$1–\$5 million	9	7	7
> \$5 million	4	5	5
TOTAL	14	14	14

⁴ Departmental expenditure is controlled by the organisation, whereas administered expenditure is controlled by the Government and managed or oversighted by the organisation on the Government's behalf. It should be noted that half of the 14 participating Commonwealth organisations have some level of administered expenses included when determining total expenditure.

Total employees in the finance section	Number of organisations 1998–1999	Number of organisations 1999–2000	Number of organisations 2000–2001
< 10	1	2	2
11–25	6	3	2
26–50	2	4	5
> 50	5	5	5
TOTAL	14	14	14

1.14 In order to provide the public sector organisations with benchmarking services, the ANAO subscribed to the Andersen Global Best Practices® service. This enabled the ANAO to access diagnostic questionnaires, global benchmarks and information on better practices. Data processing and analysis was conducted jointly by the ANAO and Andersen. Andersen Global Best Practices® has provided the ANAO with permission to make the results of the benchmarking reports available to participating organisations.

1.15 The results are limited in scope to the extent that data in the study has been derived from self-assessment by the participating Commonwealth Group organisations. The results do not take account of, or distinguish between, the different environments in which finance functions operate, such as between the public and private sectors. As a result, the benchmark study can only provide a broad indication of differences in performance between the two Groups rather than a definitive explanation of the differences. Nevertheless, the study does provide a useful basis on which to pursue further initiatives in order to improve individual organisation's performance.

1.16 As the findings in this Report are based on self-assessment by the participating organisations the standard of evidence relied on for the study must be considered persuasive, rather than conclusive. These self-assessment responses were subject to quality assurance checks, but were not audited, by the ANAO. Thus the quality assurance processes undertaken on the data by the ANAO are not of themselves sufficient to guarantee its integrity.

1.17 In most organisations data was obtained for the 'central' finance area only. The activities performed by the finance area that were not covered by the diagnostic instrument used to collect the data include strategic management, financial policy development, treasury, cash management, devolved banking and the finance help desk.

1.18 Moreover, the benchmark information cannot take account of, or distinguish between, the different environments in which finance functions operate, for example as between the public and private sectors. As a result, the

benchmark study can only provide an insight into differences in performance which should at least raise further questions for investigation, often in the absence of any other information that would do so.

Evaluation criteria

1.19 The diagnostic questionnaires completed by each participating organisation capture a wide variety of information from which the ANAO determined a range of benchmarks across dimensions of cost, efficiency, quality and better practice. These benchmarks are listed at Appendix 2 and have been used as the evaluation criteria for this Report. In terms of the structure of this Report, the benchmarks have been categorised in terms of the finance function overall (Chapter 2) and then by each of the activities within the finance function (Chapters 3 to 11). Detailed results for each quantitative benchmark are at Appendix 3.

1.20 In each year of the study the organisations in the Commonwealth Group answered a series of qualitative questions in relation to their finance function practices. The qualitative questions were derived from the Andersen Global Best Practices® KnowledgeBase. The questions had to be answered as 'Yes', 'No' or 'Not applicable.'

1.21 The answers were compared against the Andersen Global Best Practices® model. The examination of the qualitative responses was designed to assist the ANAO in assessing the Commonwealth Group's performance in relation to how well organisations were achieving identified better practice. Better practice guidance has been provided to each participating organisation and is included in this Report to assist public sector organisations generally to improve the operation and management of their finance function activities.

1.22 There were no qualitative questions asked in relation to the tax activity due to the private sector focus of the Andersen questions.

1.23 Appendix 4 details the number and type of responses received for each question for each of the three years of the study. It provides a detailed view of performance of the Commonwealth Group in each activity examined in this study.

Better Practice Observations

1.24 Better practice observations for each of the individual activities examined in this study are provided throughout this Report. The observations outline some of the better practices that have been adopted by organisations to deliver overall improvements in efficiency and effectiveness of business processes. The better practice observations are derived from the Andersen Global Best Practices® KnowledgeBase and relevant ANAO publications.

1.25 The ANAO notes that some of the participating Commonwealth organisations have already adopted better practice in a number of their finance function activities. However the discussion in this Report is provided for the benefit of all organisations that may wish to improve the performance of their finance function.

Beyond Bean Counting 2000

1.26 In August 2000, the Public Sector Centre of Excellence of CPA Australia published *Beyond Bean Counting 2000 A Benchmark of Effective Financial Management in the Australian Public Sector*.⁵ The intention of this Report was to obtain the perspective of Chief Executive Officers (CEOs) and Chief Finance Officers (CFOs) on financial management progress in their organisations since the survey conducted as part of the first Beyond Bean Counting report commissioned by the Management Advisory Board in 1997.⁶

1.27 The perspectives of the surveyed CEOs and CFOs provided an important insight into the current strategic and leadership trends in Australian Public Sector (APS) financial management. On the other hand, the ANAO benchmark study provides more detailed complementary information on benchmarks for the cost, efficiency, quality and better practice of the individual activities of the finance function. Taken together, these reports provide public sector managers with a wealth of information directed towards improving financial management in the APS and to improved financial decision-making. Where appropriate, reference has been made to the *Beyond Bean Counting 2000* report in this benchmark study.

Previous audit coverage

1.28 The ANAO has published a number of audit reports and better practice guides relevant to the activities under review in this Report. Appendix 5 provides details of these publications.

1.29 This study was conducted in conformance with ANAO auditing standards and the collection, analysis and reporting of results for the second and third years of the study cost approximately \$530 000.

⁵ Public Sector Centre of Excellence, CPA Australia, *Beyond Bean Counting 2000 A Benchmark of Effective Financial Management in the Australian Public Sector*, August 2000.

⁶ Management Advisory Board, *Beyond Bean Counting Effective Financial Management in the APS—1998 & Beyond*, December 1997.

2. Overall Finance Function Benchmarks

Introduction

2.1 The primary objective of the finance function is to provide accounting services and financial information in a low cost, accurate and timely manner.

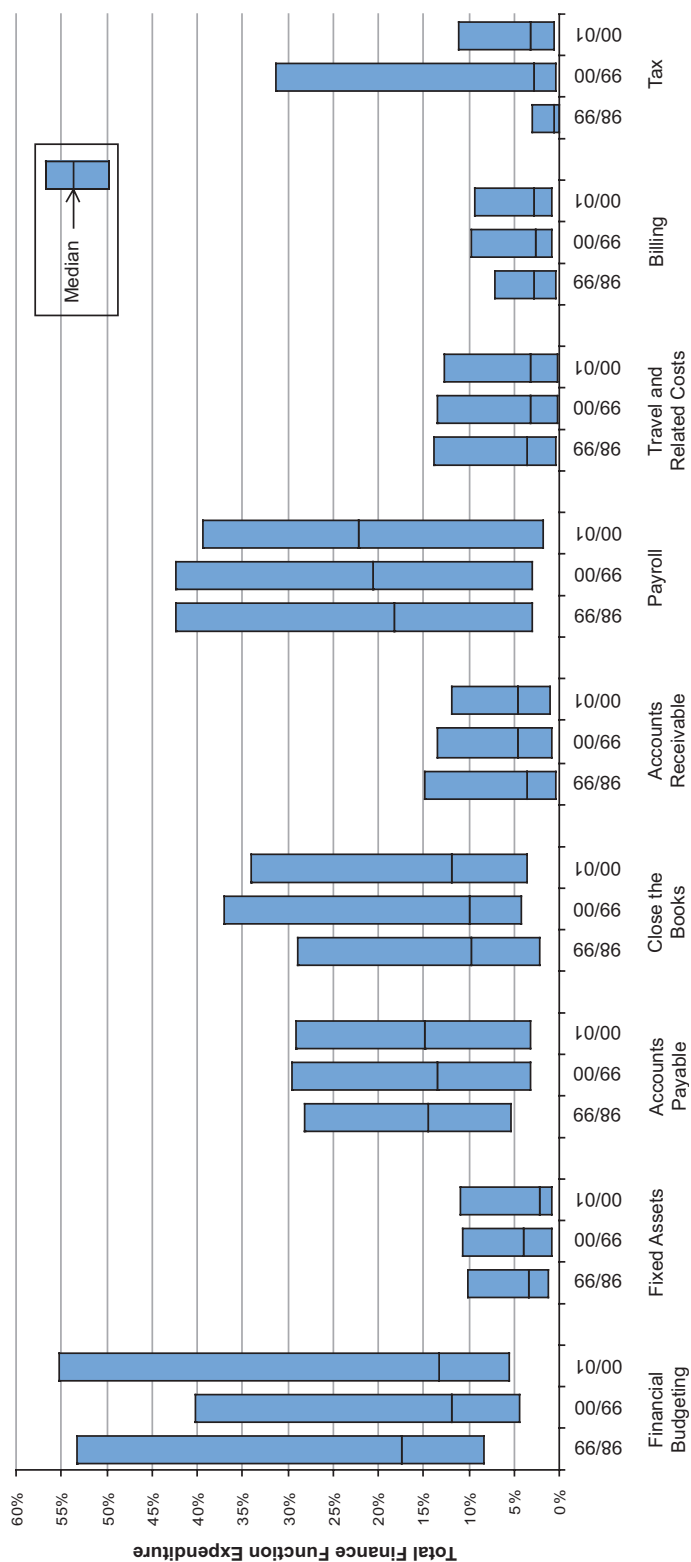
2.2 The finance function is defined, for the purposes of this study, as including the following activities:

- financial budgeting and analysis;
- fixed assets;
- accounts payable;
- close the books and financial reporting;
- accounts receivable;
- payroll;
- travel and related costs;
- billing; and
- tax.

2.3 This Report provides details of benchmarks relating to cost, efficiency, quality and better practice associated with the finance function in accordance with the activity categories listed above.

2.4 Figure 2.1 shows the range and median expenditure incurred by the organisations in the Commonwealth Group on each of the above finance activities over the last three years. As shown in Figure 2.1, across all three years of the study, payroll, accounts payable, and financial budgeting and analysis accounted for the majority of expenditure on the finance function by the organisations in the Commonwealth Group. However individual organisation percentages for each process varied considerably.

Figure 2.1
Benchmarked Commonwealth Group Finance Function Activity Cost



Formula used: Total activity expenditure / Total finance function expenditure

2.5 Table 2.1 shows the range and median of full time equivalent (FTE) employees within the participating Commonwealth Group organisations allocated to the finance function as a percentage of total organisational employees. The table shows that, although the range of employees decreased over the course of the study, the median number of finance employees within the organisations in Commonwealth Group rose. In 1998–1999, finance employees in the Commonwealth Group accounted for 2.28 per cent of total employees. This increased to 3.52 per cent in 1999–2000 and 3.56 per cent in 2000–2001.

Table 2.1

Percentage of Overall Employees (FTE) Attributed to the Finance Function

Year	FTE range	Median
1998–1999	0.73 – 8.35	2.28
1999–2000	0.79 – 5.84	3.52
2000–2001	0.83 – 5.67	3.56

2.6 The finance function benchmarks provide a broad indication of relative cost by measuring the proportion of organisational expenditure required to pay finance and accounting related costs.⁷ Benchmarks relating to employment levels, the average length of employee service in the finance function within each organisation and finance employee education levels, have been used in order to provide a broad indication of quality. The finance function benchmarks selected by the ANAO, and previously reported in Audit Report No.25 of 2000–2001, are summarised in Table 2.2.

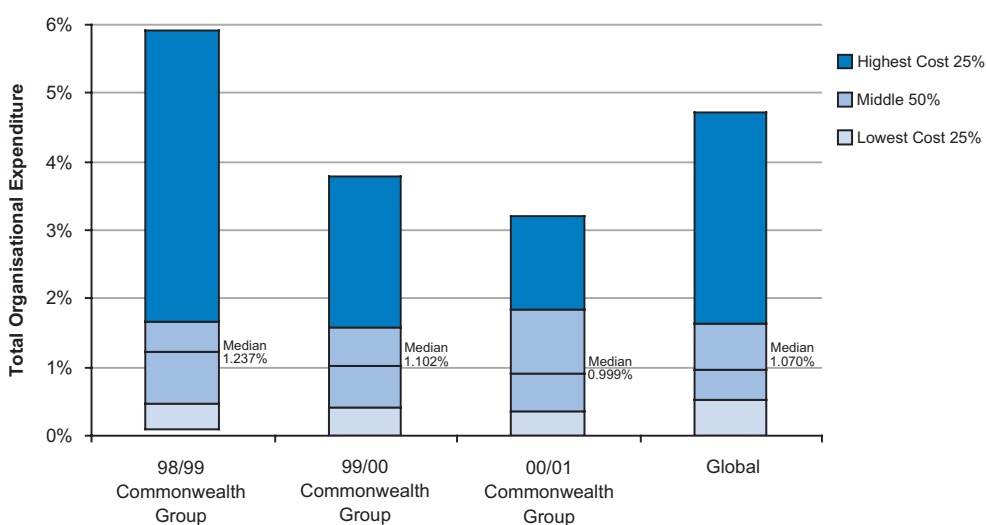
⁷ Total costs include direct labour, contracted services, operating expenses (excluding rent, depreciation and allocated overhead expenses), service bureau fees, and IT support costs (direct labour, operating expenses, vendor software licensing and maintenance costs).

Table 2.2**Overall Finance Function Benchmarks**

Dimension	Formula
Cost – Overall	Total finance function expenditure/Total organisational expenditure
Employment	Total finance function employees/Total organisational employees
Efficiency	No Benchmark ⁸
Quality	Average length of employee service in the finance function of the organisation
	Finance employee education levels as a percentage of total finance employees
Better Practice	Shared services utilisation by activity

Cost Dimension Benchmark

2.7 The ANAO used total cost of the finance function as a percentage of total organisational expenditure to measure the cost of the finance function. All 14 participating Commonwealth Group organisations provided data for this benchmark for all three years of the study.

Figure 2.2**Finance Function Cost Benchmark—Overall Cost**

Formula used: Total finance function expenditure / Total organisational expenditure

⁸ No efficiency benchmarks are available for the overall finance function. However, the efficiency dimension is considered for most finance activities in subsequent chapters of this Report.

2.8 Figure 2.2 shows that, for the 1998–1999 financial year, the organisations in the Commonwealth Group allocated between 0.089 and 5.919 per cent of their total expenditure to the finance function with 1.237 per cent being the median result. In the 1999–2000 financial year, the allocation ranged between 0.090 per cent and 3.862 per cent, with a median of 1.102 per cent. In the 2000–2001 financial year, the allocation ranged between 0.082 per cent and 3.280 per cent, with a median of 0.999 per cent. The Global Group allocated between 0.110 per cent and 4.832 per cent across all three years, with a median of 1.070 per cent in 2000–2001. Refer Appendix 3, Table 1.2 for further information.

2.9 It should be noted that half of the 14 participating Commonwealth organisations have some level of administered expenses included when determining total expenditure. Therefore, by their nature, these organisations would spend a lower percentage of their total (departmental plus administered) expenditure on the finance function relative to the other Commonwealth organisations and the Global Group that does not have equivalent non-entity expenditure.⁹

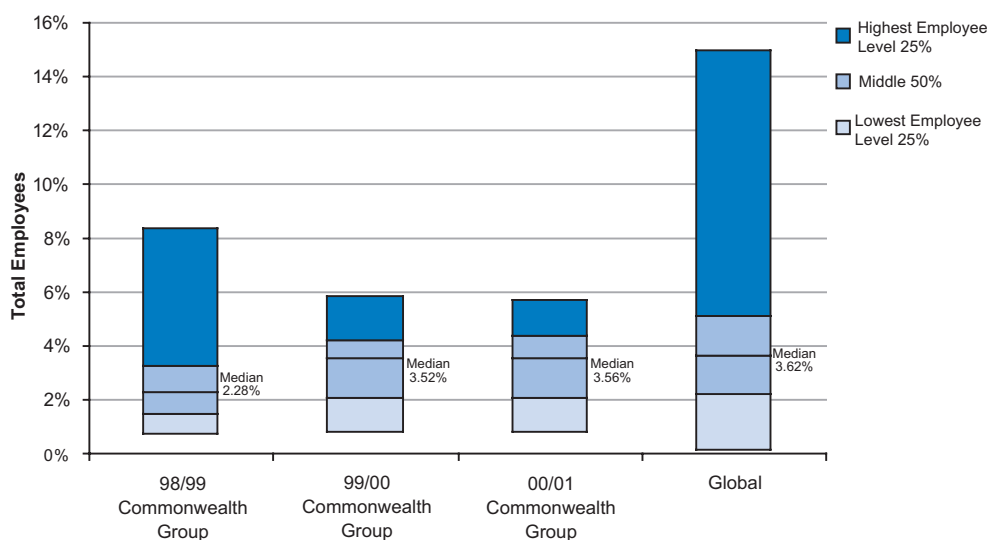
2.10 In 1998–1999, four of the Commonwealth Group organisations reported cost benchmarks which placed them within the Global Group’s least cost quartile. In the following two years of the study, this increased to five organisations. In the first year of the study, four Commonwealth Group organisations reported benchmarks that placed them within the Global Group’s highest cost quartile. This dropped to three organisations in 1999–2000 but increased back to four in 2000–2001.

2.11 The finance function employee level measure captures the number of total finance function employees and expresses it as a percentage of the total number of organisational employees. All participating Commonwealth Group organisations provided data for this benchmark for all years of the study. The results of this measure are illustrated in Figure 2.3.

⁹ Departmental expenditure is controlled by the organisation, whereas administered expenditure is controlled by the Government and managed or oversighted by the organisation on the Government’s behalf.

Figure 2.3

Finance Function Cost Benchmark—Employee Level



Formula used: Total finance function employees / Total organisational employees

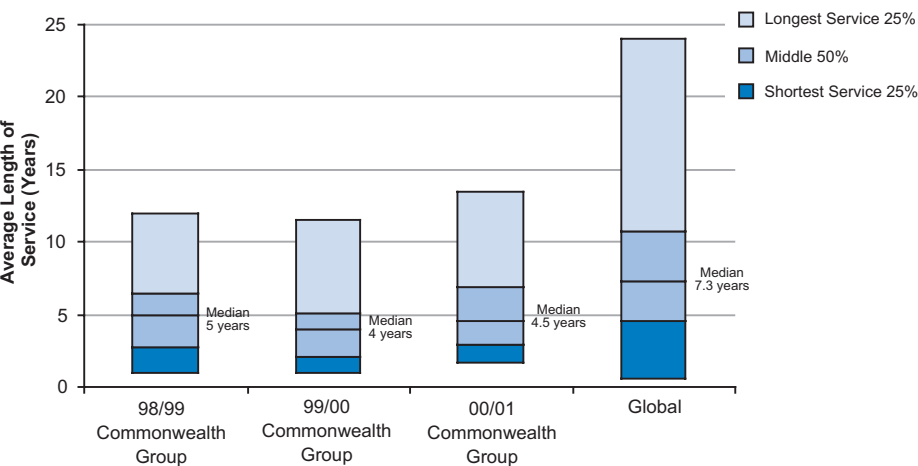
2.12 As can be seen from Figure 2.3, the level of finance function employees as a percentage of total organisational employees, at the median, increased in the Commonwealth Group over the study period, although the range decreased. The Commonwealth Group median was also lower than the Global Group median in all three years of the study. Refer Appendix 3 Table 1.3 for further information. The ANAO notes, however, that the level of finance function employees is not necessarily a definitive indicator of the level of performance of the finance function.

Quality Dimension Benchmarks

2.13 The first benchmark related to the quality of the overall finance function measures the length of employee service in the organisation's finance function. The benchmark is designed to provide an indicator of employee stability and skill retention. Higher error rates, higher costs and lower levels of efficiency are conceivable outcomes from less experienced employees performing various finance activities. The ANAO acknowledges that longevity of employees in a particular area does not recognise the positive impacts new employees can bring to an organisation. However, for the purpose of this study, length of the employee service has been used as an indicator of skill retention and therefore a higher result is considered better in this conclusion.

2.14 All 14 participating Commonwealth Group organisations provided data for this benchmark in each of the three years in the study. As shown in Figure 2.4 and Appendix 3 Table 1.4, the Global Group organisations exhibited a longer length of service than those of the Commonwealth Group. The median for the Global Group organisation ranged from 8 years in 1998–1999 to 7.2 years in 1999–2000 and 2000–20001 respectively. During the same period, the median for the organisation in the Commonwealth Group was 5 years, 4 years and 4.5 years respectively.

Figure 2.4
Finance Function Quality Benchmark—Employee Retention



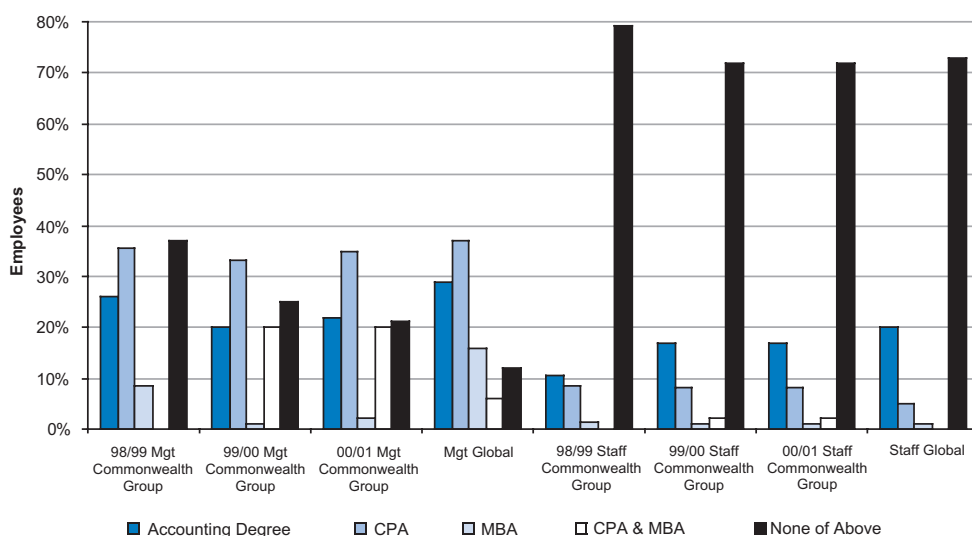
Formula used: Average length of employee service in the finance function of the organisation

2.15 The ANAO notes that this benchmark does not take into account the length of time employees have spent in the finance areas of other organisations. Although relevant to both groups, this could particularly affect the Commonwealth Group where organisations may have similar finance management systems.

2.16 The second benchmark that can provide a broad indication of quality relating to the finance function measures the educational levels of finance employees. Figure 2.5 reveals that both staff and management in the participating Commonwealth Group organisations have fewer qualifications than those in the Global Group. All 14 participating Commonwealth Group organisations provided data for this benchmark in each of the three years in the study.

Figure 2.5

Finance Function Quality Benchmark—Employee Qualifications



Formula used: Finance employee education levels as a percentage of total finance employees

2.17 In the first year of the study, 79 per cent of finance function staff and 37 per cent of finance function management within the Commonwealth Group organisations did not have any of the specified qualifications. Over the three year study period, the number of finance staff and managers not holding specified qualifications fell, with the percentage of managers not holding qualifications decreasing from 37 to 21 per cent and the percentage of staff not holding qualifications falling from 79 per cent to 73 per cent. Refer Appendix 3 Table 1.5 for details of employee qualifications.

2.18 The ANAO notes, however, that finance education levels and years of service should be viewed as only two factors shaping the overall skill set of people working in the finance function. Other factors, such as levels of education not reflected by this particular benchmarking measure (for example, bachelor degrees other than accounting), employee training, and related work experience are equally relevant when evaluating the overall skill set of the finance workforce.

2.19 The report, *Beyond Bean Counting 2000*¹⁰, surveyed 12 Commonwealth organisations and reported that the number of professionally qualified employees had increased over the past two years. The survey indicated that

¹⁰ Public Sector Centre of Excellence of CPA Australia, *Beyond Bean Counting 2000 A Benchmark of Effective Financial Management in the Australian Public Sector*, op. cit., p. 20.

there has been a focus by the public sector to recruit and promote professionally qualified employees to financial management positions. These findings appear to be supported by the results of this study.

2.20 A survey of Chief Financial Officers (CFOs) reported in Audit Report No.28 of 2001–2002¹¹ found that, of the 14 participating CFOs, 53 per cent had a bachelor degree, 47 per cent had education qualifications to a post graduate level, and 71 per cent were a member of either CPA Australia or the Institute of Chartered Accountants in Australia.

Better Practice Benchmark

2.21 The level of utilisation of shared services within organisations was used as an indicator of the adoption of generally recognised better practice. Shared services is a term that describes the consolidation, standardisation and reengineering of a support process into one or more units that serve the entire organisation. Better practice organisations implement a shared services strategy to:

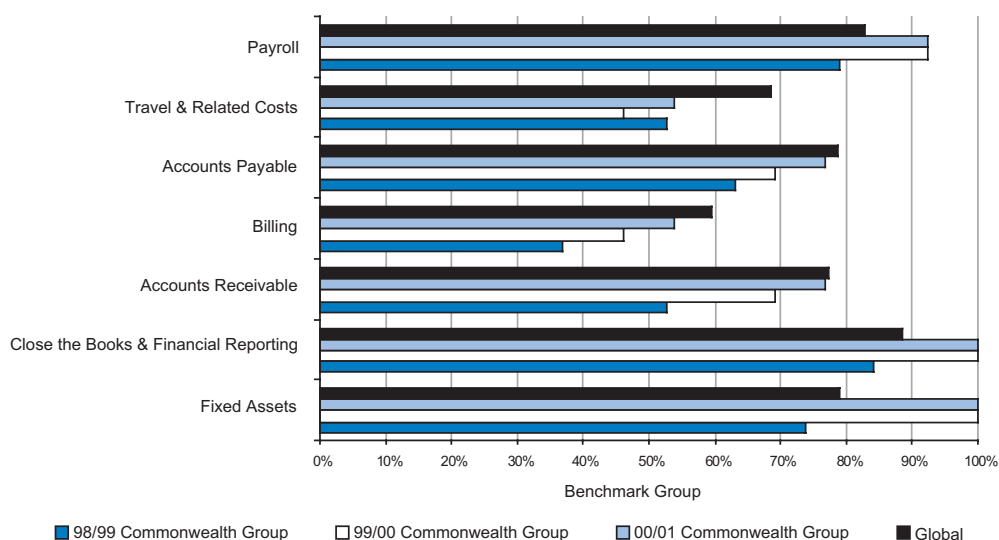
- standardise work policies;
- employ and consolidate common systems;
- take advantage of economies of scale; and
- eliminate duplication of effort.

2.22 Figure 2.6 shows that organisations in the Commonwealth Group have a considerably higher shared services focus than those of the Global Group. As well, the utilisation of shared services has grown over the three year period. All participating organisations provided data for this benchmark for each of the survey years.

¹¹ Audit Report No.28 of 2001–2002, *An Analysis of the Chief Financial Officer Function in Commonwealth Organisations—Benchmarking Study*, December 2001, pp. 28–9.

Figure 2.6

Finance Function Better Practice Benchmark—Shared Services



Formula used: Shared services utilisation by activity

Conclusion

2.23 The cost of the finance function in participating Commonwealth Group organisations has decreased over the years to the extent that it is now, at the median, lower than the Global Group, suggesting that organisations may be becoming more cost efficient. However, over the same period, employee levels have increased (at the median). The ANAO is unable to ascertain the reason for the differing movement of these two benchmarks. Shorter lengths of employee service and lower levels of qualified employees remain evident in the organisations within the Commonwealth Group. This has the potential to adversely impact upon the ability of the organisations in the Commonwealth Group to achieve the refocussing of the finance function that is being pursued in better practice organisations and/or to make the improvements in financial management sought in the Commonwealth public sector.

3. Financial Budgeting and Analysis Activity Benchmarks

Introduction

3.1 A budget is a systematic method of allocating financial, physical and human resources in order to monitor progress toward organisational goals, help control spending and predict cash flow.¹² A primary business objective of financial budgeting and analysis is to effectively allocate resources among various activities and monitor the use of those resources.

3.2 This benchmarking study shows that, for the 14 Commonwealth organisations examined, the activities of financial budgeting and analysis, accounts payable and payroll have consistently been the most significant in terms of overall financial function expenditure. See Figure 2.1 in Chapter 2 for details. Over the three years surveyed, median expenditure on the financial budgeting and analysis activity, as a percentage of the total finance function expenditure in the Commonwealth Group, ranged from 17.51 per cent in 1998–1999, to 11.81 per cent in 1999–2000 and 13.24 per cent in 2001–2002.

3.3 Table 3.1 shows the range and median number of FTE employees allocated to the financial budgeting and analysis activity as a percentage of the total finance function employees within participating organisations in the Commonwealth Group.

Table 3.1

Percentage of Finance Function Employees (FTE) Allocated to Financial Budgeting and Analysis

Year	FTE range	Median
1998–1999	4.71–58.00	18.43
1999–2000	4.11–51.18	13.86
2000–2001	5.29–66.40	14.50

¹² Andersen Global Best Practices® KnowledgeBase. Note: the public sector is required to prepare budget documents for the Parliament, including for Additional Estimates as well as for internal management purposes. In contrast, the private sector prepares budgets for internal purposes only.

3.4 The cost, efficiency and better practice benchmarks selected by the ANAO for the financial budgeting and analysis activity are set out in Table 3.2.

Table 3.2

Financial Budgeting and Analysis Activity Benchmarks

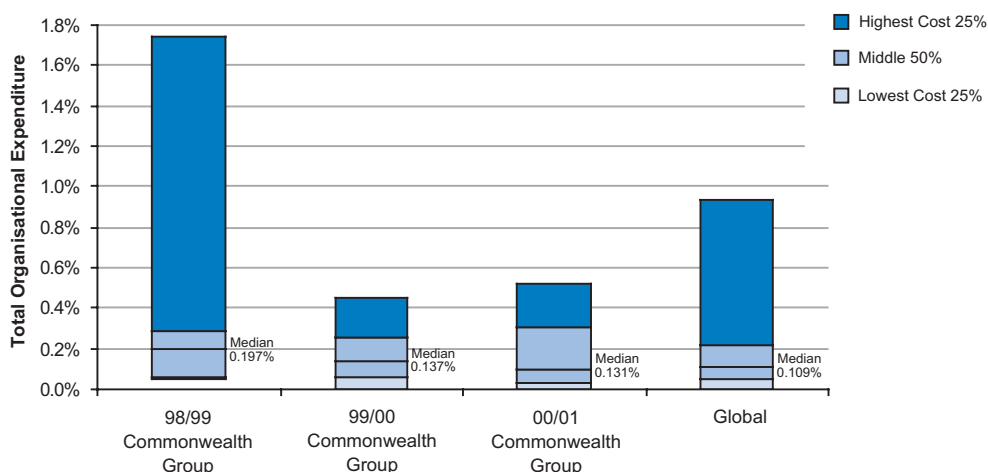
Dimension	Formula
Cost–Overall	Total financial budgeting and analysis activity cost/ Total organisational expenditure
Efficiency	Total elapsed days to prepare budget
Better Practice	Total number of budgets developed annually

Cost Dimension Benchmark

3.5 The cost benchmark captures the cost of financial budgeting and analysis and expresses this as a percentage of total organisational expenditure. All 14 Commonwealth Group organisations provided data for this benchmark for each year of the study.

Figure 3.1

Financial Budgeting and Analysis Activity Cost Benchmark—Overall Cost



Formula used: Total financial budgeting and analysis activity cost / Total organisational expenditure

3.6 Figure 3.1 indicates that the benchmarked Commonwealth Group organisations improved their relative performance over the course of the benchmark study. At the median level, the results for the Commonwealth Group organisations improved from 0.197 per cent in 1998–1999 to 0.131 per cent in

2000–2001. Appendix 3 Table 2.1 shows that, although consistently lower than the Commonwealth Group median, the Global Group median increased from 0.106 per cent to 0.109 per cent over the same period.

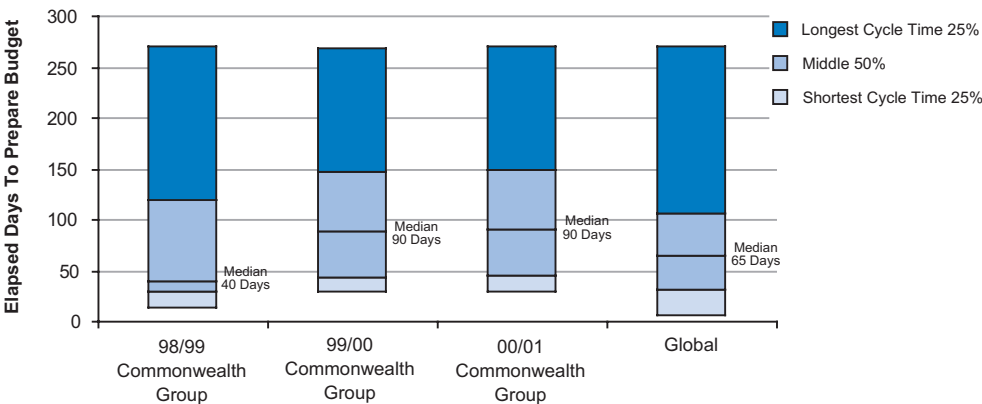
3.7 In 1998–1999, the range of results for organisations in the Commonwealth Group was significantly affected by one organisation which had a result of 1.739 per cent. This was substantially greater than the rest of the Group (which ranged between 0.045 per cent and 0.502 per cent). In 1999–2000 and 2000–2001, the result for this organisation improved to a figure that was in line with the rest of the Commonwealth Group.

3.8 The difference in performance between the Commonwealth and Global Groups against this cost benchmark may be due in part to the Commonwealth Group participants including the cost of preparing both internal and external budgets when completing the survey and in part to some of the Commonwealth Group organisations having to prepare both departmental and administered budgets.

Efficiency Dimension Benchmark

3.9 This benchmark measures the average elapsed time (in calendar days) to prepare the annual budget, from the release of the preparation materials to the final budget approval and is an indicator of the efficiency of the budgeting process. Thirteen of the 14 Commonwealth Group organisations provided data for this benchmark for each year of the study. The benchmarking results are set out in Figure 3.2.

Figure 3.2
Financial Budgeting and Analysis Activity Efficiency Benchmark—
Budget Cycle Time



Formula used: Total elapsed days to prepare budget

3.10 Analysis of the benchmarking results illustrates that although median cycle time for both Groups increased over the three years, the Global Group is still significantly lower than that of the Commonwealth Group. Appendix 3 Table 2.2 shows that the Global Group median rose from 60 days in the first year to 65 days for the next two years while the median budget cycle time for the Commonwealth Group organisations increased from 40 days in 1998–1999 to 90 days in 1999–2000 and 2000–2001. While the maximum cycle time within the Commonwealth Group has remained constant at 270 days (with the same organisation achieving this result over each of the three years), the best result for the Commonwealth Group has worsened from 14 days in 1998–1999 to 30 days in 2000–2001.

3.11 The ANAO notes that the longer budget preparation cycle times in the public sector may be due to a range of factors. These include the need to prepare both internal and external budgets; having to report under the new accrual-based, outcomes and outputs framework; and not having sufficient numbers of personnel skilled in budgeting, decision making and financial management in an accrual-based environment.

3.12 The CPA Australia report *Beyond Bean Counting 2000*,¹³ as quoted in Audit Report No.25 of 2000–2001,¹⁴ stated there was a growing trend among private sector organisations towards reducing the impact of the budget on corporate activities while, in the public sector, the budget is becoming more comprehensive in its coverage.

Better Practice Benchmark

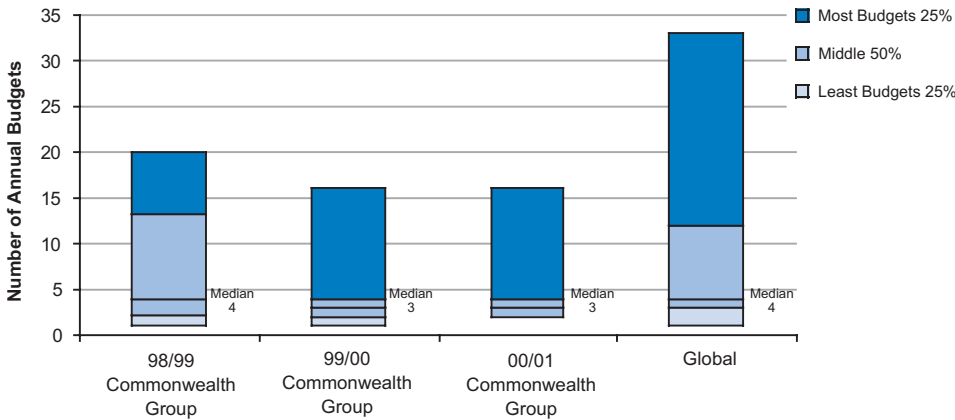
3.13 The ANAO used the Andersen better practice indicator of number of financial budgets developed annually. This includes the number of separate financial budgets prepared in a year, including forecasts and revisions formally submitted to the Board of Management or equivalent. All 14 Commonwealth Group organisations provided data for this benchmark for each year of the study.

¹³ Public Sector Centre of Excellence of CPA Australia, *Beyond Bean Counting 2000 A Benchmark of Effective Financial Management in the Australian Public Sector*, op. cit., p. 14. The survey also found that 26 per cent of organisations indicated that they spend five months or more on external budgeting, while a further 26 per cent spend three to four months. The demand on resources is further increased as a result of many organisations reporting budget information on both a cash and accrual basis.

¹⁴ Australian National Audit Office, Audit Report No.25 of 2000–2001, *Benchmarking the Finance Function*, December 2000, p. 33.

Figure 3.3

**Financial Budgeting and Analysis Activity Better Practice Benchmark—
Total number of budgets developed annually**



Formula used: Total number of budgets developed annually

3.14 Figure 3.3 illustrates similar performance within the Commonwealth Group results across all three years. As noted in Appendix 3 Table 2.3, both the median result (four budgets developed annually) and range for the Global Group remained constant during the three years of the study.

Discussion of Qualitative Results

3.15 In relation to the financial budgeting and analysis activity, the organisations in the Commonwealth Group performed well and exhibited an overall trend of improvement against the qualitative indicators of Global Best Practices,¹⁵ with several organisations achieving identified better practice. Refer Appendix 4 for further details.

3.16 The Commonwealth Group organisations performed well in the areas of:

- linking budget development to corporate strategy through setting strategic goals before developing budgets and using information from actual performance results to set strategies;
- designing procedures that allocate resources strategically;
- using cross functional teams to evaluate the impact of major proposals;
- monitoring action plans to compare actual to planned results;
- tying incentives to performance measures other than meeting budget targets;

¹⁵ Andersen Global Best Practices® KnowledgeBase.

- distributing budgets electronically to deliver information more quickly to the people who need it; and
- revising financial reports at least every two years to take advantage of new information technology and procedures.

3.17 Opportunities exist for the Commonwealth Group organisations to improve their performance in relation to:

- ensuring risks are assessed organisation-wide and managers are trained in strategic goal setting;
- ensuring consistent review procedures are used to allow organisations to effectively evaluate policies and procedures;
- ensuring organisations evaluate employee performance solely on factors under their control;
- reducing budget complexity and cycle time; and
- developing budgets that accommodate change.

3.18 To assist both the organisations in the Commonwealth Group, and the wider public sector improve their performance in the financial budgeting and analysis activity, practical strategies and procedures have been described in the Better Practice Observations section at the end of this chapter.

Conclusion

3.19 The benchmark results show that, at the median, the organisations in Commonwealth Group spend more than their counterparts in the Global Group on the financial budgeting and analysis activity and take longer to prepare budgets. However, this may be traded off against the lower number of budgets developed annually where the Commonwealth Group prepares one less budget at the median than the Global Group.

Better Practice Observations

3.20 The ANAO recently published Audit Report No.52 of 2001–2002 *Internal Budgeting* and will be issuing a Better Practice Guide on Internal Budgeting later this year.

3.21 The Report found that some of the areas that require continued focus by organisations include:

- acquiring (or developing) and retaining personnel skilled in budgeting, decision making and financial management in an accrual-based environment;
- continued involvement of operational or line managers in budget and financial management matters, including for example, the need to manage accrual-based information throughout the organisation; and
- developing the functionality of their ‘accrual capable’ Financial Management Information System (FMIS), or implementing specialised budgeting and reporting tools or applications which facilitate the development of budgets and provide timely financial and management information throughout the organisation.

3.22 Sound and better practices identified in the Report include:

- conducting organisation specific training on operational impacts of the new accrual-based output management framework, including information on accrual accounting, resource and performance management and decision making;
- making line managers responsible for defining and meeting their financial information needs and ensuring they have access to real time financial information, through ad-hoc inquiries, from the FMIS; and
- making information on budget development, including policies, guidelines and templates available through the intranet.

3.23 The following paragraphs outline some of the better practices identified in Andersen’s Global Best Practices® KnowledgeBase that have been adopted by organisations to deliver overall improvement in the efficiency and effectiveness of the financial budgeting and analysis activity. As the goal of organisations that apply better practice is to develop budgets that give managers a well-designed tool to manage effectively, the most effective budgets are those that:

- communicate and support strategic goals;
- identify risks in relation to long-term strategy;
- provide information to help management make better decisions;

- facilitate goal setting and measurement;
- deliver realistic figures consistently; and
- accommodate changing business conditions.

3.24 Better practice organisations:

- link budget development to corporate strategy. This allows managers and employees a clearer understanding of strategic goals. This leads to greater support for goals, better coordination of tactics and, ultimately, to stronger organisation performance;
- design procedures that allocate resources strategically. This is achieved by:
 - ⇒ reviewing operating and capital budgets to monitor any affects one budget change may have on the other;
 - ⇒ developing sophisticated measures for evaluating proposed budgets;
 - ⇒ assessing the degree of risk involved in completing plans of action; and
 - ⇒ refining and improving procedures for monitoring the results of allocation efforts.
- link cost management efforts to budgeting. This will help to improve the quality of information available for managers to use in developing their budgets. Organisations that use accurate cost management techniques and provide ready access to cost information improve both the accuracy and the speed of their budget process. Standardising the cost management system is an important step in improving the link between cost management and budgeting. Another best practice in linking cost management to budgeting is the strategic use of variance analysis;
- reduce budget complexity and cycle time. Such streamlining allows management to collect budget information, make allocation decisions, and communicate final targets in less time, at lower cost, and with less disruption to the organisation. Better practice organisations use information technology to automate budgeting and facilitate workflow and ensure budget developers are thoroughly trained in new technologies; and
- develop budgets that accommodate change, for example, by including materiality levels for budget revisions. This enables business units to respond to changing conditions and can obviate the need to overstate their budgets to cover unforeseen developments.

4. Fixed Assets Activity Benchmarks

Introduction

4.1 Fixed assets are physical resources used for the production of an organisation's goods and services. They are long-term in nature and, with the exception of land, usually subject to depreciation. Such assets include equipment (machinery, furniture, tools), building structures (offices, factories, warehouses) and land.¹⁶ Accurate and timely acquisition, tracking, maintenance and disposal of fixed assets are aims of asset management. This entails recording, adding, updating, depreciating and disposing of fixed assets in the accounting records in a timely and accurate manner.

4.2 Over the three years surveyed, median expenditure on the fixed assets activity as a percentage of the total finance function expenditure in the Commonwealth Group organisations ranged from 3.30 per cent in 1998–1999, to 3.96 per cent in 1999–2000 and 2.24 per cent in 2000–2001.

4.3 Table 4.1 shows the range and median number of FTE employees allocated to the fixed assets activity within participating organisations in the Commonwealth Group as a percentage of the total finance function employees.

Table 4.1

Percentage of FinanceFunction Employees (FTE) Allocated to Fixed Assets

Year	FTE range	Median
1998–1999	1.12–10.21	3.04
1999–2000	0.84–16.06	4.45
2000–2001	1.00–15.99	3.31

¹⁶ Andersen Global Best Practices® KnowledgeBase.

4.4 The cost, efficiency, quality and better practice benchmarks selected by the ANAO for the fixed assets activity are set out in Table 4.2.

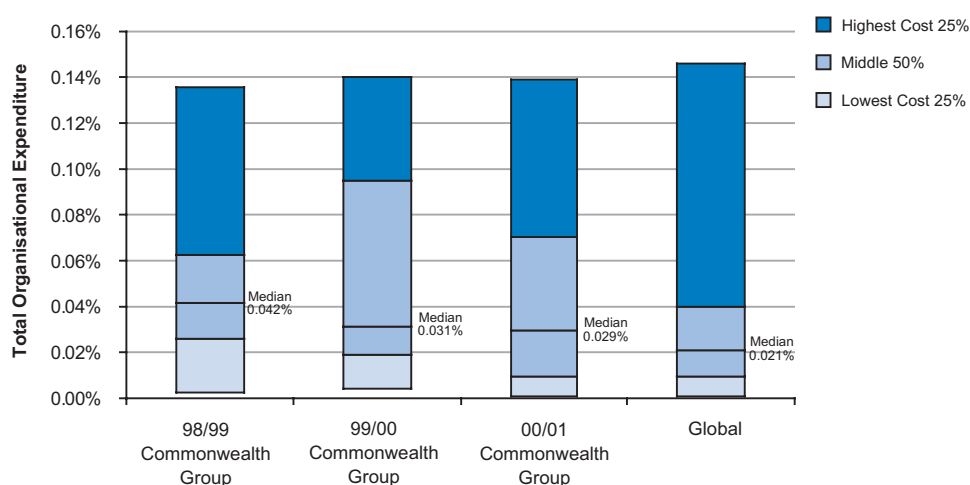
Table 4.2
Fixed Assets Activity Benchmarks

Dimension	Formula
Cost—Overall	Total fixed assets activity cost/Total organisational expenditure
Cost—Per Per Activity	Total fixed assets activity cost / Annual number of fixed assets transactions
Efficiency	Total number of fixed assets tracked / Total fixed assets FTEs
Quality— Error Rate	Percentage of fixed assets that are misallocated or misclassified
Better Practice	Capitalisation threshold for fixed assets

Cost Dimension Benchmarks

4.5 This Report provides two benchmarks to reflect costs related to fixed assets activity. The first captures total fixed assets cost and expresses this as a percentage of total organisational expenditure. The second measures cost per fixed assets transaction. All participating Commonwealth Group organisations provided a response for both benchmarks in each year of the study.

Figure 4.1
Fixed Assets Activity Cost Benchmark—Overall Cost



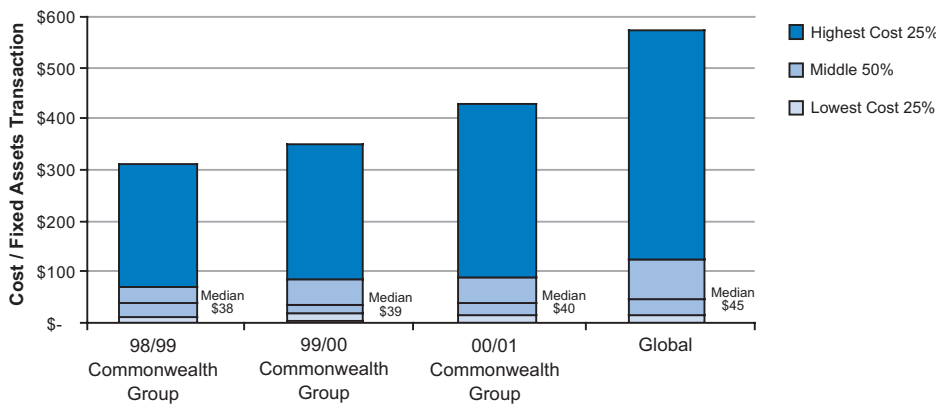
Formula used: Total fixed assets activity cost / Total organisational expenditure

4.6 In 1998–1999, the Commonwealth Group organisations spent, at the median, 0.042 per cent of their total organisational expenditure on the fixed assets activity. This result improved to 0.031 per cent in 1999–2000 and 0.029 per cent in 2000–2001. However, this result is still worse than that of the Global Group which recorded a median level of expenditure of 0.020 per cent in 1998–1999 and 0.021 per cent in both 1999–2000 and 2000–2001. Refer Appendix 3 Table 3.1 for details.

4.7 In 1998–1999, eight of the Commonwealth Group organisations had results within the Global Group’s highest cost quartile. In 1999–2000, this dropped to five but in 2000–2001 rose again to six.

4.8 Figure 4.2 is the second cost benchmark and reflects cost per fixed assets transaction.

Figure 4.2
Fixed Assets Activity Cost Benchmark—Cost/Fixed Assets Transaction



Formula used: Total fixed assets activity cost / Annual number of fixed assets transactions

4.9 Although the benchmarking results show the Commonwealth Group’s median cost per transaction increased from \$38 to \$40 over the three year benchmark period, this still compares favourably with the Global Group where costs increased from \$40 to \$45 per transaction. Refer Appendix 3 Table 3.2 for details of the cost movements in the Global Group. While the overall quartile figures for the Commonwealth Group did not change greatly across the three years (as indicated in Appendix 3 Table 3.2), individual organisation results often fluctuated dramatically from year to year.

Efficiency Dimension Benchmark

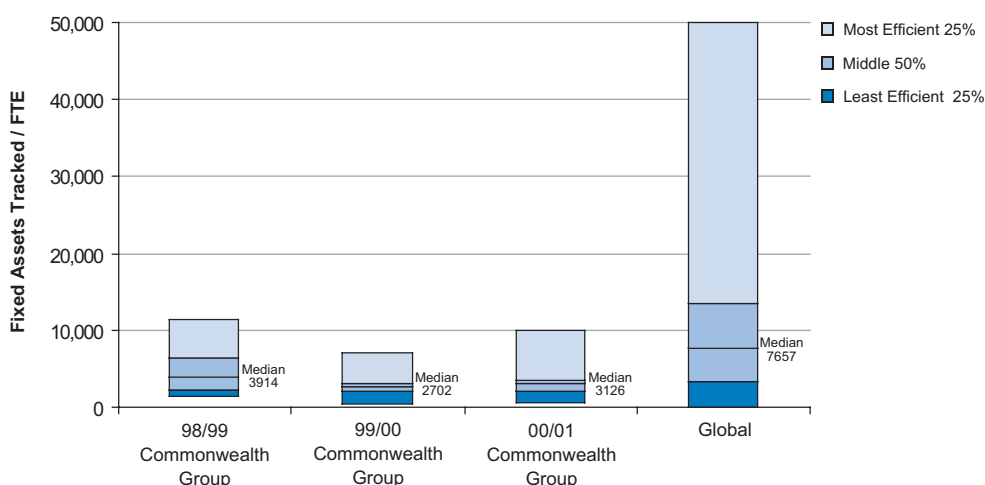
4.10 The efficiency benchmark for fixed assets is based on the annual volume of fixed assets tracked per FTE and is an indicator of employee output and

productivity. The benchmarking results are summarised in Figure 4.3.

4.11 In 1998–1999, 13 of the participating Commonwealth Group organisations provided data for this benchmark; in 1999–2000, 12 of the organisations did; and in 2000–2001 all 14 provided responses.

Figure 4.3

Fixed Assets Activity Efficiency Benchmark—Fixed Assets Tracked/FTE



Formula used: Total number of fixed assets tracked / Total fixed assets FTEs

4.12 Across all three years of the study, the median efficiency level in the Global Group was at least double that achieved by the organisations in the Commonwealth Group. Refer Appendix 3 Table 3.3 for details of the Global Group median. The median of the Commonwealth Group also decreased by approximately 20 per cent over the benchmark period.

4.13 Over the three years of the benchmark study, no Commonwealth Group organisation reported a fixed assets efficiency benchmark result which would place them within the Global Group’s most efficient quartile. In addition, for each of the three years, at least half of the responding Commonwealth organisations fell within the Global Group’s least efficient quartile.

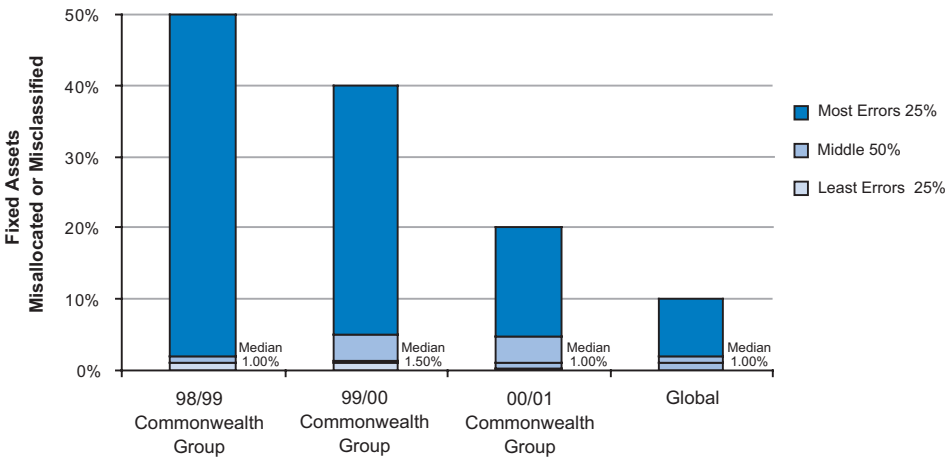
4.14 A possible reason for the low ratio among these organisations in the Commonwealth Group may lie in public sector accountability and risk management practices resulting in more extensive processes for recording, tracking and accounting for assets. Another reason may be that the benchmark is based on the number of fixed assets tracked that are owned by the organisation, whereas many participating Commonwealth Group organisations lease many of their fixed assets. Results may also have been affected by the introduction of accrual accounting and other activities such as IT outsourcing.

Quality Dimension Benchmark

4.15 The benchmark used to reflect quality in relation to the fixed assets activity is based on error rate. Error rate in the fixed assets activity is defined as the proportion of misallocated or misclassified fixed assets. This benchmark is used to provide a broad indicator of the accuracy and integrity of the fixed assets ledger. Misallocations may include incorrect computation of depreciation and incorrect implementation of revisions due to changes in asset conditions. Misclassifications may include assignment of assets to an inappropriate fixed assets category or cost centre.

4.16 In 1998–1999, 11 of the participating Commonwealth Group organisations provided data for this benchmark and for each of the next two years, all 14 Commonwealth Group organisations responded. The benchmarking results relating to error rates are illustrated in Figure 4.4.

Figure 4.4
Fixed Assets Activity Quality Benchmark—Error Rate



Formula used: Percentage of fixed assets misallocated or misclassified

4.17 The results show the same median error rate (one per cent) in the Commonwealth Group organisations for two of the three years of the study. This was also the median for the Global Group for all three years (refer Appendix 3 Table 3.4 for details). Across all three years, the majority of Commonwealth Group organisations had an error rate between zero and five per cent. However, in all three years, there were one or two organisations that had an error rate substantially higher than the rest of the group. When these unusually high results are excluded from the Commonwealth Group, the range of results is similar, if not better, than that of the Global Group.

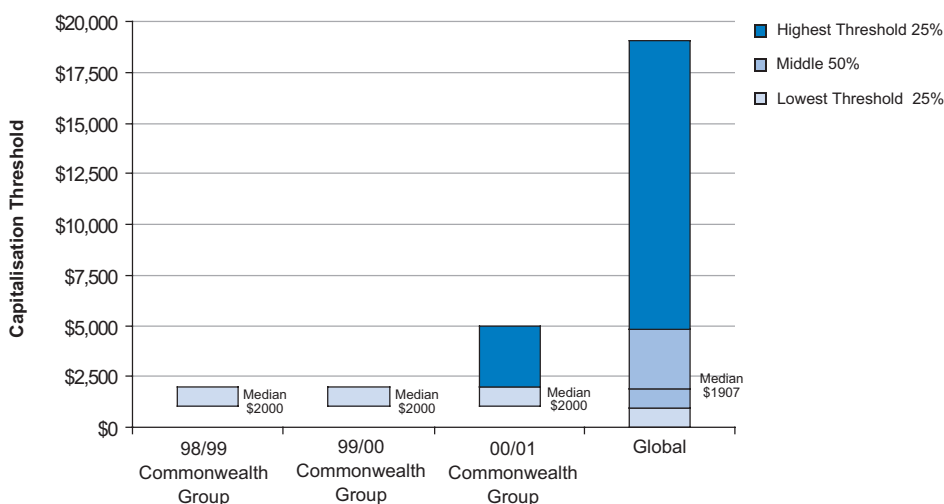
Better Practice Benchmark

4.18 The ANAO also benchmarked the value at which assets are capitalised within the two Groups. The asset capitalisation threshold is a monetary reporting threshold that organisations establish in order to reduce the number of assets reported in the financial statements to only those which are significant in value. Generally, the threshold is set to ensure that at least 95 per cent of the total value of non-current assets is reported in the financial statements. The establishment of such a threshold is an attempt to weigh the cost of gathering data against its usefulness or significance to the readers of the financial statements. The asset capitalisation threshold does not relate to whether organisations need to record the existence of assets. This is an asset management decision based on the importance of the asset or group of assets to an organisation and accountability criteria.

4.19 All Commonwealth Group organisations provided data for this benchmark for all years of the study. The benchmarking results are shown in Figure 4.5.

Figure 4.5

Fixed Assets Activity Better Practice Benchmark—Capitalisation Threshold



Formula used: Capitalisation threshold for fixed assets

4.20 Figure 4.5 illustrates that the Commonwealth Group organisations have a median capitalisation threshold of \$2000 for all three years of the study and the Global Group median in 2001 is \$1907. Refer to Appendix 3 Table 3.5 for further details on the Global Group median. Three Commonwealth Group organisations increased their capitalisation threshold in the final year of the study to \$5000, with all other organisations (with the exception of one) maintaining a capitalisation threshold of \$2000 for all three years.

Discussion of Qualitative Results

4.21 In relation to the fixed assets activity the organisations in the Commonwealth Group performed well. They exhibited an overall trend of improvement against the qualitative indicators of Global Best Practices¹⁷ over the three years of the study. Refer to Appendix 4 for further details.

4.22 The Commonwealth Group organisations performed well in relation to:

- the establishment of standards and policies for fixed assets;
- the implementation of a comprehensive and flexible fixed asset software program; and
- the tracking of fixed asset inventory and maintenance.

4.23 Opportunities exist for the Commonwealth Group organisations to improve their performance in relation to:

- identifying the requirements to assist in achieving the most cost-effective use of fixed assets through mechanisms such as gap analysis, for example by comparing current versus desired performance;
- increasing awareness of the need to consider preventative maintenance as part of an organisation's asset management strategy;
- ensuring appropriate authorisation or all asset transaction and policies; and
- centralising asset recording systems.

4.24 To assist both the organisations in the Commonwealth Group, and the wider public sector improve the performance of the fixed assets activity, practical strategies and procedures have been described in the Better Practice Observations section at the end of this chapter.

Conclusion

4.25 In relation to the fixed assets activity, the organisations in the Commonwealth Group compared well against those of the Global Group. Although the organisations in the Commonwealth Group have a higher overall cost (at the median), they have a lower cost per transaction. Efficiency in the Commonwealth Group is lower but, as mentioned in paragraph 4.14, this may be a result of Commonwealth Group participants having a larger number of leased rather than owned fixed assets. The quality and better practice benchmark results have improved in the Commonwealth Group throughout the survey period and, at the median, are similar, if not the same, as the Global Group.

¹⁷ Andersen Global Best Practices® KnowledgeBase.

Better Practice Observations

4.26 Since 1995-1996, the ANAO has undertaken a number of audits¹⁸ relating to issues of asset management and has published an Asset Management Better Practice Guide¹⁹ and an Asset Management Handbook.²⁰ The audits have found that many organisations have not fully adopted a strategic assets management approach to maximise performance and accountability for outputs and outcomes.

4.27 Five principles identified by the ANAO which underpin better practice asset management are integrated planning, acquisition planning, determining accountability, disposal planning and establishing a control framework. For further discussion of these issues refer to the ANAO Asset Management Handbook and Asset Management Better Practice Guide published in June 1996; or refer to Audit Report No.25 of 2000–2001²¹ for a brief summary.

4.28 Organisations that apply best practices maintain detailed records of their long-lived assets and of the accumulated depreciation and depletion of those assets over time. Best practice organisations adopt the type of practices outlined below:²²

- identify requirements for the most cost effective use of fixed assets. To optimise the fixed assets use, financial executives first conduct a thorough analysis of current operations and identify areas for improvement. A gap analysis can be utilised to examine current versus desired performance and review procedures used to purchase, track and dispose of assets. Strategies should then be used to close the gap between current and desired performance. Organisations may gain further control over fixed assets costs by identifying and quantifying their risk exposure;
- establish standards and policies for capitalisation, depreciation and maintenance of fixed assets, including preventative maintenance which can result in reduced equipment failure, reduced costs and increased utilisation. Raising the capitalisation threshold (in accordance with organisational accounting, risk management and business requirements) can decrease the total number of fixed assets that have to be recorded and tracked;

¹⁸ Australian National Audit Office, Audit Report No.27 of 1995–1996, *Asset Management*, June 1996, Australian National Audit Office, Audit Report No.41 of 1997–1998, *Asset Management*, April 1998 and Australian National Audit Office, Audit Report No.8 of 2001–2002, *Disposal of Infrastructure, Plant and Equipment*, August 2001.

¹⁹ Australian National Audit Office, Better Practice Guide, *Asset Management*, June 1996.

²⁰ Australian National Audit Office, *Asset Management Handbook*, June 1996.

²¹ Australian National Audit Office, *Benchmarking the Finance Function*, op. cit., p. 43.

²² Australian National Audit Office, *Asset Management*, June 1996, op. cit., p. 6, Australian National Audit Office Audit Report No.41 of 1997–98, *Asset Management*, op. cit., p. 6 and Andersen Global Best Practices® KnowledgeBase.

- implement a comprehensive and flexible fixed assets software program. The program should meet user needs, be user-friendly and enable management to make informed and timely decisions; and
- track inventory and maintenance of fixed assets. Timely and accurate tracking results in more effective management of acquisition, forecasting, and maintenance activities, as well as enhancing the organisation's ability to trade, shift or dispose of assets at the optimal time. Detailed property records should be maintained through one central database that is integrated with the general ledger system. Electronic marking (bar codes or electronic markers) should be used to record large amounts of fixed assets information quickly, accurately and cost effectively and the use of scanning can enhance the efficiency of identifying inventory and the location of assets.

5. Accounts Payable Activity

Benchmarks

Introduction

5.1 In most organisations, accounts payable is a linear process that begins with receiving an invoice and ends with issuing payment to the supplier. Organisations generally follow a standard set of activities for processing an invoice for payment, including:

- receiving the invoice via mail, fax, e-mail or electronic data interchange (EDI);
- categorising the invoice, entering it into a system, and scheduling it for further processing;
- reviewing the invoice for authenticity and arithmetic accuracy;
- documenting the invoice by attaching receiving paperwork and the purchase order;
- obtaining the required approval to pay the invoice;
- scheduling the invoice for payment, taking into consideration the organisation's priorities for payment, the invoice due date and possible prompt-payment discounts; and
- on the appropriate day, paying the invoice via cheque or electronic means and notifying the supplier of payment.

5.2 Additional tasks include responding to inquiries from suppliers and others within the organisation; resolving payment issues and disputes; keeping the master file of suppliers up-to-date; and managing accounting policies that affect supplier relationships and cash management.²³

5.3 The quality of design of the accounts payable process, and how well the process is executed, has an impact on two areas important to the organisation: supplier relationships and cash flow. The primary business objective of accounts payable is to be an efficient, low-cost contributor to the 'obtain materials and supplies' process. This can be accomplished by making timely and accurate payments for goods and services purchased and thereby optimising cash flow through effective management of disbursements, credit terms and discounts.

²³ Andersen Global Best Practices® KnowledgeBase.

5.4 Accounts payable is one of the most significant activities in the finance function of organisations in the Commonwealth Group. In 1999–2000 and 2000–2001, the second highest percentage of finance function dollars at the median was spent on accounts payable (13.43 per cent in 1999–2000 and 14.82 per cent in 2000–2001). The highest percentage of finance function dollars was spent on payroll (20.58 per cent in 1999–2000 and 22.21 per cent in 2000–2001).

5.5 Table 5.1 below shows the range and median number of FTE employees allocated to the accounts payable activity as a percentage of total finance function employees within the participating organisations in the Commonwealth Group.

Table 5.1

Percentage of Finance Function Employees (FTE) Allocated to Accounts Payable

Year	FTE range	Median
1998–1999	5.80–33.33	16.98
1999–2000	5.64–65.79	19.84
2000–2001	8.67–36.80	19.24

5.6 The cost, efficiency, quality and better practice benchmarks selected by the ANAO for the accounts payable activity are set out in Table 5.2.

Table 5.2

Accounts Payable Activity Benchmarks

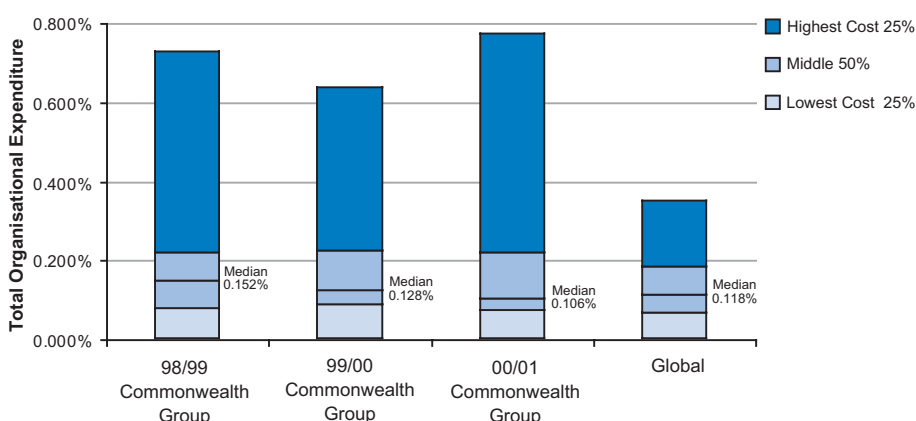
Dimension	Formula
Cost—Overall	Total accounts payable activity cost/Total organisational expenditure
Cost—Per Activity	Total accounts payable cost/Number of annual invoices
Efficiency—Per Resource	Total accounts payable invoices/Total accounts payable FTEs
Efficiency—Size	Total accounts payable payments/Number of invoices processed
Quality—Error Rate	Total accounts payable errors/Number of invoices processed
Better Practice	Total number of active vendors to organisation

Cost Dimension Benchmarks

5.7 This Report provides two benchmarks to reflect the cost of the accounts payable activity within the finance function. The first captures total accounts payable cost and expresses it as a percentage of total organisational expenditure. The second cost dimension benchmark measures the accounts payable activity cost per invoice processed. All of the Commonwealth Group organisations provided data for the first cost benchmark for each of the three years of the study. The results are illustrated in Figure 5.1.

Figure 5.1

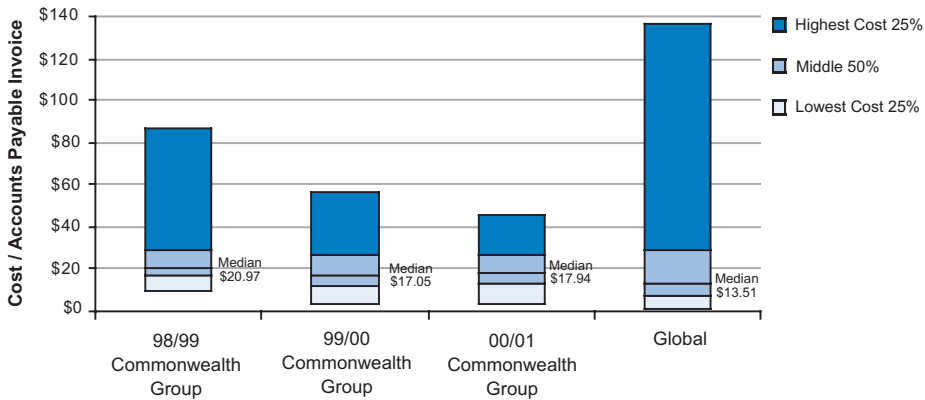
Accounts Payable Activity Cost Benchmark—Overall Cost



Formula used: Total accounts payable activity cost / Total organisational expenditure

5.8 Across the three years, the Commonwealth Group median improved at such a rate that, by 2000–2001, it was lower than the Global Group median. In all three years of the study the Commonwealth Group had two outlying results (both small organisations) that were substantially higher than those of the rest of the Group. When these two results are left out the range of results for the Commonwealth Group organisations (0.007 per cent to 0.349 per cent in 1998–1999; 0.005 per cent to 0.255 per cent in 1999–2000; and 0.005 per cent to 0.239 per cent in 2000–2001) compare well, if not better, against the organisations of the Global Group (refer Appendix 3 Table 4.1 for details of results).

5.9 In relation to the second cost benchmark, all of the Commonwealth Group organisations provided data for this benchmark for the first year of the study but one organisation did not provide a response for the subsequent two years. The results are illustrated in Figure 5.2.

Figure 5.2**Accounts Payable Activity Cost Benchmark—Cost/Invoice**

Formula used: Total accounts payable activity cost / Number of annual invoices

5.10 The median for the Commonwealth Group organisations improved between the first and last years of the study period. Appendix 3 Table 4.2 indicates that, over the period of the study, the Global Group median worsened (rising from \$10.99 in 2000 to \$13.51 in 2001).

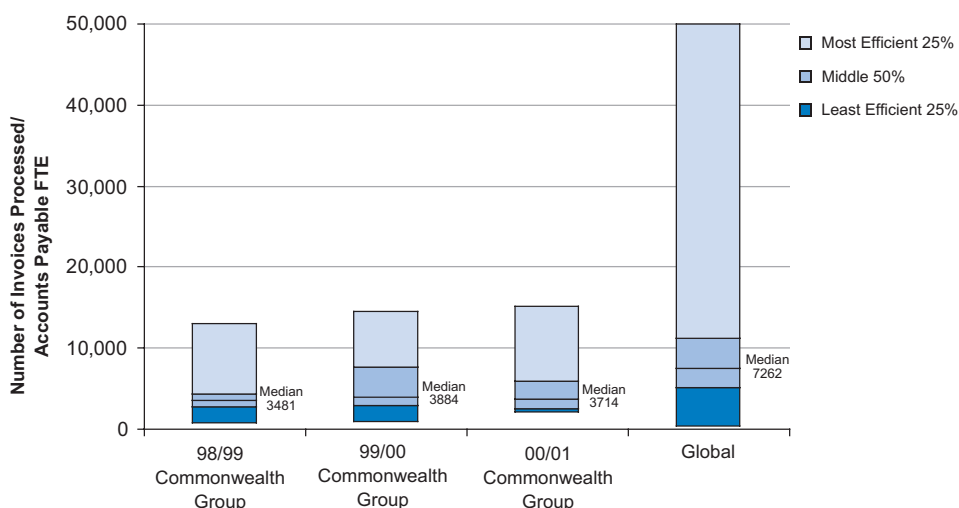
5.11 In the first year, no Commonwealth Group organisation ranked alongside the lowest cost quartile of the Global Group. The analysis of the benchmark data indicated that eight Commonwealth Group organisations improved their cost performance over the course of the study and, as a result, by 2000–2001, three Commonwealth Group organisations had moved into the Global Group’s lowest cost quartile.

Efficiency Dimension Benchmarks

5.12 The ANAO used two benchmarks to provide a broad indicator of efficiency for the accounts payable activity. The first measures the number of accounts payable invoices processed per FTE, providing a reflection of employee output and productivity. The second benchmark measures the average accounts payable payment size. The results are provided in Figures 5.3 and 5.4 respectively. All of the Commonwealth Group organisations provided data for the first efficiency benchmark in year one of the study but one organisation did not provide responses for the subsequent two years. In relation to the second efficiency benchmark, all but one of the Commonwealth Group organisations provided data in the first year of the study and all 14 did for the subsequent two years.

Figure 5.3

Accounts Payable Activity Efficiency Benchmark—Number of Invoices Processed/Accounts Payable FTE



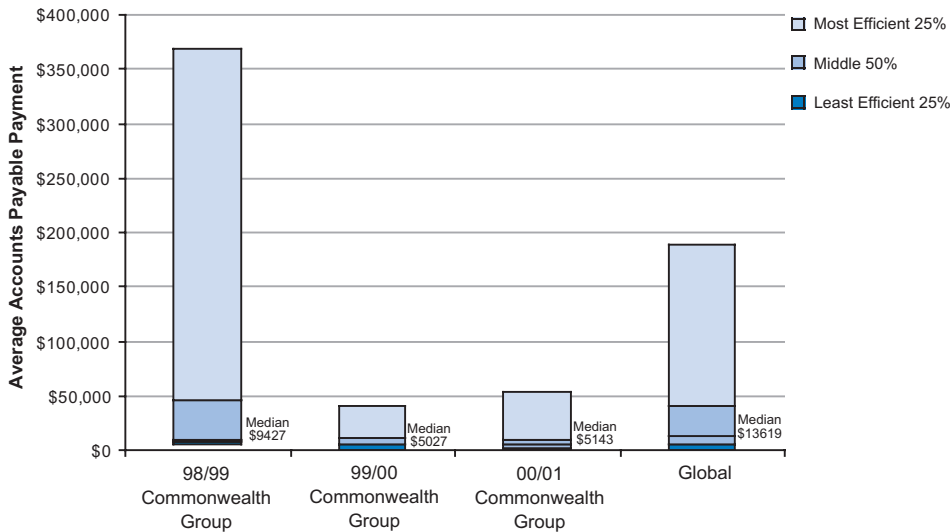
Formula used: Total accounts payable invoices / Total accounts payable FTEs

5.13 In terms of the number of accounts payable invoices processed per FTE, the Commonwealth Group median did not significantly change throughout the study period and remained approximately half that of the Global Group.

5.14 In the first year of the study only one Commonwealth Group organisation had a number of invoices per accounts payable FTE result which placed it alongside the most efficient quartile of the Global Group. However, in the second and third years of the study this increased to three Commonwealth Group organisations. Additionally, while 12 of the 14 Commonwealth Group participants in 1998–1999 had a number of invoices per accounts payable FTE result which placed them in the least efficient quartile of the Global Group, this decreased to eight (out of 13 that responded) organisations in the subsequent two years of the study.

5.15 As mentioned above, the second accounts payable efficiency benchmark used by the ANAO measures the average accounts payable payment size. Optimising the size of individual payments, for example by rationalising the number of vendors or consolidating a number of invoices into one payment, can lead to more efficient accounts payable processes through reduced transaction volumes and costs. Figure 5.4 shows that, at the median level, the organisations in the Commonwealth Group had a substantially smaller average payment size than those of the Global Group.

Figure 5.4
Accounts Payable Activity Efficiency Benchmark—Average Payment Size



Formula used: Total accounts payable payments / Number of invoices processed

5.16 The performance of the organisations in the Commonwealth Group in relation to this benchmark decreased significantly over the three years of the study. The median payment size for the Commonwealth Group organisations dropped from the first year of the study (\$9427) but remained fairly similar for the following two years (\$5027 and \$5143 respectively). At this lower level the median is approximately 40 per cent less than that of the Global Group median.

5.17 In 1998–1999, only one of the Commonwealth Group organisations was in the smallest average payment quartile of the Global Group. This increased to nine organisations in 1999–2000 and dropped to eight organisations in 2000–2001. Three Commonwealth Group organisations were in the highest average payment quartile of the Global Group in the first year of the study. This decreased to no organisations in the second year and then increased to one organisation in 2000–2001.

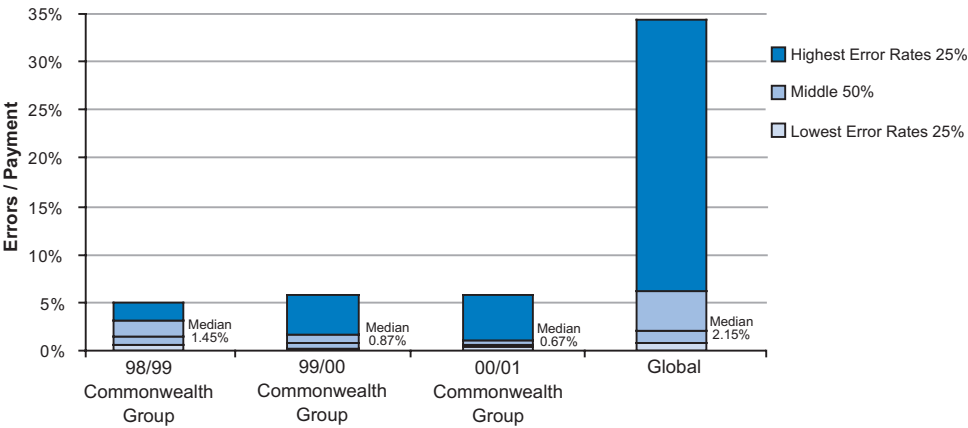
Quality Dimension Benchmark

5.18 The benchmark used to indicate quality in the accounts payable activity is based on the total number of accounts payable errors as a percentage of total accounts processed. All of the Commonwealth Group organisations provided data for this benchmark for the first year of the study but one organisation did not provide responses for the subsequent two years. The results of this benchmark are provided in Figure 5.5.

5.19 Accounts payable errors include incoming voucher errors, voucher processing errors and cheque errors. Incoming voucher errors relate to the completeness, accuracy and proper authorisation of vouchers. This includes missing documentation, lack of required approvals, missing or inaccurate information (e.g. account coding) or discrepancies in information between various documents. Voucher processing errors are errors rejected by the accounts payable system in relation to the validity of, for example, account distribution coding and vendor account numbers. Cheque errors are errors related to the production and dissemination of payments.

Figure 5.5

Accounts Payable Activity Quality Benchmark—Error Rate



Formula used: Total accounts payable errors / Number of invoices processed

5.20 The median error rate for organisations in the Commonwealth Group improved over the three years of the study from 1.45 per cent in 1998–1999 to 0.67 per cent in 2000–2001 and remained significantly lower than that of the Global Group. Additionally, in all three years of the study, none of the Commonwealth Group organisations ranked in the Global Group highest error rate quartile.

5.21 The combination of the results in terms of cost and error rate suggests that, while the cost of the accounts payable activity in the Commonwealth Group may be relatively high in comparison with that of the Global Group, the quality of the outcomes in respect of error rates is better indicating a potential trade off between cost and quality.

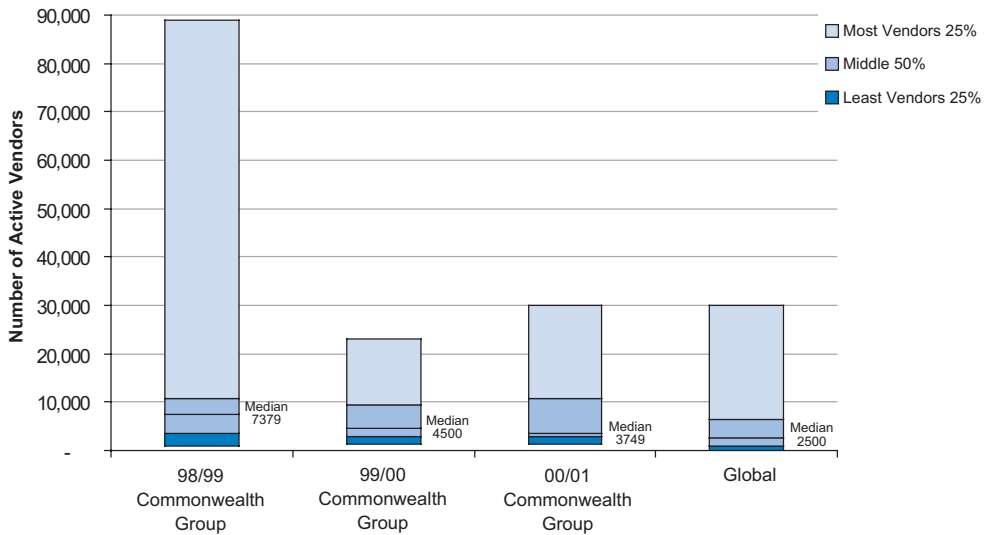
Better Practice Benchmark

5.22 Reducing the number of vendors is often used as a mechanism to improve the efficiency of the accounts payable process. The ANAO used a benchmark of

the number of active vendors to provide an indication of the adoption of better practices within the two Groups. All of the Commonwealth Group organisations provided data for this benchmark for each of the three years of the study. The results are shown in Figure 5.6.

Figure 5.6

Accounts Payable Activity Better Practice Benchmark—Number of Active Vendors



Formula used: Total number of active vendors to organisation

5.23 The Commonwealth Group result, at the median, improved over the three years. However, in 2000–2001 it was still some 50 per cent higher than that of the Global Group. This suggests that organisations in the Commonwealth Group may benefit from reviewing their accounts payable operations to ascertain whether there is scope to take advantage of any benefits associated with reducing the number of active vendors.

5.24 From the data examined, the ANAO noted that the number of active vendors is not necessarily a function of the size of the organisation but may be connected to the role of the organisation within the Commonwealth. Some of the larger Commonwealth Group benchmarking participants had fewer active vendors than some of the smaller Commonwealth Group organisations.

5.25 Furthermore, the number of active vendors may be higher in the Commonwealth Group because it includes employees when they are paid outside the normal payroll cycle or for travel allowances. See paragraph 9.18 in Chapter 9 on Travel and Related Costs which further discusses the payment of travel allowance through accounts payable.

5.26 Only one Commonwealth Group organisation had a 1998–1999 benchmark which placed it in the Global Group least vendors quartile. No Commonwealth Group organisations reported benchmarks which placed them in this quartile in the subsequent two benchmark periods.

Discussion of Qualitative Results

5.27 In relation to the accounts payable activity, the performance of organisations in the Commonwealth Group against qualitative indicators of Global Best Practices²⁴ showed slight improvement over the three years of the study. Refer Appendix 4 Table 3 for further details.

5.28 The Commonwealth Group organisations performed well in relation to:

- analysing the costs (in terms of dollars, quality and time) of existing accounts payable processes;
- implementing policies to protect against disbursement fraud and overpayments; and
- integrating accounts payable with related operations.

5.29 Opportunities exist for the Commonwealth Group organisations to improve their performance in relation to:

- calculating the costs of the current accounts payable system and examining options for making savings;
- seeking feedback from suppliers on how to improve the process;
- establishing controls appropriate to the risk and value of corresponding transactions;
- reducing the volume of accounts payable transactions;
- processing accounts payable electronically; and
- linking accounts receivable and accounts payable systems between trading partners (the ANAO notes that the type of technology required to link the accounts receivable and accounts payable systems organisations is not used within the organisations in the Commonwealth Group).

5.30 To assist both the organisations in the Commonwealth Group, and the wider public sector improve the performance of the accounts payable activity, practical strategies and procedures have been described in the Better Practice Observations section at the end of this chapter.

²⁴ Andersen Global Best Practices® KnowledgeBase.

Conclusion

5.31 Significant opportunities exist for organisations in the Commonwealth Group to improve their performance in regards to the accounts payable activity. At the median, the Commonwealth Group generally reported lower performance across the range of cost (per activity) and efficiency benchmarks of the accounts payable activity. Increasing the utilisation of electronic banking, the number of payments processed per accounts payable FTE, the average size of payments and reducing the number of vendors could result in savings. However, it should be noted that the organisations in the Commonwealth Group achieved substantially fewer errors, highlighting the trade off between cost and quality.

Better Practice Observations

5.32 In the last few years the ANAO has issued a number of publications relating to the accounts payable activity.²⁵ As noted in the ANAO's *Paying Accounts* Accompanying Handbook, the overriding principle to be adopted in this activity is to 'pay the supplier' not 'process the paper'.²⁶ Better practice organisations recognise that, the better the relationship between the organisation and supplier, the more efficient the accounts payable process will be. Audit Report No.25 of 2000–2001²⁷ outlined a number of better practices relating to accounts payable which public sector organisations could use to improve aspects of the accounts payable activity.

5.33 The following paragraphs outline some of the current better practices that have been adopted by organisations to deliver overall improvement in the efficiency and effectiveness of the accounts payable activity.²⁸ These better practices include the need to:

- manage payment dates and terms to maximise cash flow, including the establishment of performance targets for accounts payable;
- reengineer the accounts payable process to reduce cost and improve productivity. The emphasis in review of payment processes is to reduce the number of steps in paying accounts. This can involve placing increasing reliance on technological solutions, including making payments

²⁵ Australian National Audit Office, Audit Report No.16 of 1996–1997, *Payment of Accounts*, November 1996, Australian National Audit Office, Accompanying Handbook, *Paying Accounts*, November 1996, and Australian National Audit Office, Audit Report No.52 of 2000–2001, *Payment of Accounts*, June 2001.

²⁶ Australian National Audit Office, *Paying Accounts*, *ibid.*, p. 5.

²⁷ Australian National Audit Office, *Benchmarking the Finance Function*, *op. cit.* p. 53–55.

²⁸ Andersen Global Best Practices® KnowledgeBase and Australian National Audit Office, *Payment of Accounts*, 2001, *op. cit.*, p. 21.

electronically, to make value-added processes more efficient and to eliminate non-value added processes altogether;

- eliminate processes to pay employees through accounts payable. This includes removing off-cycle salary related payments and reimbursements of employee expenses. Processing through the payroll system by EFT can also increase efficiency;
- maintain an open line of communication and develop strategic alliances with suppliers regarding payment matters as the better the supplier relationships, the more efficient the accounts payable process will be. Developing strategic alliances can enhance business relationships with suppliers;
- establish anti-fraud controls at the operations level such as segregation of duties; ensure training programs for payment of accounts employees are comprehensive in their coverage in order to make key personnel aware of their responsibilities and accountability. Managers and personnel should be educated regarding the significance of information system security in providing a secure control environment for payment of accounts processing. This should include informing employees of requirements related to protection of logical system access supplier master file data, and access to EFT and on-line banking systems;
- ensure the control framework is supported by appropriate policies and procedures that include Chief Executive Instructions, statements of policies and procedures, workplace instructions and implementation plans. Processes to update these documents need to be formalised and consistently enforced; and
- consider the design of controls in each of the following areas—management, organisational, operational and authorisation controls. Increased use of technology will often enable manual processes and controls to be replaced by more efficient system controls. Well considered risk assessment and performance measurements are recommended as useful tools in this process.

6. Close the Books and Financial Reporting Activity Benchmarks

Introduction

6.1 Close the books and financial reporting is the process through which an organisation reconciles, consolidates and generates financial reports on a periodic basis to meet regulatory requirements and internal information needs.²⁹

6.2 The closing of the books and financial reporting process is one of the more significant activities for organisations in the Commonwealth Group. Analysis of the three years of the benchmark study data indicated that Commonwealth Group organisations increased the proportion of their finance function budget allocated to this process, with the median increasing by 22 per cent during the benchmark period. Refer Appendix 3 Table 1.1 for details.

6.3 Possible tasks involved in the close the books and financial reporting activity include:

- ensuring validity and consistency in the organisation's charts of accounts;
- completing journal entries;
- consolidating data from outlying business units;
- running trial balances;
- correcting errors;
- reconciling and analysing accounts;
- calculating taxes;
- preparing and distributing reports; and
- supervising closing tasks and reviewing key accounts and reports.

6.4 An investigation of the close the books process usually reveals opportunities to increase the speed and accuracy of the process. A fast, accurate close the books process provides multiple benefits for the finance function and the organisation because it:

- creates more time for finance professionals to focus on strategic activities for the organisation;
- reduces the cost of the finance function, since fewer hours are needed to close the books; and

²⁹ Andersen Global Best Practices® KnowledgeBase.

- demonstrates that the organisation's controls and systems are extremely well organised.

6.5 Table 6.1 shows the range and median number of FTE employees allocated to the close the books and financial reporting activity as a percentage of the total finance function employees within the participating organisations in the Commonwealth Group.

Table 6.1

Percentage of Finance Function Employees (FTE) Allocated to Close the Books and Financial Reporting

Year	FTE range	Median
1998–1999	2.13–22.30	6.46
1999–2000	2.78–31.58	8.18
2000–2001	2.67–27.61	10.51

6.6 The cost, quality and better practice benchmarks identified by the ANAO for the close the books and financial reporting activity are shown in Table 6.2.

Table 6.2

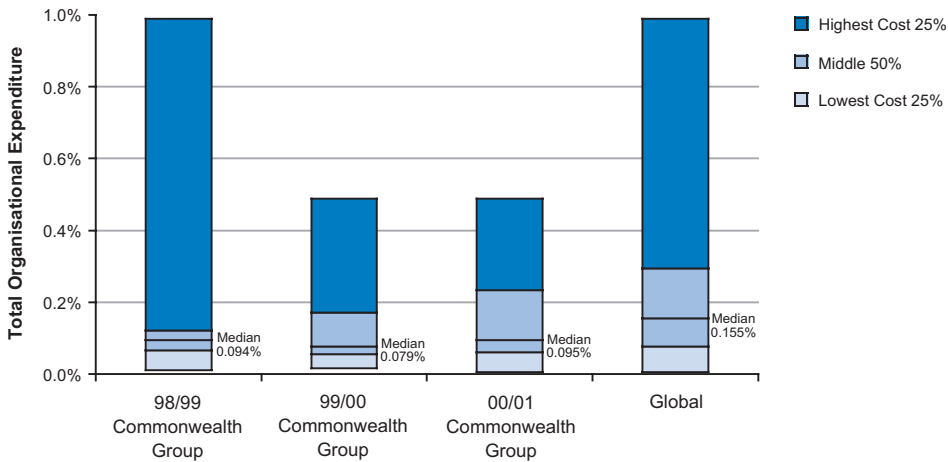
Close the Books and Financial Reporting Activity Benchmarks

Dimension	Formula
Cost—Overall	Total close the books and financial reporting activity cost/ Total organisational expenditure
Quality— Error Rate	Total number of error correction journals/Total number of journals
Better Practice	Number of hard closes ³⁰ in excess of requirements

Cost Dimension Benchmark

6.7 The overall cost benchmark is based on the cost of the close the books and financial reporting activity as a percentage of total organisational expenditure. All of the Commonwealth Group organisations provided data for this benchmark for all three years of the study and the results are provided in Figure 6.1.

³⁰ A hard close is performed each time a detailed cut-off is performed and financial reports are produced. It includes analysis of accounts receivable, inventory, payables, revenues and expenses. The hard close also involves the process of making necessary accruals, adjustments and combining and consolidating entries for reporting purposes. In addition to the end of year financial statements, many organisations perform a hard close during the year for both internal and external reporting. A hard close is distinguished from a soft close where the books are closed with just enough precision to satisfy internal management reporting requirements.

Figure 6.1**Close the Books and Financial Reporting Activity Cost Benchmark—
Overall Cost**

Formula used: Total close the books and financial reporting activity cost / Total organisational expenditure

6.8 As illustrated above, the median for the benchmarked Commonwealth Group dropped from 0.094 per cent in 1998–1999 to 0.079 per cent in 1999–2000 but rose again to 0.095 per cent in 2000–2001 where it was approximately 40 per cent lower than that of the Global Group.

6.9 In 1998–1999, the results for the Commonwealth Group ranged from 0.013 per cent to 0.990 per cent. The highest figure was, however, significantly greater than the other results. If this figure is removed, the range becomes 0.013 per cent to 0.422 per cent which is similar to the results obtained in the following two years, where the Commonwealth Group allocated substantially less to this activity in comparison to the Global Group. Refer Appendix 3 Table 5.1 for further details.

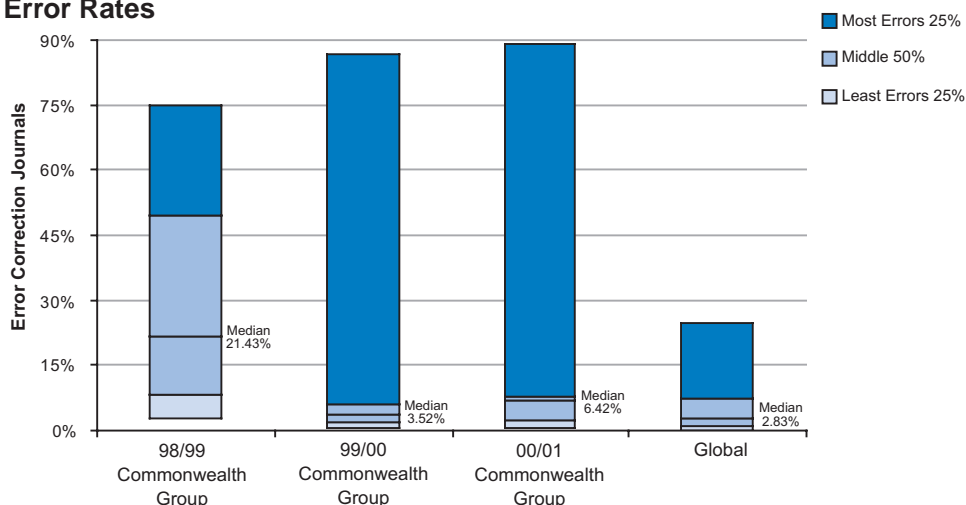
6.10 The lower cost associated with this activity could be a reflection of the fact that organisations in the Commonwealth Group on the whole perform fewer hard closes than those of the Global Group (refer Figure 6.3).

Quality Dimension Benchmark

6.11 The quality measure selected for the close the books and financial reporting activity is based on the total number of error correction journals as a percentage of total journals. All but one of the Commonwealth Group organisations provided data for this benchmark for the first year of the study. All organisations provided data for the subsequent two years. The results of this benchmark are illustrated in Figure 6.2.

Figure 6.2

Close the Books and Financial Reporting Activity Quality Benchmark— Error Rates



Formula used: Total number of error correction journals / Total number of journals

6.12 At the median, the organisations in the Commonwealth Group substantially improved their performance from the first year of the study. However, the median in 2000–2001 still remained substantially higher than that of the Global Group.

6.13 It should be noted that one of the organisations in the Commonwealth Group had a result that was significantly higher than the rest of the Group in the last two years of the study. If this result were removed, the range of results for 1999–2000 would change from between 0.54 per cent and 86.60 per cent to between 0.54 and 16.59 per cent and the 2000–2001 results would change from between 0.54 per cent and 88.57 per cent to between 0.54 and 13.33 per cent which compares favourably to the Global Group results.

6.14 In 1998–1999, all of the Commonwealth Group organisations reported error rates greater than the Global Group median, with ten of the 13 participating organisations having an error rate that placed them in the ‘most errors’ quartile of the Global Group. In the next two years of the study the number of Commonwealth Group organisations with an error rate that placed them in the most errors quartile of the Global Group dropped to two organisations in 1999–2000 and rose again to five in 2000–2001. In the last two years, one of the Commonwealth Group organisations had a result which placed it in the Global Group’s ‘least errors’ quartile.

6.15 The extremely high error rates reported by several of the Commonwealth Group organisations should be of particular concern to those organisations and

action should be taken to address any deficiencies the benchmark results have identified.

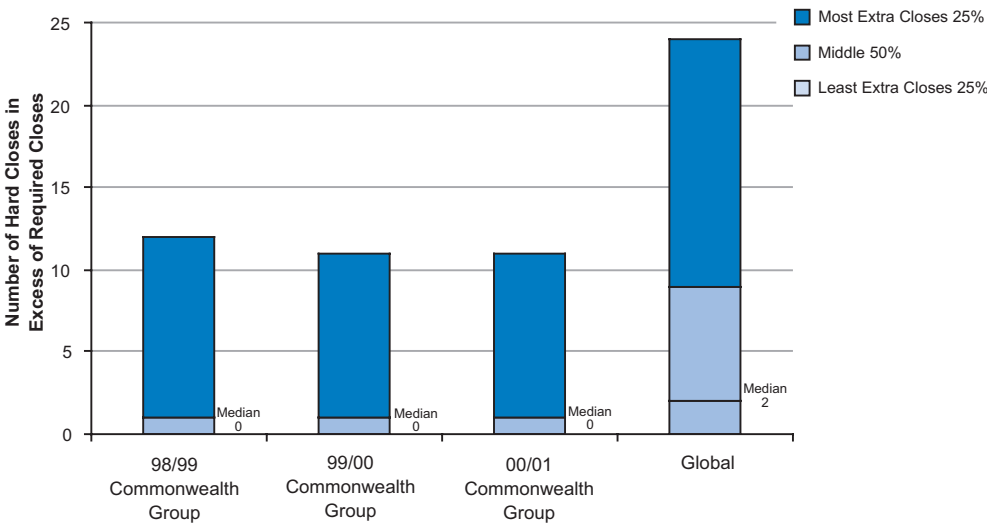
6.16 From the ANAO’s analysis of the benchmarking results, there is no apparent correlation between the cost of the close the books and financial reporting activity and the error rates achieved within the participating Commonwealth Group organisations.

Better Practice Benchmark

6.17 The better practice measure used for the close the books and financial reporting activity was the number of hard closes that an organisation conducts in excess of requirements. In this study, it is assumed that only one hard close (typically done at the end of each financial year) is required in the participating Commonwealth Group organisations. The results for this benchmark are illustrated in Figure 6.3.

6.18 All but one of the Commonwealth Group organisations provided data for this benchmark for the first year of the study. All organisations provided data for the subsequent two years.

Figure 6.3
Close the Books and Financial Reporting Activity Better Practice Benchmark—Number of Hard Closes in Excess of Required Closes



Formula used: Number of hard closes in excess of requirements

6.19 As indicated above the median for the Commonwealth Group remained constant at zero for the three years of the study while the median for the Global Group for all three years was two (refer Appendix 3 Table 5.3 for details).

6.20 In 1998–1999, nine of the 13 participating Commonwealth Group organisations had hard close benchmark results which placed them in the least extra closes quartile of the Global Group. This decreased to eight in both 1999–2000 and 2000–2001. In the last two years of the study, two Commonwealth Group organisations reported that they had 11 hard closes in excess of requirements, as they had one hard close a month.

Discussion of Qualitative Results

6.21 In relation to the close the books and financial reporting activity, the organisations in the Commonwealth Group performed well against the qualitative indicators of Global Best Practices^{®31} with several current practices achieving identified better practice. There was improvement over the three years, particularly in relation to taking steps to simplify the close the books and financial reporting process and the adoption of integrated systems (refer to Appendix 4 Table 4 for further detail).

6.22 The Commonwealth Group organisations performed well in relation to:

- the design of the close the books and financial reporting process;
- simplifying the close the books and financial reporting process;
- the provision of management reports centred on key performance indicators; and
- the adoption of integrated systems that extend across business units.

6.23 Opportunities exist for the Commonwealth Group organisations to improve their performance in relation to:

- removing steps in the close the books process which relate to separate financial processes, like updating budgets or calculating taxes, and shifting many reconciliation and analysis activities traditionally done as part of the close process to other work periods;
- reducing the number of manual entries put into the general ledger including those that recur on a regular basis; and
- reviewing duplicate data entry where data is entered on-line into the central accounting system as well as off-line into spreadsheets for further analysis.

³¹ Andersen Global Best Practices[®] KnowledgeBase.

6.24 To assist both the organisations in the Commonwealth Group, and the wider public sector improve the performance of the close the books and financial reporting activity, practical strategies and procedures have been described in the Better Practice Observations section at the end of this chapter.

Conclusion

6.25 The close the books and financial reporting activity for organisations in the Commonwealth Group occurs less frequently and at a lower cost than for the organisations in the Global Group, although the qualitative results indicate that potential for enhanced cost-efficiency still exists. Errors appear to be frequent in the Commonwealth Group organisations which may also be making the process unnecessarily expensive.

Better Practice Observations³²

6.26 The following paragraphs outline some of the better practices that have been adopted by organisations to deliver overall improvement in the efficiency and effectiveness of the close the books and financial reporting activity. Better practices include:

- redesigning the close the books process. Mapping the process is the key step in redesigning the close process. This means documenting who does what and when during the accounting period and during the close. Through mapping, the finance group ends up with a clear picture of the close the books process, making it easier to see how to integrate all aspects of the process, how to eliminate unnecessary steps, and how to make the process error-proof;
- seeking incremental improvement continuously. This is the opposite approach to redesigning the close the books process from scratch. However, it can be used when the overall structure of the close the books process is sound so required changes are more incremental in nature. Efforts to continually improve could include automating manual recurring entries into the general ledger and finding and eliminating duplicate data entry. Better practice organisations create error reports after each close the books to allow errors to be investigated and eliminated;
- shifting tasks away from period end to simplify closing the books. Tasks that are performed as part of the close cycle, such as reconciling accounts and journalising accruals, could be done at other times in the accounting period to reduce the likelihood of error occurring during the close cycle;

³² Australian National Audit Office *Building Better Financial Management* Support Guide, November 1999 and Andersen Global Best Practices® KnowledgeBase.

- adopting integrated systems that extend across business units. This allows organisations to interpret financial information consistently and reliably, regardless of its origin. Better practice organisations have both a common financial language and centralised or shared accounting serves across business units; and
- providing management reports centred on key performance indicators for management review and analysis. These organisations also provide line managers with the financial information needed for decision support. A well-honed set of standardised reports can also be designed to not only meet the needs of managers but save time on the close the books process as well.

6.27 The adoption of better practice is supported by the findings of Audit Report No.28 of 2000–2001³³ which surveyed the role of the Chief Financial Officer (CFO) in Commonwealth Organisations. The Report indicated financial reporting could be improved if CFOs have an opportunity to:

- assist their organisations in achieving a stronger focus on performance by incorporating aspects of management reporting on outputs and outcomes as part of the monthly financial reporting process. This would assist management in obtaining a better understanding of the costs of outputs and outcomes and their ongoing financial performance; and
- enhance the level of support offered to management, by demonstrating the use of, and opportunities for, more timely financial and other performance information for effective monitoring, review and decision-making.

³³ Australian National Audit Office, *An Analysis of the Chief Financial Officer Function in Commonwealth Organisations* Benchmarking Study, op. cit., pp.12–13.

7. Accounts Receivable Activity Benchmarks

Introduction

7.1 Accounts receivable is an accounting term used to describe amounts owed for goods or services provided on credit. As soon as credit is provided, an accounts receivable or debt, is incurred. The debt becomes overdue if not paid within the agreed terms of trade. The quality of the design of the accounts receivable process and how well an organisation executes the process has an impact on customer relationships and sound cash management. Effective management of the accounts receivable activity ensures that an organisation's cashflow is maximised and its accountability responsibilities to recover all debts are met.³⁴

7.2 The three basic processes in the accounts receivable activity are:

- remittance processing—including payment methods and automated processing;
- credit management—including communication of credit policies, credit checks and approvals and credit maintenance; and
- collections—including methods to monitor and motivate internal and external collections agents, collections techniques and technology.³⁵

7.3 In addition, the accounts receivable process can involve dealing with customer complaints and identifying future cash inflows.

7.4 Accounts receivable makes up a significant proportion of the Commonwealth's financial assets at any point in time. Accounts receivable represent highly liquid assets that have a direct impact on the Government's cashflow and financial position. At 30 June 2001, total accounts receivable amounted to \$36 billion of taxes, advances and loans and other receivables owed to the Commonwealth.³⁶

7.5 In 1998–1999, the accounts receivable activity within the Commonwealth Group at the median accounted for 3.51 per cent of the total finance function budget. This increased to 4.52 per cent in 1999–2000 and was 4.50 per cent in 2000–2001.

³⁴ Australian National Audit Office, Audit Report No.25 of 2001–2002, *Accounts Receivable*, December 2001, pp. 21 and 23.

³⁵ Andersen Global Best Practices® KnowledgeBase.

³⁶ Australian National Audit Office, *Accounts Receivable*, op. cit., p. 11.

7.6 Table 7.1 shows the range and median number of FTE employees allocated to the accounts receivable activity as a percentage of the total finance function employees within the participating organisations in the Commonwealth Group.

Table 7.1

Percentage of Finance Function Employees (FTE) Allocated to Accounts Receivable

Year	FTE range	Median
1998–1999	1.08–10.71	4.39
1999–2000	2.39–26.32	5.49
2000–2001	2.25–11.06	4.75

7.7 The ANAO notes, that while two of the Commonwealth Group organisations did not provide data for the billing activity, only one did not provide data for the accounts receivable activity.

7.8 The ANAO further notes that most of the Commonwealth Group organisations which participated in the study had a relatively small accounts receivable activity. This may have influenced the results for the Group. There are a number of Commonwealth organisations that were not benchmarked as part of this study that have a substantial accounts receivable activity. The Global Group benchmarks may be a more relevant comparator for these latter organisations.

7.9 Table 7.2 shows the cost, efficiency, quality and better practice benchmarks selected by the ANAO for the accounts receivable activity.

Table 7.2**Accounts Receivable Activity Benchmarks**

Dimension	Formula
Cost—Overall	Total accounts receivable activity cost/Total organisational expenditure
Cost—Per Activity	Total credit and collections cost / Total number of remittances requiring credit activity
Cost—Per Activity	Total accounts receivable activity cost/Total number of remittances processed annually
Efficiency	Total number of remittances/Total accounts receivable FTEs
Quality—Error Rate	Total remittance errors/Total number of remittances
Quality—Match Rate	Total remittances matched first time/Total number of remittances
Better Practice	Elapsed days between customer invoicing and receipt of payment.

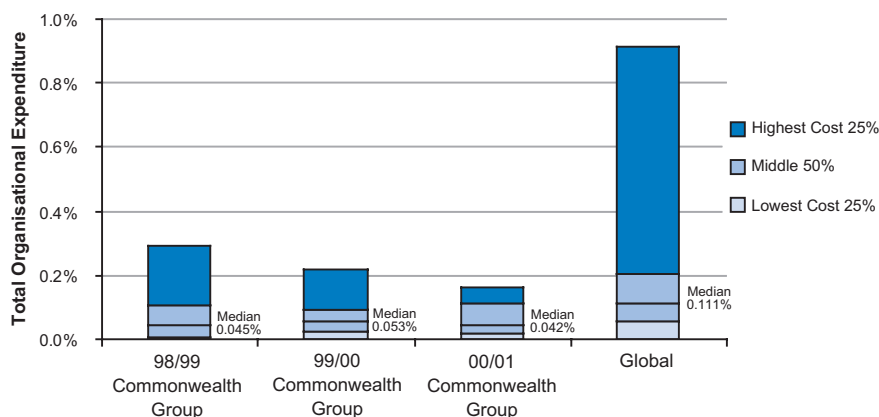
Cost Dimension Benchmarks

7.10 This Report provides three benchmarks which are indicators of cost for the accounts receivable activity. The first reports total accounts receivable cost as a percentage of total organisational expenditure. The second captures the cost of processing a remittance requiring credit and collections activity. The third benchmark shows the cost of processing per remittance.

7.11 For all three years of the study, 13 of the 14 participating Commonwealth Group organisations provided data for the first cost benchmark (overall cost).

Figure 7.1

Accounts Receivable Activity Cost Benchmark—Overall Cost



Formula used: Total accounts receivable activity cost / Total organisational expenditure

7.12 As shown above, the benchmarked Commonwealth Group organisations allocate significantly less of their total organisational expenditure to the accounts receivable activity in comparison to the organisations in the Global Group. The Commonwealth Group median in the last year of the study is less than half that of the Global Group. The median level of expenditure in the Commonwealth Group decreased from 0.045 per cent in 1998–1999 to 0.042 per cent in 2000–2001, although there was a rise in expenditure in 1999–2000 to 0.053 per cent.

7.13 The Commonwealth Group allocated between 0.0003 and 0.293 per cent in 1998–1999, 0.001 to 0.218 per cent in 1999–2000 and 0.001 to 0.162 per cent in 2000–2001. In comparison, the Global Group allocated between 0.002 and 0.840 per cent of total organisational expenditure in 1998–1999 and between 0.001 and 0.913 per cent in 1999–2000 and 2000–2001. Refer Appendix 3 Table 6.1 for details.

7.14 In 1998–1999, nine Commonwealth Group organisations had a result in the lowest cost quartile of the Global Group but, in the last two years, of the study this reduced to seven.

7.15 The ANAO notes that the Commonwealth public sector environment has undergone significant changes in recent years which have markedly impacted on the accounts receivable function. These changes have included:

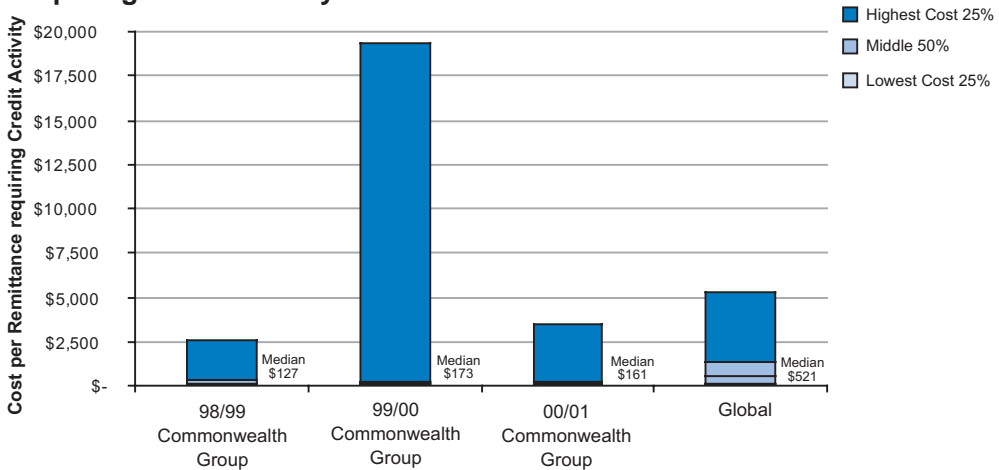
- new technology which has increased opportunities for automation of processes and procedures;
- the introduction of cost recovery to a number of Commonwealth organisations which has resulted in the need to develop invoicing processes and the associated management of accounts receivable;

- new agency funding arrangements which require organisations to place more emphasis on the management of cashflows;
- the introduction of the Goods and Services Tax (GST) legislation in 2000 which has increased the need for agencies to have efficient accounts receivable processes, especially in a climate where agencies can invest surplus cash balances;
- the implementation of accrual budgeting and reporting which requires agencies to identify and record current and future accounts receivable activity; and
- the introduction of the *Government Online* strategy which requires organisations to assess new electronic means for receiving monies and communicating with their debtors.³⁷

7.16 In relation to the second cost benchmark (cost of credit and collections as a percentage of total remittances requiring credit activity), only seven Commonwealth Group organisations were able to provide data for this benchmark in 1998–1999. Eight provided data in 1999–2000 and 2000–2001.

Figure 7.2

Accounts Receivable Activity Cost Benchmark—Cost per Remittance Requiring Credit Activity



Formula used: Total credit and collections cost / Total number of remittances requiring credit activity

7.17 The median cost per credit and collections activity for organisations in the Commonwealth Group across the three years is around 30 per cent of that of organisations in the Global Group.

³⁷ Australian National Audit Office, *Accounts Receivable*, op. cit., p. 22.

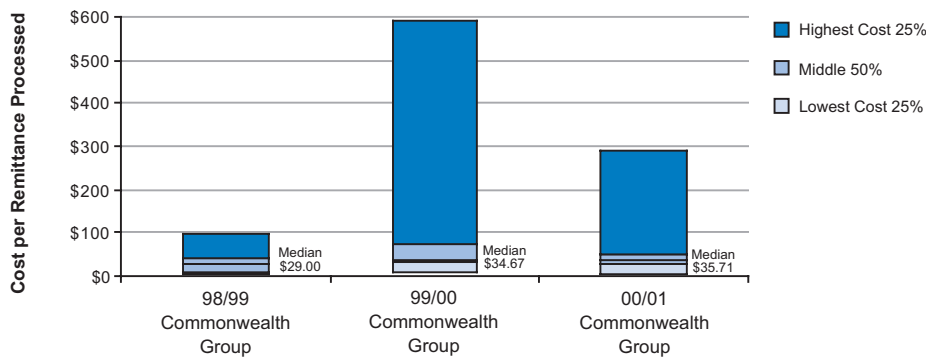
7.18 In all three years of the study, there was one result which was substantially higher than the rest. In 1998–1999, the highest result was \$2576. If this figure is removed, the range of results is from \$19 to \$599. In 1999–2000 the highest result was \$19 237 which again, if removed, reduces the range to between \$18 and \$260. Finally, for the final year of the study, the highest result was \$3536, which, if removed, changes the range to \$27 to \$332.

7.19 Of the seven Commonwealth Group organisations that provided data for this benchmark in 1998–1999, five have accounts receivable cost per activity benchmarks that place them in the Global Group lowest cost quartile. In 1999–2000 and 2000–2001, where eight Commonwealth Group organisations provided data for this benchmark, only four had a result in the lowest cost quartile of the Global Group.

7.20 The sizeable difference in results may be a further reflection of the varied degree to which Commonwealth Group organisations perform the credit and collections activity. Many of the study participants had difficulty splitting the accounts receivable activity between credit and collections and remittance processing, as required by the Andersen Global Best Practices® KnowledgeBase.

7.21 The final cost benchmark used in this Report illustrates the cost per remittance processed. The Andersen Global Best Practices® KnowledgeBase does not provide a benchmark for cost per remittance, consequently, a result for the Global Group is unavailable for this benchmark. Thirteen organisations provided data for this benchmark in 1998–1999 and 12 provided data in 1999–2000 and 2000–2001.

Figure 7.3
Accounts Receivable Activity Cost Benchmark—Cost per Remittance Processed



Formula used: Total accounts receivable activity cost / Total number of remittances processed annually

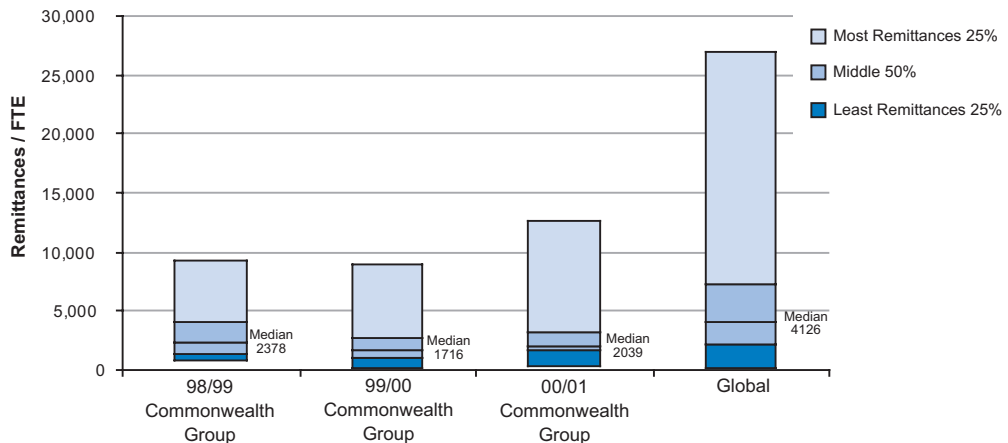
7.22 Although the cost per remittance for the Commonwealth Group increased over the three years, the median result of \$35.71 in 2000-2001 was still substantially lower than the median result for cost per remittance requiring credit and collections activity of \$161, as shown in Figure 7.2.

Efficiency Dimension Benchmark

7.23 This Report provides a benchmark based on the number of remittances processed per FTE, to provide an insight into employee output and productivity (efficiency). In each year of the study, 12 Commonwealth Group organisations had a response to this benchmark (although it was not the same 12 throughout the period). The results for this benchmark are illustrated in Figure 7.4.

Figure 7.4

Accounts Receivable Activity Efficiency Benchmark—Remittances/FTE



Formula used: Total annual number of remittances / Total accounts receivable FTEs

7.24 The median number of remittances processed per FTE decreased over the three years of the study. In 1998–1999 it was 2378 remittances per FTE, then dropped to 1716 remittances per FTE in 1999–2000, before increasing slightly to 2039 remittances per FTE in 2000–2001.

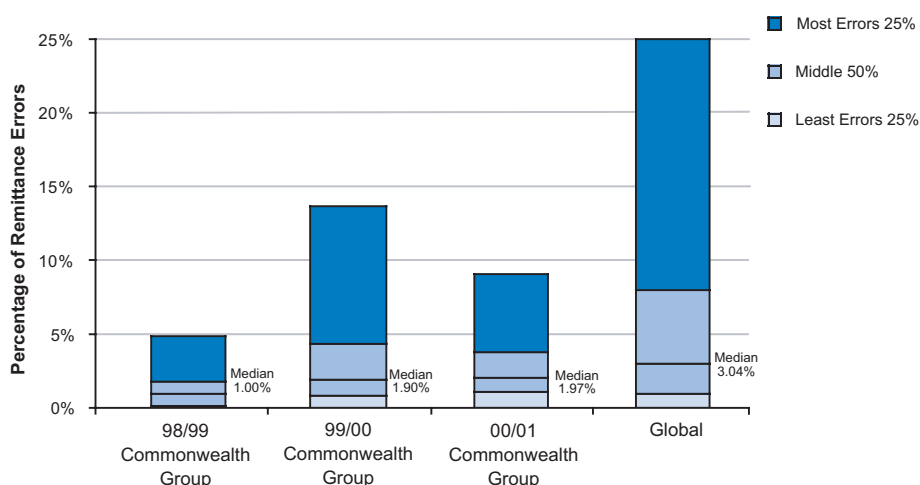
7.25 In 1999–2000 and 2000-2001, seven organisations were in the least remittances (lowest efficiency) quartile of the Global Group, an increase from five in 1998–1999. Additionally, five of the organisations decreased in efficiency over the three years of the study. The ANAO notes that, while organisations in the Commonwealth Group reported relatively low cost per transaction benchmarks, they also reported relatively low efficiency per FTE compared with the Global Group. This is possibly the result of the size and nature of the accounts receivable activity in the benchmarked organisations.

Quality Dimension Benchmarks

7.26 The Report provides two benchmarks as indicators of quality in the accounts receivable activity. The first assesses the error rate through the total number of remittance errors as a percentage of total remittances. The second measures the total number of remittances matched first time as a percentage of total remittances. The results of the first quality benchmark (error rate) are illustrated in Figure 7.5. In the first year of the study, 13 of the Commonwealth Group organisations provided data for this benchmark and, in the second and third years, the number of organisations responding reduced to 12.

Figure 7.5

Accounts Receivable Activity Quality Benchmark—Error Rate



Formula used: Total remittance errors / Total number of remittances

7.27 The median Commonwealth Group error rate almost doubled over the study period. However, by year three of the study, it was still only two thirds that of the Global Group median.

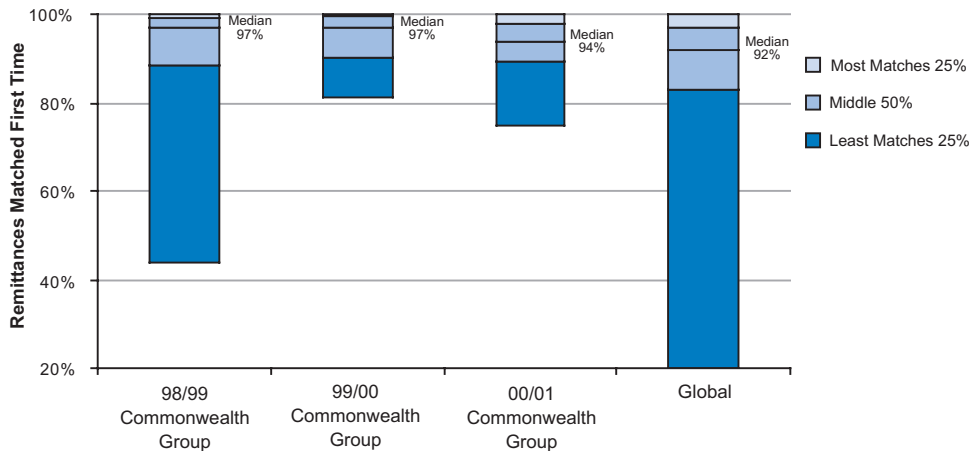
7.28 Seven of the responding Commonwealth Group reported quality benchmarks that placed them within the least errors quartile of the Global Group in 1998–1999. However, this dropped to five in 1999–2000 and three in 2000–2001. None of the responding benchmarked Commonwealth Group organisations had a benchmark that placed it within the most errors quartile of the Global Group in 1998–1999. This increased to two organisations in 1999–2000 and then dropped to one in 2000–2001.

7.29 The second accounts receivable quality benchmark measures the percentage of remittances matched first time, reflecting the accuracy of extracting information from and posting remittances. Problems that may prevent a first

time match include discrepancies in the amount paid and difficulty in matching invoices to the payment. In the first and third year of the study, 12 of the Commonwealth Group organisations provided a response for this benchmark and, in the second year of the study, 11 responded. Figure 7.6 shows the results of the first time match benchmark measure.

Figure 7.6

Accounts Receivable Activity Quality Benchmark—Match Rate



Formula used: Total remittances matched first time / Total number of remittances

7.30 The Commonwealth Group results compare favourably with the Global Group on this benchmarking measure. Although six of the participating organisations increased their first time match rate over the three years, the median level of first time matches fell over the study period. The median for the Commonwealth Group fell from 97 per cent in the first two years of the study to 94 per cent in the final year compared to a Global Group median of 93 per cent in the first year of the study and 92 per cent for the following two years. Refer to Appendix 3 Table 6.6 for details of the Global Group results. Furthermore, the number of Commonwealth Group organisations with results that placed them in the most matches quartile of the Global Group decreased from six in 1998–1999 to five in 1999–2000 and three in 2000–2001.

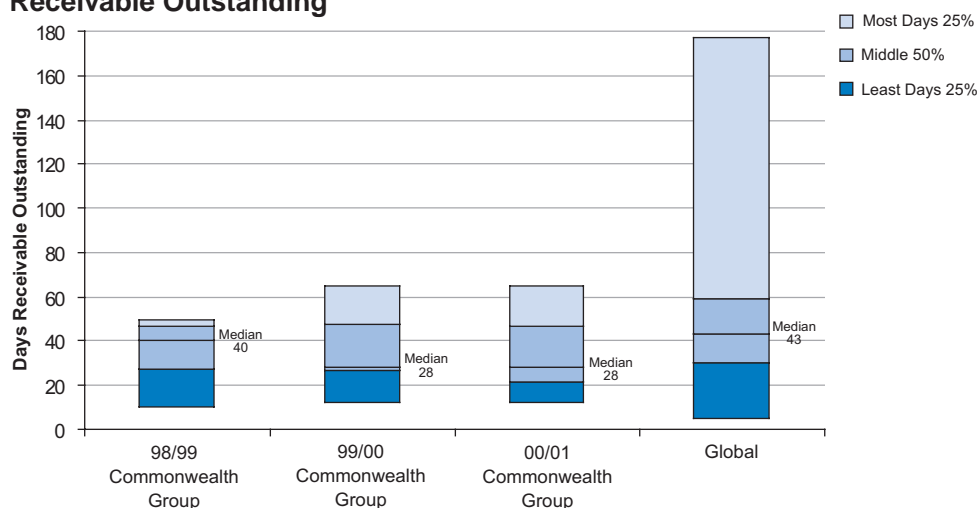
Better Practice Benchmark

7.31 The accounts receivable better practice benchmark assesses the number of days that receivables are outstanding, indicating the average length of time it takes to collect a bill. This is measured through the number of elapsed days between customer invoicing and receipt of payment. A low number of days outstanding indicates effective billing and collecting practices, highly satisfied customers, or both.

7.32 Nine of the participating Commonwealth Group organisations provided a response to this benchmark in 1998–1999. This increased to 11 organisations in both 1999–2000 and 2000–2001. The benchmarking results are shown in Figure 7.7, with the Commonwealth Group reporting a median days receivable dropping from 40 days in the first year to 28 days for the subsequent two years. As shown in Appendix 3 Table 6.7, the Global Group median of 43 days remained the same for the three years of the survey.

Figure 7.7

Accounts Receivable Activity Better Practice Benchmark—Days Receivable Outstanding



Formula used: Elapsed days between customer invoicing and receipt of payment

7.33 As observed across all three years of the study, the Commonwealth Group participants generally reported lower number of receivable days outstanding than the Global Group with the median, in 1999–2000 and 2000–2001, at 65 per cent of the Global Group.

7.34 Of the 11 Commonwealth Group organisations which reported against this benchmark in 1999–2000 and 2000–2001, six reported days receivables results, which placed them alongside the Global Group’s highest performing (least days outstanding) quartile. This is an improvement on 1998–1999 where only four of the nine participating Commonwealth Group organisations were placed in the highest performing quartile of the Global Group.

7.35 The current benchmarking result for the Commonwealth Group continues a trend of continuous improvement. The ANAO’s Audit Report No.29 of 1997–1998, *Management of Accounts Receivable*³⁸ reported that the average time to

³⁸ Australian National Audit Office, Audit Report No.29 of 1997–1998, *Management of Accounts Receivable*, December 1997, p. 9.

collect receivables in the whole general government sector in 1995–1996 was calculated to be 57 days. The audit also found that the average time to collect receivables amongst 10 Commonwealth organisations in 1997 was 39 days.

Discussion of Qualitative Results

7.36 In relation to the accounts receivable activity, the organisations in the Commonwealth Group performed consistently well in all three years against the qualitative indicators of Global Best Practices^{®39} with several current practices achieving identified better practice. Refer Appendix 4 Table 5 for further details.

7.37 The organisations in the Commonwealth Group performed particularly well in relation to:

- establishing and documenting credit terms with customers up front;
- automating the remittance processing function;
- timeliness of processing; and
- reconciling mismatched payments.

7.38 The areas where the organisations in the Commonwealth Group had lower performing results often related to practices that are not usually employed by the public sector such as:

- offering discounts for early payment;
- conducting credit applications; and
- outsourcing the collection of delinquent accounts.

7.39 To assist both the organisations in the Commonwealth Group and the wider public sector improve the performance of the accounts receivable activity, practical strategies and procedures have been described in the Better Practice Observations section at the end of this chapter.

Conclusion

7.40 Overall, the Commonwealth Group organisations performed better (at the median) in the accounts receivable activity than those of the Global Group. The benchmarking results show that at the median, when compared to the Global Group, the Commonwealth Group organisations have a lower overall cost and lower cost per activity. The organisations in the Commonwealth Group also performed better in relation to quality in terms of error rate and percentage of first time matches and had a better (lower) number of days outstanding for the

³⁹ Andersen Global Best Practices[®] KnowledgeBase.

accounts receivable activity. The only benchmark indicator where the Commonwealth Group organisations achieved a poorer result than those of the Global Group was in relation to efficiency. The ANAO notes, however, that the performance of the Commonwealth Group may be a result of the size and nature of accounts receivable activity in the participating benchmark organisations.

Better Practice Observations

7.41 Since 1997, the ANAO has produced two reports⁴⁰ relating to accounts receivable management. The audits have found that improvements could have been made in the management and administration of the accounts receivable function in the general government sector.

7.42 In addition, the ANAO published a Better Practice Guide⁴¹ on accounts receivable and noted effective management of accounts receivable presents important opportunities for Commonwealth organisations to achieve strategic advantage through improvements in customer service, cash management and reduction in costs.

7.43 Best practice organisations use the following strategies to effectively manage their accounts receivable⁴²:

- eliminate barriers to payment and use the credit and collections process to enhance customer satisfaction. This includes communicating a clear credit policy and documenting credit terms at the beginning of each business relationship, tracking customer payment preferences and responding quickly and accurately to customer inquiries and identifying and eliminating sources of dissatisfaction. In addition better practice organisations solicit feedback from customers and use that information to improve the credit and collection process;
- automate the remittance processing function. Accounts receivable processing efficiency and effectiveness can be enhanced by utilisation of electronic commerce to transact business by exchanging information between computer systems. Automated remittance processing accelerates the processing time between the approval of an invoice and payment by the customer. Minimal intervention is required by employees when the process is automated, allowing resources to be directed to the collection of payments from customers;

⁴⁰ Australian National Audit Office, Audit Report No.29 of 1997–1998, *Management of Accounts Receivable*, December 1997 and Australian National Audit Office, Audit Report No.25 of 2001–2002, *Accounts Receivable*, December 2001.

⁴¹ Australian National Audit Office, Better Practice Guide, *Management of Accounts Receivable*, December 1997.

⁴² Andersen Global Best Practices® KnowledgeBase.

- assign and update customer credit ratings. Better practice organisations use a systematic approach to credit approval and account monitoring to assist in anticipating and preparing contingencies;
- identify and act on distressed and delinquent accounts. Better practice organisation's maintain thorough customer credit records and flag all anomalies and act immediately to stem both current and potential losses caused by defaults, when warning of possible problems are identified;
- develop, motivate and monitor collections specialists. This involves establishing a high level of professionalism among collections employees, establishing realistic performance goals for them, and monitoring and rewarding them accordingly; and
- create a robust electronic bill presentment and payment (EBPP) system, leveraging web-based technology and linking the accounts receivable and accounts payable systems between trading partners are ways of using technology to increase accounts receivable processing efficiency.

8. Payroll Activity Benchmarks

Introduction

8.1 The payroll activity includes all processes required to pay salaries and wages in accordance with organisation policies and government regulations. A primary business objective of payroll is to be an efficient and effective processor of employee wages, benefits and reimbursable expenses.⁴³

8.2 Payroll processes include:

- monitoring employee time and attendance;
- calculating gross and net pay;
- distributing net pay;
- disbursing withholdings or deductions from gross pay;
- maintaining and updating all payroll-related data;
- processing payroll accounting entries; and
- resolving payroll inquiries.

8.3 The ANAO released an audit report on payroll management in November 2001.⁴⁴ The report identified several reforms and changes in recent years to which payroll managers in public service organisations have had to respond. Some of these reforms and changes include:

- the introduction of the *Public Service Act 1999*;
- the introduction of Certified Agreements and an increasing number of Australian Workplace Agreements;
- agencies having to implement their own payroll systems as the Department of Finance and Administration (Finance) no longer processes payroll payments on behalf of other agencies;⁴⁵
- the technological developments in human resource management information systems; and
- the implementation of accrual accounting for public sector organisations and the transfer of leave liabilities between organisations at the time employees' move.

⁴³ Andersen Global Best Practices® KnowledgeBase.

⁴⁴ Australian National Audit Office, Audit Report No.19 of 2000–2001, *Payroll Management*, November 2001.

⁴⁵ Agencies are defined in the *Financial Management and Accountability Act 1997* as Departments of State, Parliamentary Departments and prescribed agencies.

8.4 Across all three years of the study, the payroll activity was the most significant of the finance function activities in the Commonwealth Group, accounting for, at the median, 18.23 per cent of the total finance function operating cost in 1998–1999, 20.58 per cent in 1999–2000 and 22.21 per cent in 2000–2001. Some Commonwealth Group benchmarking study participants allocated up to approximately 40 per cent of their total finance function operating costs on the payroll activity.

8.5 Table 8.1 shows the range and median number of FTE employees allocated to the payroll activity as a percentage of the total finance function employees within the participating organisations in the Commonwealth Group.

Table 8.1

Percentage of Finance Function Employees (FTE) Allocated to Payroll

Year	FTE range	Median
1998–1999	1.85–57.80	20.09
1999–2000	3.00–50.13	22.73
2000–2001	1.37–41.85	21.33

8.6 The payroll activity benchmarks selected by the ANAO address dimensions of cost, efficiency, quality and better practice as set out in Table 8.2.

Table 8.2

Payroll Activity Benchmarks

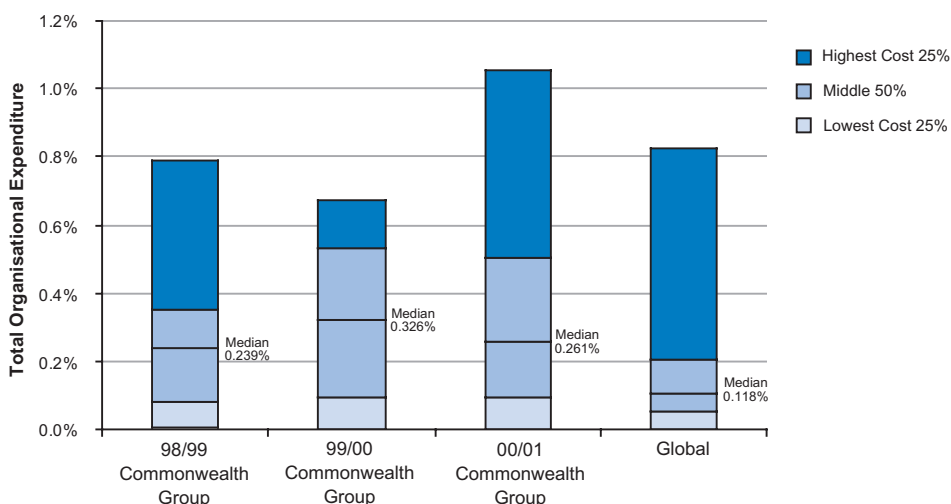
Dimension	Formula
Cost—Overall	Total payroll activity cost/Total organisational expenditure
Cost—Per Activity	Total payroll activity cost/Annual number of pays
Efficiency	Total number of pays annually/Payroll activity FTEs
Quality—Error Rate	Total number of pays with errors/Total number of pays annually
Better Practice	Payroll/Human Resources System Integration/Interface
	Total employees paid by direct debit/Total employees

Cost Dimension Benchmarks

8.7 This Report provides two measures of cost for the payroll activity. The first captures the total cost of payroll and expresses it as a percentage of total organisational expenditure, and the second assesses the payroll cost per pay processed. All 14 Commonwealth Group organisations provided data for both benchmarks in 1998–1999 but only 13 did in the subsequent two years. The results of the first cost benchmark are provided in Figure 8.1.

Figure 8.1

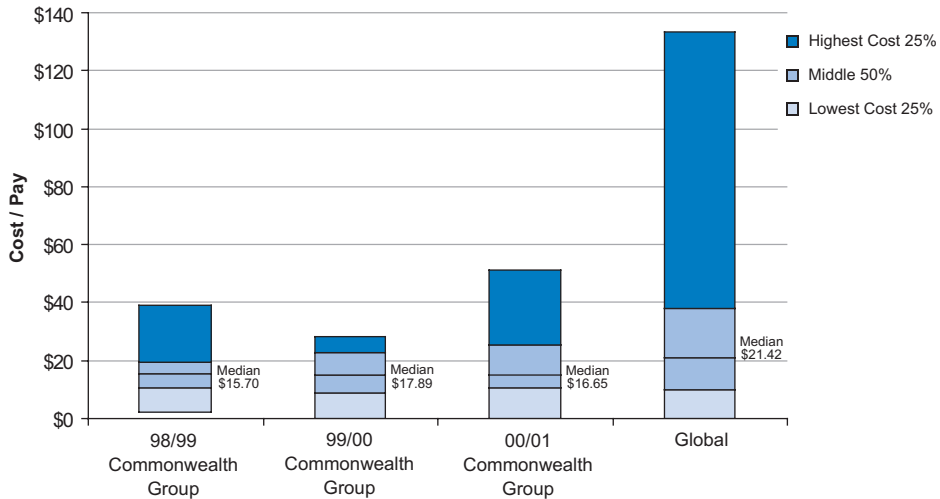
Payroll Activity Cost Benchmark—Overall Cost



Formula used: Total payroll activity cost / Total organisational expenditure

8.8 The Commonwealth Group results for this benchmark compared against the Global Group are somewhat mixed. Across all three years of the study the median of the Commonwealth Group is more than double that of the Global Group. In all three years over half of the organisations in the Commonwealth Group that provided data for this benchmark are in the highest cost quartile of the Global Group. However, there are some good results with three of the benchmarked Commonwealth organisations, in all three years of the study, having payroll costs that fall within the lowest cost quartile of the Global Group.

8.9 The second payroll cost benchmark—shown in Figure 8.2—assesses the payroll cost per pay processed. The cost per pay benchmark shows a different result to the cost overall benchmark because in all three years of the study, the Commonwealth Group had, at the median, a lower cost per pay than the Global Group. Refer Appendix 3 Table 7.2 for further details of the Global Group median.

Figure 8.2**Payroll Activity Cost Benchmark—Cost/Pay**

Formula used: Total payroll activity cost / Annual number of pays

8.10 The ANAO notes that for both the cost overall and cost per pay benchmarks the median cost for the Commonwealth Group rose in 1999–2000 before dropping again in 2000–2001. The reasons for this occurring are unclear.

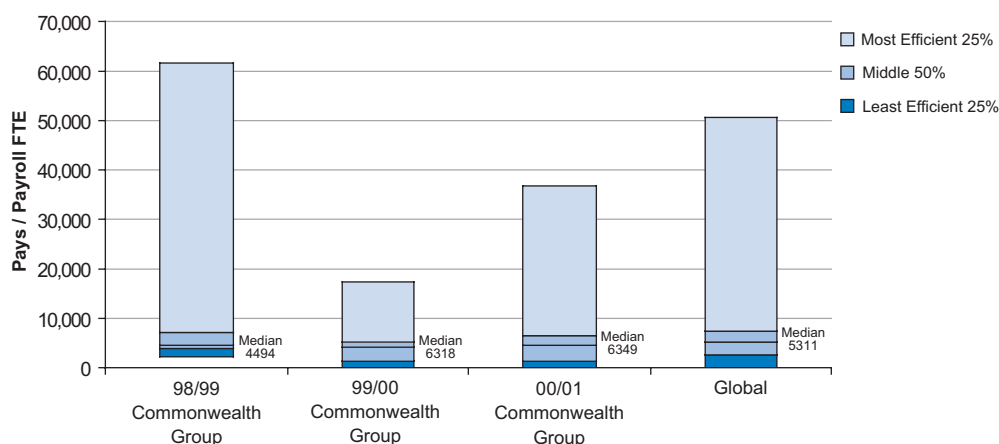
8.11 In the first year of the study, two of the benchmarked Commonwealth Group organisations had a cost per pay that falls within the lowest cost quartile of the Global Group. This drops to one organisation in 1999–2000 and then rises again to two organisations in 2000–2001. In each of these years, one Commonwealth Group organisation has been either the joint or sole better performer. This organisation is among the largest of the participating Commonwealth Group, possibly indicating the benefits of economies of scale.

Efficiency Dimension Benchmark

8.12 The efficiency measure of the number of pays processed per FTE, as illustrated in Figure 8.3, provides an insight into employee output and productivity. In 1998–1999 all 14 Commonwealth Group organisations provided data but only 13 did in the subsequent two years.

Figure 8.3

Payroll Activity Efficiency Benchmark—Pays/FTE



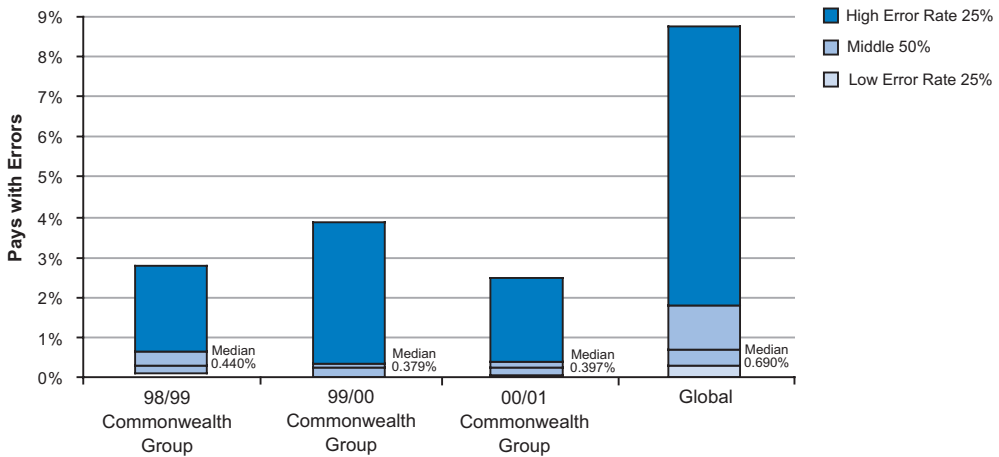
Formula used: Total number of pays annually / Payroll activity FTEs

8.13 The benchmark results indicate that the Commonwealth Group participants improved their efficiency (at the median) over the three years of the study. In that period, two benchmarked Commonwealth Group organisations had results that fell within the most efficient quartile of the Global Group although the result for the organisation with the highest efficiency rate varied considerably over the three years.

Quality Dimension Benchmark

8.14 The benchmark used to indicate quality for the payroll activity is error rate based on the total number of payroll errors as a percentage of total pays per annum. Payroll processing errors are those rejected by the payroll system. System validation tests may check, for example, for validity of employee numbers, account distribution coding and the reasonableness of pay amounts. Therefore, this measure is an indication of the quality of information input to the payroll system.⁴⁶ In 1998–1999, 13 Commonwealth Group organisations provided data for this benchmark. This number dropped to 11 in 1999–2000 and ten in 2000–2001.

⁴⁶ Andersen Global Best Practices® KnowledgeBase.

Figure 8.4**Payroll Activity Quality Benchmark—Error Rate**

Formula used: Total number pays with errors / Total number of pays annually

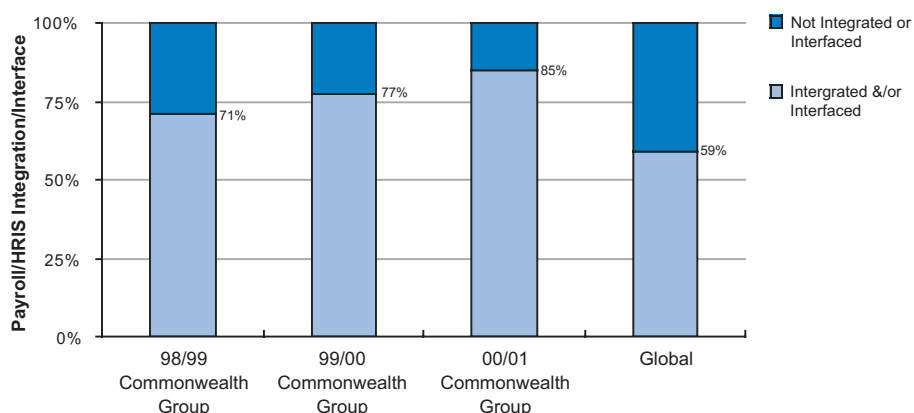
8.15 The results for the Commonwealth Group are favourable with the median error rate being, on average across the three years, 40 per cent lower than that of the Global Group. However, the number of Commonwealth Group organisations that were in the lowest error rate quartile of the Global Group dropped over the three years of the study. In 1998–1999 there were six; in 1999–2000 there were five; and in 2000–2001 there were four organisations in the Global Group lowest error rate quartile. The Commonwealth Group had two organisations in the highest cost quartile of the Global Group in all three years.

Better Practice Benchmarks

8.16 The ANAO obtained benchmark data relating to the level of integration and/or interfacing of payroll and human resource information systems (HRIS) and the utilisation of direct deposit for pays as indicators of the adoption of better practice. In 1998–1999, all 14 Commonwealth Group organisations provided data for both these benchmarks but only 13 did in the subsequent two years of the study. The benchmarking result relating to the level of integration and/or interfacing of payroll and HRIS is shown in Figure 8.5.

Figure 8.5

Payroll Activity Better Practice Benchmark—Payroll/HRIS Integration/Interface



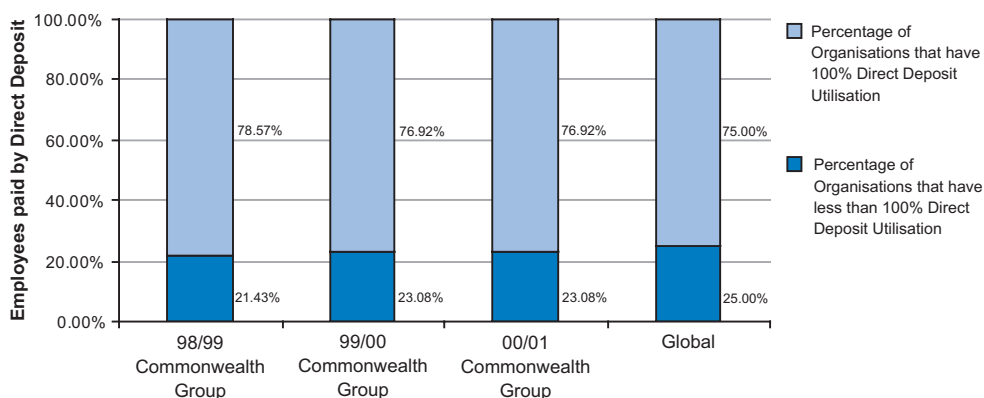
Formula used: Payroll/HRIS integration/interface

8.17 The number of Commonwealth Group organisations with an integrated/interfacing payroll and HRIS increased over the three years from 71 per cent in 1998–1999 to 85 per cent in 2000–2001. This result is well above the achievement of the Global Group (Refer Appendix 3 Table 7.5 for further details of the results of the Global Group).

8.18 The second better practice measure—shown in Figure 8.6—assesses the level of utilisation of direct deposit for the payment of personnel. Direct deposit is considered better practice because much of the non-labour cost of paying employees is related to the actual production of a cheque.

Figure 8.6

Payroll Activity Better Practice Benchmark—Personnel Payment Using Direct Deposit



Formula used: Total employees paid by direct deposit / Total employees

8.19 In the first year of the study, 11 of the 14 respondents paid 100 per cent of their employees by direct deposit. In the second and third years of the study, 10 of the 13 respondents paid 100 per cent of their employees by direct deposit. Whilst all Commonwealth Group organisations utilise direct deposit to pay their employees, circumstances in some organisations impact upon the use of this form of payment. This can include, for example, organisations with employees in remote locations or those that have large numbers of casual workers.

8.20 This highlights the need for organisations to ensure that, when considering implementing new practices, the circumstances of the business are carefully evaluated to ensure the practice is appropriate and will deliver the benefits and efficiencies which are sought through the implementation.

Discussion of Qualitative Results

8.21 In relation to the payroll activity, the organisations in the Commonwealth Group performed well and exhibited an overall trend of improvement against the qualitative indicators of Global Best Practices^{®47} with several current practices achieving identified better practice. Refer Appendix 4 Table 6 for further details.

8.22 The Commonwealth Group organisations performed well in the areas of:

- setting objectives for the payroll activity;
- integration of payroll, benefits and human resources data into a centralised information system; and
- utilisation of direct deposit.

8.23 Opportunities exist for the Commonwealth Group organisations to improve their performance in relation to:

- utilising electronic time-and-attendance reporting which is linked to payroll or the HRIS; and
- using a HRIS that is easy for employees to use and access (and even update) personal payroll information (e.g. provide electronic payslips).

8.24 To assist both the organisations in the Commonwealth Group, and in the wider public sector, improve the performance of the payroll activity, practical strategies and procedures have been described in the Better Practice Observations section at the end of this chapter.

⁴⁷ Andersen Global Best Practices[®] KnowledgeBase.

Conclusion

8.25 In relation to the payroll activity, the organisations in the Commonwealth Group performed better (at the median) than those of the Global Group against all benchmarks, except overall cost. From a better practice perspective, the benchmarked Commonwealth Group organisations reported high utilisation of both integrated / interfaced payroll / human resources systems and payroll direct deposit. The ANAO considers that this may have contributed to the organisations in the Commonwealth Group achieving sound benchmark results in cost, efficiency and error rates.

Better Practice Observations⁴⁸

8.26 The following paragraphs outline some of the better practices that have been adopted by organisations to deliver overall improvement in the efficiency and effectiveness of the payroll activity.

8.27 The ANAO notes that most of the benchmarked Commonwealth Group organisations have already adopted some of the better practices in the payroll activity—for example, the utilisation of direct deposit of pay. However, the discussion of better practices is provided for the benefit of all organisations wishing to improve the operations of their payroll activity.

8.28 Organisations that apply better practice in processing payroll seek to minimise payroll costs and maximise service to employees, within the constraints of the organisation policy and government regulations. These organisations often examine whether it is best to outsource some or all of the payroll activities or to keep them in house. They use technology to streamline and automate payroll activities, while offering employees more convenient and secure payment options and easier, faster access to payroll information. The result is a more efficient payroll process—one that costs less, requires less time and labour to produce, and frees payroll personnel to concentrate on more strategic activities related to the recruitment, motivation and retention of employees.

8.29 Specific better practices include:

- soliciting HRIS requirements from senior management and HR representatives, payroll and information technology departments to ensure the final product meets user needs. Better practice organisations use a HRIS which is flexible enough to grow and change with the organisation and implement it as widely as possible to derive the greatest efficiencies;

⁴⁸ Andersen Global Best Practices® KnowledgeBase.

- establishing employee agreements and human resource policies that facilitate more streamlined payroll processing;
- redesigning existing payroll, benefits and human resource processes to optimise the efficient and cost-effectiveness of the new system before it is implemented;
- integrating payroll, benefits, and human resources data in one central information system. Better practice organisations use a central integrated system which is based around one database. This database supports all human resources, benefits and payroll activities. Data only needs to be added once to the system thereby eliminating redundant data entry, reducing the number of employees needed and ensuring consistency of data. Employees can also access payroll, benefits and human resource information more easily and quickly;
- eliminating paper from time-and-attendance reporting. Paperless reporting minimises redundant data entry and shortens payroll processing time;
- paying employees electronically. This reduces payroll processing time and costs and increases employee productivity. It eliminates the time and expense associated with issuing paper cheques and reduces potential for lost, stolen or fraudulent cheques; and
- using an employee self-service vehicle to decentralise data entry and increase access to information. Employees can enter or update basic payroll data and have access to reference materials designed to answer basic questions about the payroll activity. The vehicle integrates payroll and benefits information allowing employees to see the impact of various benefits choices on their pay as well as providing access to earnings, savings and tax information. This reduces the amount of time that payroll personnel spend maintaining data and answering questions, giving them more time to concentrate on strategic activities.

8.30 Further information on payroll management better practice initiatives is available in the Australian National Audit Office Audit Report No.19 of 2001–2002 *Payroll Management*.

9. Travel and Related Costs Activity Benchmarks

Introduction

9.1 Travel and related costs are those expenses incurred by organisations in having employees travel for business purposes. A primary business objective of the travel and related costs activity is to be a low-cost provider and processor of travel and related costs expenses.⁴⁹ Travel and related costs expenses are derived from both direct and indirect sources. Direct travel expenses are the costs of tangible goods and services such as airfare, hotel rooms, meals and car rentals. Indirect travel expenses are the administrative costs involved in managing travel and related costs, such as the costs of processing expense reports, issuing reimbursements or advances and paying travel-related bills.

9.2 Andersen Global Best Practices® estimates that indirect travel costs equal at least 10 per cent of direct travel expenditure. This estimate is supported by American Express® Consulting Services⁵⁰ that estimate indirect travel costs can be up to 15 per cent of total travel spending. In the benchmarked Commonwealth Group, indirect travel costs equalled, on average, 5.67 per cent of total travel expenditure in 1998–1999, 3.16 per cent in 1999–2000 and 3.44 per cent in 2000–2001. Only indirect travel costs are measured in this benchmarking study.

9.3 As reported in Audit Report No.25 of 2000–2001,⁵¹ the administration of travel and related costs has been decentralised within Commonwealth organisations in recent years, and consequently the benchmarks may not have captured all costs. Any ‘hidden’ costs will add to the already high costs revealed below.

9.4 Travel and related costs is one of the smallest activities within the benchmarked Commonwealth organisations. Over the three years surveyed, median expenditure on the travel and related costs activity as a percentage of the total finance function expenditure in the Commonwealth Group ranged from 3.58 per cent in 1998–1999, to 3.14 per cent in 1999–2000 and 3.15 per cent in 2001–2002.

9.5 Table 9.1 shows the range and median number of FTE employees allocated to the travel and related costs activity as a percentage of the total

⁴⁹ Andersen Global Best Practices® KnowledgeBase.

⁵⁰ American Express® Consulting Services, *Travel Process Innovation—The Key to Eliminating Hidden Travel Costs*, Presentation to the Canberra Government Seminar, 7 August 2001.

⁵¹ Australian National Audit Office, *Benchmarking the Finance Function*, op. cit., p. 82.

finance function employees within the participating organisations in the Commonwealth Group.

Table 9.1

Percentage of Finance Function Employees (FTE) Allocated to Travel and Related Costs

Year	FTE range	Median
1998–1999	0.40–41.43	4.54
1999–2000	0.19–21.05	3.64
2000–2001	0.23–12.43	3.81

9.6 The travel and related costs activity benchmarks selected by the ANAO address the dimensions of cost, efficiency and better practice as set out in Table 9.2.

Table 9.2

Travel and Related Costs Activity Benchmarks

Dimension	Formula
Cost—Overall	Total indirect travel activity cost / Total organisational expenditure
Cost—Per Activity	Total indirect travel cost / Number of travel requisitions
Efficiency	Total travel requisitions / Total travel and related costs FTEs
Better Practice	Method of travel expense reimbursement

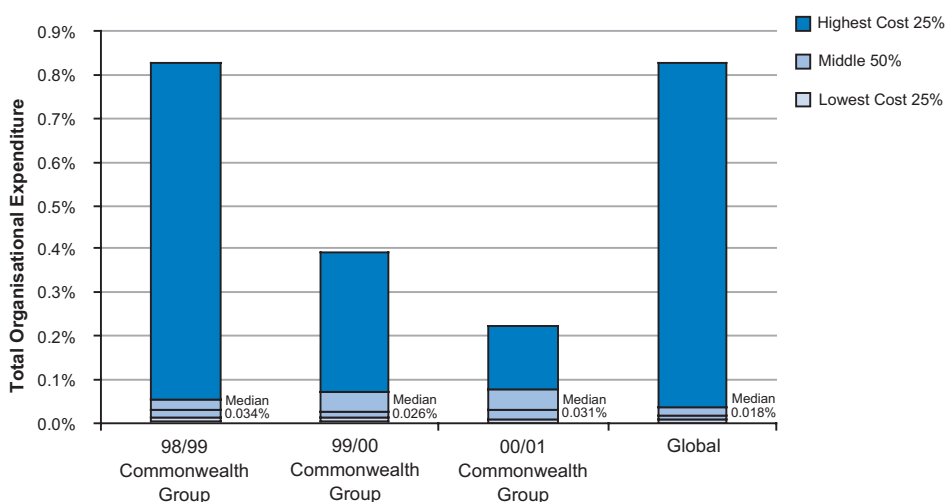
Cost Dimension Benchmarks

9.7 This Report provides two benchmarks to indicate the costs associated with the travel and related costs activity. The first captures total indirect travel activity cost and expresses this as a percentage of total organisational expenditure. The second measures the indirect cost per travel requisition.

9.8 Thirteen Commonwealth Group organisations provided data for the overall cost benchmark in 1998–1999 and all 14 provided data for the subsequent two years.

Figure 9.1

Travel and Related Costs Activity Cost Benchmark—Overall Cost

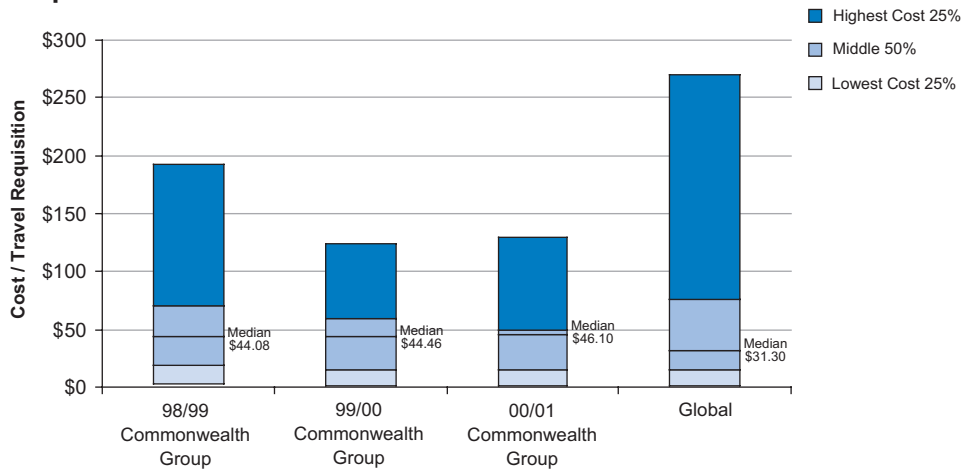


Formula used: Total indirect travel activity cost / Total organisational expenditure

9.9 As shown in Figure 9.1, the percentage of organisational expenditure spent on indirect travel in the Commonwealth Group was, at the median, 0.034 in 1998–1999, 0.026 in 1999–2000 and 0.031 in 2000–2001. As shown in Appendix 3 Table 8.1, this result is higher than the Global Group median of 0.016 in the first year of the study and 0.018 per cent for the remaining two years. However, the range of results in the Commonwealth Group has improved, with the organisation that reported the highest expenditure of 0.826 per cent in 1998–1999 significantly improving its performance over the following two years (0.394 per cent in 1999–2000 and 0.223 per cent in 2000–2001).

9.10 In the first year of the study, there were seven Commonwealth Group organisations with results equal to the highest cost quartile of the Global Group. While, in the last two years of the study, six of the Commonwealth Group organisations were in the highest cost quartile of the Global Group. There has, however, been further improvement in the results for the Commonwealth Group over the three years. In 1998–1999, two organisations were in the lowest cost quartile of the Global Group. This increased to three organisations in the following two years of the study.

9.11 The second cost benchmark for the travel and related costs activity measures the indirect travel activity cost per travel requisition processed. In all three years of the study period, 13 Commonwealth Group organisations provided data for this benchmark.

Figure 9.2**Travel and Related Costs Activity Cost Benchmark—Cost/Travel Requisition**

Formula used: Total indirect travel activity cost / Number of travel requisitions

9.12 The median cost of the Commonwealth Group organisations increased over the course of the study. In 2000–2001, it was some 40 per cent higher than that of the Global Group organisations, although the range of results was better.

9.13 There was some improvement in the Commonwealth Group with the number of organisations reporting results that place them in the lowest cost quartile of the Global Group increasing from two in 1998–1999 to three in 1999–2000 and four in 2000–2001. The number of organisations reporting results that place them in the highest cost quartile decreased from four in 1998–1999 to two in each of the subsequent two years.

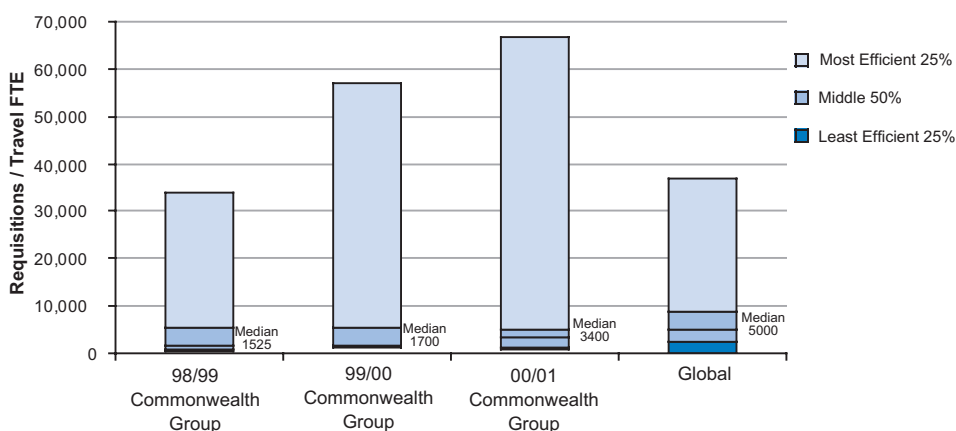
9.14 In the private sector, it is common practice for officers travelling to be reimbursed for actual travel costs (including incidentals) with a high utilisation of corporate charge cards. This system generally involves fewer resources in terms of processing. Charge cards for travel expenses are not widely used in the participating Commonwealth Group organisations but the rate of usage in the public sector as a whole is increasing. As discussed in the Better Practice Observations later in this Chapter, improved efficiency in travel administration may be delivered by organisations re-engineering their travel processes.

Efficiency Dimension Benchmark

9.15 The ANAO obtained data on the number of travel requisitions processed per FTE to provide an indicator of efficiency by providing a measure of employee output and productivity. In all three years of the study, 13 participants in the Commonwealth Group provided a response to this benchmark. The benchmarking results are set out in Figure 9.3.

Figure 9.3

Travel and Related Costs Activity Efficiency Benchmark—Travel Requisitions/FTE



Formula used: Total travel requisitions / Total travel and related costs FTEs

9.16 During the benchmark period, the median of the Commonwealth Group improved by over 100 per cent, but it was still approximately two thirds of the 2001 Global Group median of 5000 travel requisitions processed per FTE annually.

9.17 In 1998–1999, nine Commonwealth Group organisations had a result in the lowest efficiency quartile of the Global Group. This decreased to seven in 1999–2000 and five in 2000–2001. The Commonwealth Group had two organisations in the highest Global Group efficiency quartile in each of the three years.

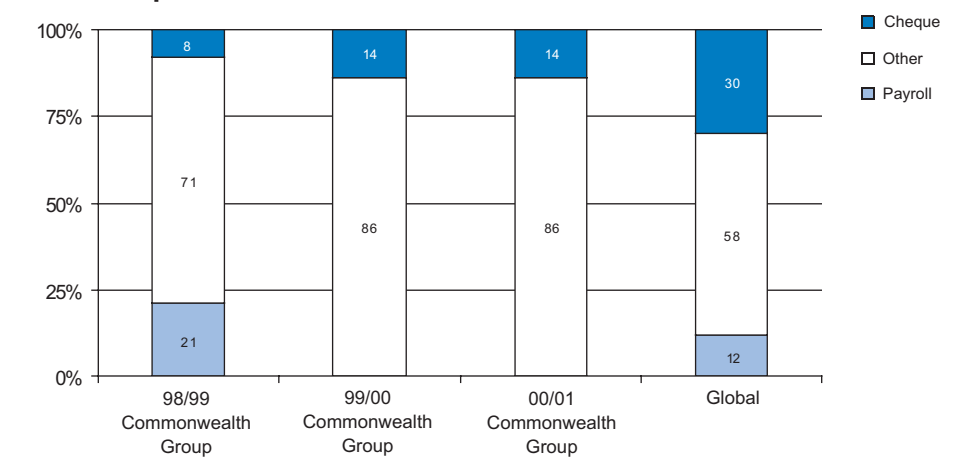
Better Practice Benchmark

9.18 This study used the Andersen benchmark of method of travel expense reimbursement as an indicator of better practice and for all three years all of the Commonwealth Group organisations provided data for this benchmark. Andersen’s Global Best Practices® KnowledgeBase suggests paying any travel reimbursements through the payroll system because this minimises transaction processing and results in reduced employee reimbursement processing costs, turnaround time and employee effort. Additionally, it reduces the number of active vendors in the organisation which contributes to better practice in the

accounts payable activity (see Chapter 5 para 5.25). The ANAO notes that previous audit reports and better practice guides on travel have promoted the use of a corporate card system (for further information refer to the Better Practice Observations at the end of this chapter).

9.19 Utilisation of the payroll system to reimburse travel expenses is not high in either the Commonwealth or the Global Groups, as illustrated in Figure 9.4. In the first year of the study, three Commonwealth Group organisations used the payroll system to reimburse travel expenses but all three organisations changed to another method of reimbursement in the following two years.

Figure 9.4
Travel and Related Costs Activity Better Practice Benchmark—Method of Travel Expense Reimbursement



Formula used: Method of travel expense reimbursement

9.20 The benchmarked Commonwealth organisations reported that the ‘Other’ methods of payment of travel reimbursements included cash or direct deposit into the officer’s bank account via electronic funds transfer through accounts payable.

Discussion of Qualitative Results

9.21 In relation to the travel and related costs activity the organisations in the Commonwealth Group performed well against qualitative indicators of Global Best Practices[®].⁵² Refer Appendix 4 Table 7 for further details. In particular, the organisations in the Commonwealth Group had good results in regard to:

- establishing written travel policies and guidelines;
- consolidating corporate travel management with a single travel agency;

⁵² Andersen Global Best Practices[®] KnowledgeBase.

- negotiating discounts with preferred travel vendors; and
- assigning a corporate travel manager to oversee policies and to manage vendor relationships.

9.22 Opportunities exist for the organisations in the Commonwealth Group to improve their performance in relation to:

- using a multipurpose corporate card to integrate travel expense management;
- streamlining expense accounts by centralising and automating processes; and
- using technology to simplify repetitive travel actions.

9.23 To assist both the organisations in the Commonwealth Group, and the wider public sector improve the performance of the travel and related costs activity, practical strategies and procedures have been described in the Better Practice Observations section at the end of this chapter.

Conclusion

9.24 The benchmarking results for the travel and related costs activity indicate the Commonwealth Group organisations spend more on the travel and related costs activity both overall and per travel requisition than organisations in the Global Group. The Commonwealth Group also performed less favourably in terms of the efficiency and better practice benchmarks suggesting that travel and related costs is an area that would benefit from further review. The ANAO notes that benchmark performance of the Commonwealth Group may have been impacted by the decentralised nature of travel processing management within the Commonwealth Group, and/or the complexities of the travel processes of organisations.

Better Practice Observations

9.25 In recent years, the ANAO has issued a number of publications relating to travel and related costs in public sector organisations. These publications have highlighted deficiencies and outlined areas for improvement and/or better practices that may result in significant improvement in the administration of travel and related costs.⁵³ The Public Sector Travel Better Practice Guide issued in December 1997 in particular outlined many areas where public sector organisations could improve aspects of travel management. A number of these were previously reported in Audit Report No.25 of 2000–2001.⁵⁴

9.26 The following paragraphs outline some of the current better practices that have been adopted by organisations to deliver overall improvement in the efficiency and effectiveness of the travel and related costs activity. These practices include:⁵⁵

- assigning a corporate travel manager to oversee travel policy and manage vendor relationships. In better practice organisations the role of the corporate travel manager has matured and expanded from the traditional role as a cost controller and overseer of travel policy. Travel managers in better practice organisations develop travel policies, lead vendor negotiations, manage vendor relationships, and monitor travel spending through analysis and review of statistical travel reports;
- establishing a written travel policy. Developing, communicating and enforcing a formal travel policy encompassing all aspects of the travel process provides the framework for an efficient and effective travel process;
- undertaking regular risk assessments of business travel policies and processes;
- consolidating corporate travel management with a single travel agency. Consolidating corporate travel management and developing a strong relationship with a single travel agency may enable negotiation of better rates with airlines and other travel vendors, control of travel policy and preferred vendor usage and the provision of reports on travel patterns;

⁵³ Australian National Audit Office, Audit Report No.14 of 1997–1998, *Official Travel by Public Sector Employees*, November 1997, Better Practice Guide, *Public Sector Travel*, December 1997 and Audit Report No.19 of 2000–2001 *Management of Public Sector Travel Arrangements—Follow-up audit*, December 2000.

⁵⁴ Australian National Audit Office, *Benchmarking the Finance Function*, op. cit., p. 86.

⁵⁵ Andersen Global Best Practices® KnowledgeBase.

- negotiating discounts with preferred travel vendors. This can include airlines, hotels, and car rental companies and is one of the most effective means of achieving significant savings on travel expenses. Travel vendors can offer volume discounts, in exchange for guaranteeing minimum volumes of business;
- using a multipurpose corporate card to integrate travel expense management. Utilisation of a multipurpose corporate charge card may reduce the indirect administrative costs of managing travel expenses and offer a comprehensive approach to payment, expense monitoring and processing, reimbursement and information management. These cards capture corporate spending in detail which helps in monitoring travel policy compliance, forecasting travel budgets, collecting data on vendor usage and negotiating discounts with vendors;
- streamlining expense accounting by centralising and automating the process. Leading organisations are moving toward comprehensive, automated 'end-to-end' processing solutions, which speed the process of submitting, auditing, reimbursing, and recording expenses. As automation eliminates process redundancies, it also makes it easier to centralise expense accounting at a single location, or a small number of locations;
- leveraging technology to simplify repetitive travel actions. Leading-edge organisations with large travel volumes are moving toward automating almost every aspect of the travel process and using technology to reduce both the costs and steps from repetitive travel activities by using self-service reservation systems and electronic ticketing; and
- monitoring and reviewing contract performance through a comprehensive statement of performance measures covering all aspects of business travel.

10. Billing Activity Benchmarks

Introduction

10.1 The billing activity process includes creating customer billing accounts, creating and sending invoices to customers, reviewing invoices for accuracy, completeness and integrity, responding to inquiries, processing billing adjustments for errors or omissions, maintaining the billing system and providing collection related reports to management. The main objective of the billing activity is to ensure that all customers who purchase goods and services are sent a complete and accurate bill or billing statement in a timely manner.⁵⁶

10.2 Of the 14 participating Commonwealth organisations, two did not provide billing information for all three years. One of these organisations indicated it did not have a billing activity and the other advised that, as the billing activity was so devolved, it was unable to measure the costs accurately. Another organisation only provided data in 1998–1999 and then only cost information. Two other organisations did not provide data in 1998–1999 but did in 1999–2000 and 2000–2001.

10.3 Billing is a relatively small activity for the organisations in the Commonwealth Group accounting for 2.84 per cent of total finance function expenditure in 1998–1999, 2.51 per cent in 1999–2000 and 2.82 per cent in 2000–2001.

10.4 Table 10.1 shows the range and median number of FTE employees allocated to the billing activity as a percentage of the total finance function employees within the participating organisations in the Commonwealth Group.

Table 10.1

Percentage of Finance Function Employees (FTE) Allocated to Billing

Year	FTE range	Median
1998–1999	0.45–10.71	3.57
1999–2000	1.04–13.16	4.18
2000–2001	1.01–11.52	3.55

10.5 The cost, quality and better practice benchmarks selected by the ANAO for the billing activity are shown in Table 10.2. There were no efficiency benchmarks available for the billing activity.

⁵⁶ Andersen Global Best Practices® KnowledgeBase.

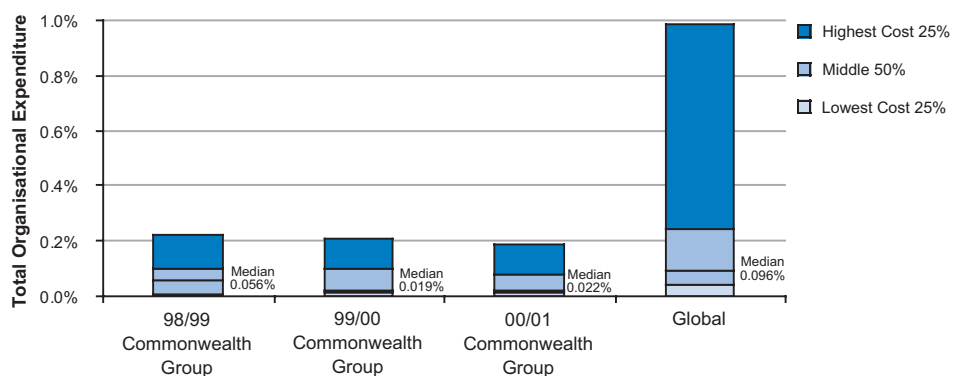
Table 10.2**Billing Activity Benchmarks**

Dimension	Formula
Cost—Overall	Total billing activity cost / Total organisational expenditure
Cost—Per Activity	Total billing activity cost / Number of annual invoices issued
Quality—Error Rate	Number of customer invoices adjusted / Total number of customer invoices issued
Quality—Time	Average elapsed time between service provision and billing
Better Practice	Percentage utilisation of EDI for billing

Cost Dimension Benchmarks

10.6 This Report provides two benchmarks which provide an indication of costs associated with the billing activity. The first captures the billing cost at a global level and expresses this as a percentage of total organisational expenditure and the second measures the cost of processing individual invoices.

10.7 For both cost benchmarks, ten of the participating Commonwealth Group organisations provided data in the first year of the study. In the subsequent two years, 11 of the Commonwealth organisations provided responses for both benchmarks.

Figure 10.1**Billing Activity Overall Cost Benchmark—Overall Cost**

Formula used: Total billing activity cost / Total organisational expenditure

10.8 In the first year of the study, the benchmarked Commonwealth Group organisations at the median, allocated 0.056 per cent of their total expenditure to the billing activity. In 1999–2000, they allocated 0.019 per cent and, in 2000–2001 it was 0.022 per cent. In comparison, the Global Group over the same period allocated 0.118 per cent of their total organisational expenditure in the first year and 0.096 per cent in the last two years. Refer Appendix 3 Table 9.1 for details.

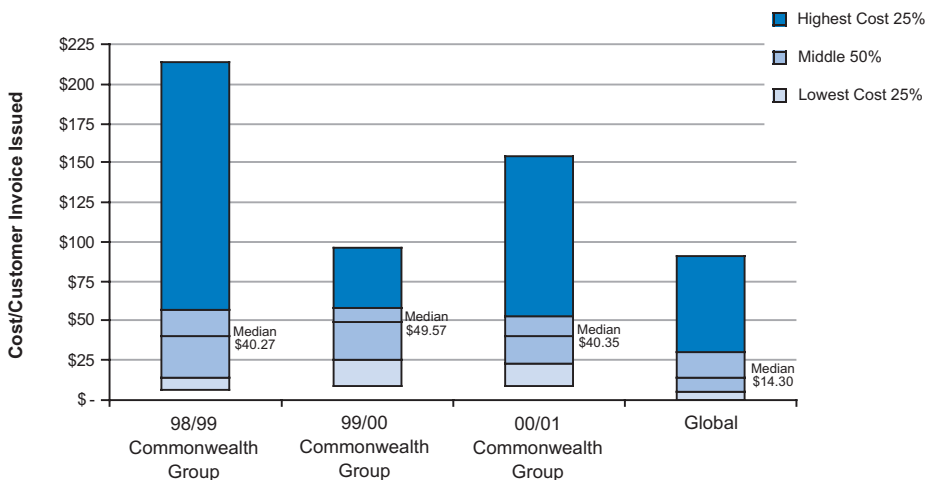
10.9 Although the Commonwealth Group result is better than that of the Global Group the ANAO notes that this may be due to the very small size of the billing activity in the participating Commonwealth organisations. The contrasting results for billing activity cost per invoice issued, illustrated in Figure 10.2 below, suggests that this result needs to be carefully interpreted.

10.10 In 1998–1999, five of the nine Commonwealth Group respondents had a result that placed them in the least cost quartile of the Global Group. This increased to seven of the 11 respondents in both 1999–2000 and 2000–2001. In all three years of the study no Commonwealth Group organisation had an overall cost benchmark result which placed it within the Global Group’s highest cost quartile.

10.11 The second billing activity cost benchmark measures the billing activity cost per invoice issued and is illustrated in Figure 10.2.

Figure 10.2

Billing Activity Cost Benchmark—Cost / Customer Invoice Issued



Formula used: Total billing activity cost / Number of annual invoices issued

10.12 The median of the Commonwealth Group organisations moved slightly over the three years from \$40.27 to \$49.57 to \$40.35. This is substantially higher than the Global Group median of \$11.76 in the first year and \$14.30 for the remaining two years. Refer Appendix 3 Table 9.2 for details.

10.13 In the first year of the study, the billing cost per invoice for organisations in the Commonwealth ranged between \$5.88 and \$213.14, compared with \$0.10 and \$77.72 in the Global Group. In the two subsequent years of the study, the Commonwealth Group figures ranged between \$9.22 and \$95.92 and \$8.79 and \$154.27 respectively. Over the same period, the Global Group ranged from \$0.11 to \$91.03 as indicated in Appendix 3 Table 9.2.

10.14 In each year of the study there was one outlying result in the Commonwealth Group. If this result is left out, the range for the organisations in the Commonwealth Group across all three years falls between approximately \$6 and \$70, which is more in line with that of the organisations in the Global Group.

10.15 In all three years, no Commonwealth Group organisation had a billing cost per invoice result which placed it in the Global Group's lowest cost quartile. Furthermore, in the last two years of the study, half of the Commonwealth Group organisations that provided data for this benchmark had results that placed them in the Global Group's highest cost quartile. One possible reason for the high cost may be found in the relative small size of the billing activity within the participating Commonwealth organisations and the consequent inability to achieve economies of scale.

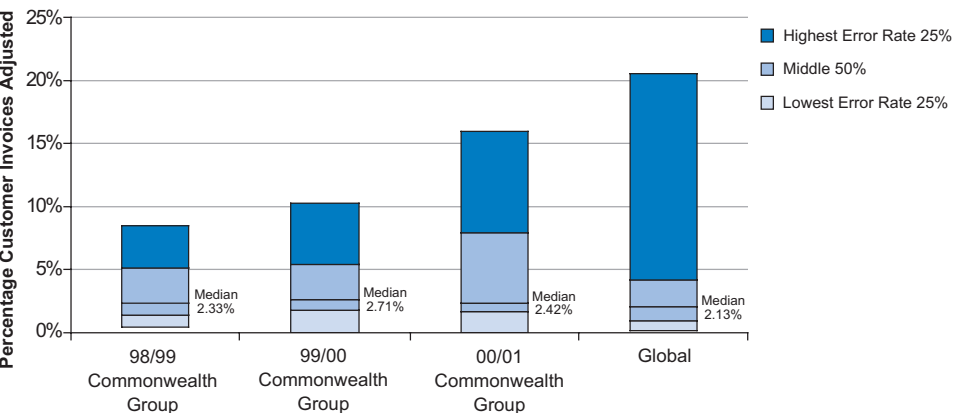
Quality Dimension Benchmarks

10.16 This Report provides two benchmarks as indicators of quality in the billing activity. The first assesses error rate by the total number of adjustments to invoices as a percentage of total customer invoices issued. This benchmark provides an insight into the accuracy of customer invoices. The second benchmark measures the average elapsed time between service provision and billing.

10.17 For both quality benchmarks, nine of the participating Commonwealth Group organisations provided data in the first year of the study. In relation to the first quality benchmark (error rate), nine Commonwealth Group organisations provided data in the second year of the study and ten did so for the third year of the study. For the second quality benchmark (elapsed time), ten of the Commonwealth Group organisations provided a response for both of the subsequent two years of the study.

10.18 The benchmark results relating to error rates are illustrated in Figure 10.3.

Figure 10.3
Billing Activity Quality Benchmark—Error Rate



Formula used: Number customer invoices adjusted / Total number of customer invoices issued

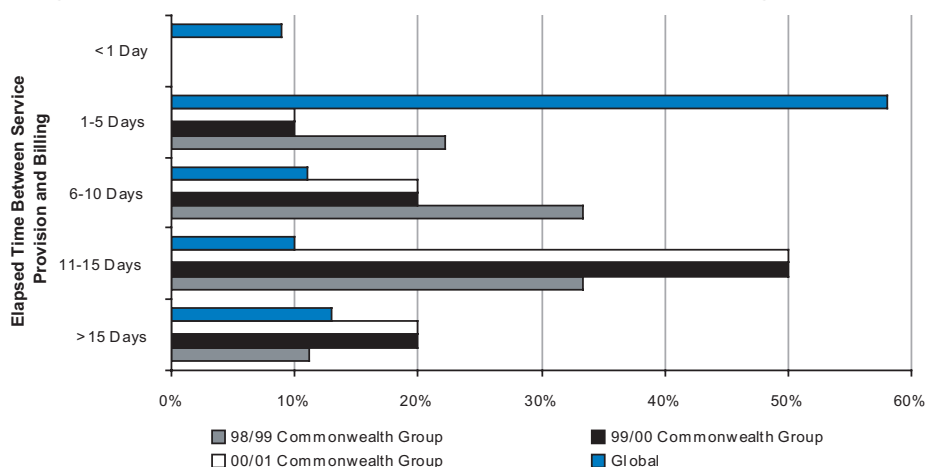
10.19 The results show a median error rate for the organisations in the Commonwealth Group that increased from 2.33 per cent in 1998–1999 to 2.42 per cent by 2000–2001. Over the same period the Global Group median moved from 2.18 per cent in the first year of the study to 2.13 per cent for the last two years. Refer Appendix 3 Table 9.3 for details.

10.20 In 1998–1999 two of the nine responding Commonwealth Group organisations reported error rates that placed them in the Global Group’s lowest error rate quartile. This reduced to none of the nine respondents in 1999–2000 and one of ten respondents in 2000–2001. The ANAO notes that, for the billing activity, no definitive correlation could be made between low error rates and higher cost per transaction (potentially reflecting a cost/quality trade off).

10.21 The second billing quality benchmark measures the elapsed time between the provision of a service and the billing of the customer for the service and is illustrated in Figure 10.4. A timely and accurate invoice improves the quality of customer service and reduces cash collection time.

Figure 10.4

Billing Activity Quality Benchmark—Elapsed Time to Billing



Formula used: Average elapsed time between service provision and billing

10.22 As shown above, the organisations in the Commonwealth Group reported longer lead times in the billing process than those of the Global Group. The Global Group best result is less than one day, while the best result in the Commonwealth Group was a lead time of one to five days. In the Global Group, across all three years, approximately 60 per cent of organisations had a lead time of one to five days compared to the Commonwealth Group where, for the last two years of the study, half of the organisations that responded took between 11 to 15 days between the provision of a service and invoicing the customer.

Better Practice Benchmark

10.23 The billing better practice benchmark assesses the utilisation of electronic data interchange (EDI) for billing activities. EDI allows an organisation to transmit bills electronically to customers and contributes to process efficiency and lower error rates.

10.24 None of the participating Commonwealth Group organisations utilises EDI for billing purposes. Therefore, the potential exists for them to achieve process and service improvement by adopting such a practice. As noted in Audit Report No.25 of 2000-2001,⁵⁷ the Commonwealth Government's information economy framework⁵⁸ outlined ten key strategic on-line priorities, one of which was to implement a world class model for delivery of all appropriate government services on-line by the end of 2001. While this benchmarking study does not identify the progress of the benchmarked Commonwealth organisations towards

⁵⁷ Australian National Audit Office, *Benchmarking the Finance Function*, op. cit., p. 92.

⁵⁸ Commonwealth Government, *Strategic Framework for the Information Economy*, December 1998.

implementation of EDI for billing purposes, it does highlight that the participating Commonwealth Group organisations may need to spend considerable effort to ensure appropriate steps are taken to achieve the on-line goal.

Discussion of Qualitative Results

10.25 In relation to the billing activity, the Commonwealth Group organisations performed reasonably well and showed improvement against the qualitative indicators of Global Best Practices⁵⁹ Refer Appendix 4 Table 8 for further details.

10.26 The Commonwealth Group organisations performed well in the areas of:

- generating clear and accurate invoices that can accommodate change;
- using billing methods that meet customer needs;
- developing customer service strategies for managing billing related questions and concerns;
- utilising an automated billing system which is integrated with internal and external information; and
- leveraging billing data for strategic advantage.

10.27 Opportunities exist for the Commonwealth Group organisations to improve their performance in relation to:

- utilising electronic billing methods; and
- enabling customers to query bills over the internet.

10.28 Additionally, some organisations reported that both analysing the costs and benefits of outsourcing billing and using billing data to identify trends, fluctuations and patterns were practices that were 'Not Applicable' to their organisation despite having a billing activity. The ANAO suggests that these practices are relevant to any organisation that has a billing activity and should be conducted on a periodic basis.

10.29 To assist both the organisations in the Commonwealth Group, and the wider public sector improve their performance in the billing activity, practical strategies and procedures have been described in the Better Practice Observations section at the end of this chapter.

Conclusion

10.30 In comparison with the Global Group, the Commonwealth Group organisations did not perform as well achieving a higher cost per customer invoice issued and a longer elapsed time between service provision and billing.

⁵⁹ Andersen Global Best Practices[®] KnowledgeBase.

Coupled with higher error rates and no utilisation of EDI, the benchmark results indicate that the Commonwealth Group organisations have not achieved results near those of the organisations in the Global Group. As mentioned previously, this may be partly due to the relatively small size of the billing activity within the benchmarked Commonwealth organisations.

Better Practice Observations⁶⁰

10.31 The following outlines some of the better practices that have been adopted by organisations to deliver overall improvement in the efficiency and effectiveness of the billing activity. These practices involve:

- generating clear, accurate customer invoices that are easy to read and calculate and can accommodate change;
- establishing billing methods that are responsive to customer needs and expectations (after ensuring any benefits outweigh any additional costs);
- designing technology infrastructure to provide seamless customer service and streamlined internal billing processes by automating the billing system and integrating it with other organisational or customer systems;
- developing customer service strategies for managing billing related questions and concerns that also empower employees to make decisions at the initial contact with the customer;
- reviewing invoice and billing data to gain useful information such as the presence or absence of trends, seasonal patterns, cycles and fluctuations; and
- moving towards an EBPP system which allows organisations to present electronic versions of invoices and receive payment over the Internet. This is becoming increasingly more common and widely accepted as better practice in businesses but is not yet widely used amongst Commonwealth organisations. Such a system is restricted by the technology limitations of either the organisation or the customer. The implementation of EDI may result in reduced:
 - paperwork and processing time;
 - number of billing personnel;
 - billing errors and inaccuracies; and
 - duplication of activities.

⁶⁰ Andersen Global Best Practices® KnowledgeBase.

11. Tax Activity Benchmarks

Introduction

11.1 A primary objective of the tax activity for Commonwealth sector organisations is to ensure proper compliance with tax laws. Building on this is the need to identify and manage the tax implications of decisions made in order to minimise organisation-wide taxes.

11.2 The benchmarking results indicate that, since the introduction of the GST, Commonwealth Group organisations are now spending (at the median) four times as much on the tax activity than they did in the first year of the study. In the benchmarked Commonwealth Group organisations, however, the tax administration activity is still one of the least significant of the finance function activities.

11.3 Table 11.1 shows the range and median number of FTE employees allocated to the tax activity as a percentage of the total finance function employees within the participating organisations in the Commonwealth Group. As can be seen in the table below, the percentage of FTE allocated to the tax activity has, at the median, increased significantly since the introduction of the GST.

Table 11.1
Percentage of Finance Function Employees (FTE) Allocated to the Tax Activity

Year	FTE range	Median
1998–1999	0.05–5.71	0.48
1999–2000	0.48–7.55	2.70
2000–2001	0.48–5.84	4.00

11.4 This Report provides only one benchmark for the tax activity which is the cost of the tax activity as a percentage of total organisational expenditure as set out in Table 11.2. No efficiency or quality benchmarks were selected for review because of the low materiality of the activity and the absence of useful comparators between the public and private sectors.

Table 11.2
Tax Activity Benchmark

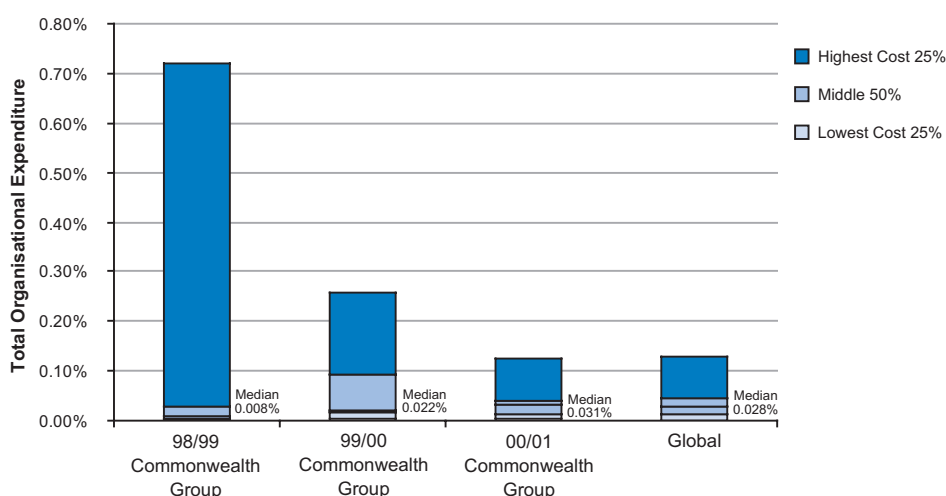
Dimension	Formula
Cost—Overall	Total tax activity cost/Total organisational expenditure

Cost Dimension Benchmark

11.5 The overall cost benchmark for the tax activity captures the total tax administration cost for an organisation and expresses this as a percentage of total organisational expenditure. The result is illustrated in Figure 11.1 below.

11.6 In the first year of the study, 12 Commonwealth Group organisations provided data for this benchmark study. In 1999–2000 and 2000–2001 this increased to 13.

Figure 11.1
Tax Activity Cost Benchmark – Overall Cost



Formula used: Total tax activity cost / Total organisational expenditure

11.7 The median percentage of organisational expenditure spent on the tax activity in the Commonwealth Group ranged from 0.008 per cent in the first year of the study to 0.022 per cent and 0.031 per cent in each of the second and third years of the study. The 2000–2001 result is similar to the Global Group median of 0.027 per cent for the first and second year and 0.028 per cent for the final year. Refer to Appendix 3 Table 10.1 for details of the Global Group figures.

11.8 The organisations in the Commonwealth Group allocated between 0.0001 and 0.720 per cent of their total organisational expenditure to the tax

activity in the first year of the study. One organisation reported a very high tax activity cost which, if excluded, would result in the benchmark range being between 0.0001 and 0.161 per cent. This more closely aligns with the results reported by the Commonwealth Group in the subsequent two years of the study, which were between 0.006 and 0.257 per cent in 1999–2000 and between 0.006 and 0.126 per cent in 2000–2001. As indicated in Appendix 3 Table 10.1, the Global Group organisations allocated between 0.001 and 0.144 per cent of their total organisational expenditure to the tax activity in all three years of the study period.

11.9 Of the 12 organisations that provided data for this benchmark in the first year of the study, eight reported overall cost benchmarks that placed them alongside the Global Group lowest cost quartile. In the following two years, the number of Commonwealth Group organisations reporting results which placed them alongside the Global Group lowest cost quartile reduced to three (although not the same organisations). This change may reflect the more strenuous tax management regime required in the Commonwealth public sector as a result of the introduction of the GST.

11.10 Between the first and final year of the study, expenditure on the tax activity increased for eight of the Commonwealth Group organisations. In addition, eight organisations (but not the same eight) experienced a peak in cost in 1999–2000, coinciding with the introduction of the GST, which subsequently dropped in 2000–2001.

Discussion of Qualitative Results

11.11 There were no Global Best Practices® qualitative questions asked in relation to the tax activity due to the private sector focus of the Andersen questions.

11.12 However, to assist both the organisations in the Commonwealth Group, and the wider public sector improve the performance of the tax activity, practical strategies and procedures have been described in the Better Practice Observations section at the end of this chapter.

Conclusion

11.13 The benchmarking result shows that the organisations in the Commonwealth Group spend a lower proportion of total organisation expenditure on the tax activity than the predominantly private sector Global Group comparison organisations. However, the introduction of the GST (which falls in the middle of the benchmark period) appears to have resulted in a closer alignment of results between the two benchmark Groups.

Better Practice Observations⁶¹

11.14 Outlined below are some of the better practices that have been adopted by organisations to deliver overall improvement in the efficiency and effectiveness of the tax activity.

11.15 Better practice organisations have moved beyond mere compliance and have reengineered their tax strategies to assist in identifying the tax implications of all business decisions at the time those decisions are being made.

11.16 These organisations, while continually managing their compliance responsibility to improve the returns preparations cycle, also:

- implement new technology to increase tax department efficiency;
- create a professional and well-integrated tax department; and
- communicate tax information effectively through the organisation.

11.17 The ANAO published Audit Report No.53 of 2001–2002 *Goods and Services Tax Administration by Commonwealth Organisations* in May 2002. The audit highlighted a number of sound and better practices relating to the management of the Goods and Services Tax.

Canberra ACT
26 June 2002



P. J. Barrett
Auditor-General

⁶¹ Andersen Global Best Practices® KnowledgeBase.

Appendices

Appendix 1

Benchmark Demographic Profiles

Demographic Profile	Commonwealth Group			Global Group 2001
	1998/1999	1999/2000	2000/2001	
organisations	14	14	14	569
Geographic locations	Australia (14)	Australia (14)	Australia (14)	North America (270), Europe (195), Latin America (30), North Asia (1), South Asia (72), Middle East (1)
Industry	Federal Government (14)	Federal Government (14)	Federal Government (14)	Manufacturing (252), Consumer Products (101), Commercial Services (46), Utilities (53), Financial Markets (11), Real Estate (9), Insurance (10), Healthcare (13), Non-profit/ Government (71)
Total Revenues (AU\$) (Total Expenditure used for Commonwealth Group)	11,085,061,036	11,927,700,000	12,696,246,561	Not available
Average Revenue (AU\$) (Average Total Expenditure used for Commonwealth Group)	791,790,074	851,978,571	906,874,754	2,659,270,096
Revenue Range (AU\$) (Total Expenditure used for Commonwealth Group)	12,039,000 – 3,406,903,036	11,375,000 – 4,942,862,000	14,356,561 – 5,121,929,000	424,108 – 113,106,999,809
Total Employees	44,088	43,795	42,227	Not available
Average Employees	3,149	3,128	3,016	5,262
Range of Number of Employees	94 – 22,641	100 – 22,178	110 – 21,180	4 – 852,045

Appendix 2

Derivation of Finance Function Benchmarks

The following table shows the derivation of the key benchmarks used in this Report.

Activity	Dimension	Formula	Page Reference
Overall Finance Function	Cost—Overall	Total finance function expenditure/Total organisational expenditure	26
	Employment	Total finance function employees/Total organisation employees	28
	Quality	Average length of employee service in the finance function of the organisation	29
		Finance employees education levels as a percentage of total finance employees	30
	Better Practice	Shared services utilisation by activity	32
Financial Budgeting and Analysis	Cost—Overall	Total budgeting and analysis activity cost/Total organisational expenditure	34
	Efficiency	Total elapsed days to prepare budget	35
	Better Practice	Total number of budgets developed annually	37
Fixed Assets	Cost—Overall	Total fixed asset activity cost/Total organisational expenditure	42
	Cost—Per Activity	Total fixed asset activity cost/Annual number of fixed asset transactions	43
	Efficiency	Total number of fixed assets tracked/Total fixed assets FTEs	44
	Quality—Error Rate	Percentage of fixed assets misallocated or misclassified	45
	Better Practice	Capitalisation threshold for fixed assets	46
Accounts Payable	Cost—Overall	Total accounts payable activity cost/Total organisational expenditure	52
	Cost—Per Activity	Total accounts payable activity cost/Number of annual invoices	53
	Efficiency—Per Resource	Total accounts payable invoices/Total accounts payable FTEs	54
	Efficiency—Size	Total accounts payable payments/Number of invoices processed	55
	Quality—Error Rate	Total accounts payable errors/Number of invoices processed	56
	Better Practice	Total number of active vendors to organisation	57

Activity	Dimension	Formula	Page Reference
Close the Books and Financial Reporting	Cost—Overall	Total close the books and financial reporting activity cost / Total organisational expenditure	63
	Quality—Error Rate	Total number of error correction journals/Total number of journals	64
	Better Practice	Number of hard closes in excess of requirements	65
Accounts Receivable	Cost—Overall	Total accounts receivable activity cost/Total organisational expenditure	72
	Cost—Per Activity	Total credit and collections cost/Total number of remittances requiring credit activity	73
	Cost—Per Activity	Total accounts receivable activity cost / Total number of remittances processed annually	74
	Efficiency	Total number of remittances/Total accounts receivable FTEs	75
	Quality—Error Rate	Total remittance errors/Total number of remittances	76
	Quality—Match Rate	Total remittances matched first time/Total remittances	77
	Better Practice	Elapsed days between customer invoicing and receipt of payment	78
Payroll	Cost—Overall	Total payroll activity cost/Total organisational expenditure	84
	Cost—Per Activity	Total payroll activity cost/Annual number of pays	85
	Efficiency	Total number of pays annually/Payroll activity FTEs	86
	Quality—Error Rate	Total number of pays with errors/Total number of pays annually	87
	Better Practice	Payroll / Human Resources System Integration/ Interface	88
		Total employees paid by direct debit / Total employees	88
Travel and Related Costs	Cost—Overall	Total indirect travel activity cost/Total organisational expenditure	94
	Cost—Per Activity	Total indirect travel cost/Number of travel requisitions	95
	Efficiency	Total travel requisitions/Total travel and related costs FTEs	96
	Better Practice	Method of employee reimbursement	97

Activity	Dimension	Formula	Page Reference
Billing	Cost—Overall	Total billing activity cost/Total organisational expenditure	102
	Cost—Per Activity	Total billing activity cost/Number of annual invoices issued	103
	Quality—Error Rate	Number of customer invoices adjusted/Total number of customer invoices issued	105
	Quality—Time	Average elapsed time between service provision and billing	106
	Better Practice	Percentage utilisation of EDI for billing	106
Tax	Cost—Overall	Total tax activity cost/Total organisational expenditure	110

Appendix 3

Finance Function Quantitative Benchmarks

1. Overall Finance Function Benchmarks

Table 1.1

Benchmarked Commonwealth Group Finance Activity Cost

Total Annual Activity Cost/ Total Annual Finance Function Expenditure									
	Minimum			Median			Maximum		
	1998/ 1999	1999/ 2000	2000/ 2001	1998/ 1999	1999/ 2000	2000/ 2001	1998/ 1999	1999/ 2000	2000/ 2001
Financial Budgeting and Analysis	8.35%	4.29%	5.45%	17.51%	11.81%	13.24%	53.29%	40.12%	55.22%
Fixed Assets	1.22%	0.76%	0.83%	3.30%	3.96%	2.24%	10.13%	10.77%	10.82%
Accounts Payable	5.26%	3.14%	3.20%	14.53%	13.48%	14.82%	28.10%	29.43%	29.16%
Close the Books and Financial Reporting	2.21%	4.13%	3.64%	9.68%	9.84%	11.83%	28.90%	37.02%	34.02%
Accounts Receivable	0.34%	0.87%	1.01%	3.51%	4.52%	4.50%	14.95%	13.37%	11.85%
Payroll	3.03%	2.99%	1.79%	18.23%	20.58%	22.21%	42.29%	42.42%	39.50%
Travel and Related Costs	0.32%	0.16%	0.17%	3.58%	3.14%	3.15%	13.96%	13.43%	12.74%
Billing	0.36%	0.87%	0.89%	2.84%	2.51%	2.82%	7.19%	9.68%	9.21%
Tax	0.04%	0.47%	0.57%	0.66%	2.82%	3.11%	2.99%	31.36%	11.11%

Table 1.2

Finance Function Cost Benchmark—Overall Cost

	Total Finance Function Expenditure/ Total Organisational Expenditure					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Cost Percentage	0.089%	0.110%	0.090%	0.110%	0.082%	0.110%
Lowest Cost 25%	0.458%	0.622%	0.507%	0.626%	0.445%	0.626%
Middle 50%	1.237%	1.014%	1.102%	1.077%	0.999%	1.070%
Highest Cost 25%	1.670%	1.666%	1.655%	1.734%	1.924%	1.739%
Highest Cost Percentage	5.919%	4.832%	3.862%	4.832%	3.280%	4.832%

Table 1.3**Finance Function Cost Benchmark—Employment**

	Total Finance Function Employees/ Total Organisation Employees					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Finance Employees per Organisational Employees	0.73%	0.17%	0.79%	0.17%	0.83%	0.17%
Lowest Finance Employees 25%	1.48%	2.35%	2.09%	2.24%	2.08%	2.24%
Middle 50%	2.28%	3.75%	3.52%	3.62%	3.56%	3.62%
Highest Finance Employees 25%	3.25%	5.58%	4.23%	5.14%	4.40%	5.14%
Highest Finance Employees per Organisational Employees	8.35%	13.33%	5.84%	14.93%	5.67%	14.93%

Table 1.4**Finance Function Quality Benchmark—Employee Retention**

	Average Length of Employee Service in the finance function of the organisation					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Longest Length of Service	11.9 years	24.0 years	11.5 years	24.0 years	13.5 years	24.0 years
Longest Length of Service 25%	6.5 years	11.4 years	5.1 years	10.7 years	6.8 years	10.7 years
Middle 50%	5.0 years	8.0 years	4.0 years	7.2 years	4.5 years	7.3 years
Shortest Length of Service 25%	2.7 years	5.0 years	2.0 years	4.4 years	2.9 years	4.5 years
Shortest Length of Service	1.0 years	0.6 years	1.0 years	0.6 years	1.6 years	0.6 years

Table 1.5
Finance Function Quality Benchmark—Employee Qualifications

			Finance employees education qualifications as a percentage of total finance employees				
			Accounting Degree	CPA	MBA	CPA and MBA	None of the above
1998–1999	Cwlt	Management	26.01%	35.46%	8.61%	N/A	36.87%
		Staff	10.74%	8.61%	1.35%	N/A	79.30%
2000	Global	Management	25.31%	34.33%	17.16%	4.45%	18.67%
		Staff	37.84%	7.86%	2.79%	0.00%	50.86%
1999–2000	Cwlt	Management	20.23%	33.11%	1.09%	20.45%	25.12%
		Staff	17.31%	7.94%	0.58%	2.08%	72.08%
2001	Global	Management	28.69%	37.08%	15.99%	5.98%	12.27%
		Staff	20.43%	5.28%	1.48%	0.26%	72.55%
2000–2001	Cwlt	Management	22.29%	34.79%	1.56%	20.24%	21.12%
		Staff	16.88%	7.84%	0.60%	2.22%	72.46%
2001	Global	Management	28.71%	37.12%	15.88%	6.10%	12.18%
		Staff	20.41%	5.27%	1.48%	0.27%	72.56%

Table 1.6
Finance Function Better Practice Benchmark—Shared Services

Shared Services Utilisation by Activity						
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlt Group	Global	Cwlt Group	Global	Cwlt Group	Global
Payroll	78.95%	27.61%	92.31%	82.94%	92.31%	82.94%
Travel and Related Costs	52.63%	23.67%	46.15%	68.25%	53.85%	68.65%
Accounts Payable	63.16%	26.23%	69.23%	78.17%	76.92%	78.57%
Billing	36.84%	19.92%	46.15%	59.13%	53.85%	59.52%
Accounts Receivable	52.63%	26.23%	69.23%	76.98%	76.92%	77.38%
Close the Books and Financial Reporting	84.21%	29.38%	100.00%	88.49%	100.00%	88.49%
Fixed Assets	73.68%	26.63%	100.00%	78.97%	100.00%	78.97%

2. Finance Budgeting and Analysis

Table 2.1

Financial Budgeting and Analysis Activity Cost Benchmark—Overall Cost

	Total Budgeting and Analysis Cost / Total Organisational Expenditure					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Cost Percentage	0.045%	0.004%	0.022%	0.002%	0.032%	0.002%
Lowest Cost 25%	0.058%	0.054%	0.061%	0.050%	0.058%	0.050%
Middle 50%	0.197%	0.106%	0.137%	0.108%	0.131%	0.109%
Highest Cost 25%	0.290%	0.191%	0.255%	0.215%	0.264%	0.219%
Highest Cost Percentage	1.739%	0.941%	0.459%	0.941%	0.476%	0.941%

Table 2.2

Financial Budgeting and Analysis Activity Efficiency Benchmark— Budget Cycle Time

	Total Elapsed Days To Prepare Budget					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Shortest Cycle Time	14 days	5 days	30 days	5 days	30 days	5 days
Shortest Time 25%	30 days	30 days	45 days	31 days	45 days	31 days
Middle 50%	40 days	60 days	90 days	65 days	90 days	65 days
Longest Time 25%	120 days	90 days	150 days	105 days	150 days	105 days
Longest Cycle Time	270 days	270 days	270 days	270 days	270 days	270 days

Table 2.3

Financial Budgeting and Analysis Activity Better Practice Benchmark— Number of Annual Budgets

	Total Number of Budgets Developed Annually					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Least Annual Budgets	1	1	1	1	2	1
Least Budgets 25%	2	3	2	3	2	3
Middle 50%	4	4	3	4	3	4
Most Budgets 25%	13	12	4	12	4	12
Most Annual Budgets	20	33	16	33	16	33

3. Fixed Assets Activity Benchmarks

Table 3.1

Fixed Assets Activity Cost Benchmark—Overall Cost

	Total Fixed Assets Activity Cost/ Total Organisational Expenditure					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Cost Percentage	0.003%	0.001%	0.004%	0.001%	0.001%	0.001%
Lowest Cost 25%	0.026%	0.010%	0.019%	0.010%	0.011%	0.010%
Middle 50%	0.042%	0.020%	0.031%	0.021%	0.029%	0.021%
Highest Cost 25%	0.063%	0.036%	0.095%	0.040%	0.073%	0.040%
Highest Cost Percentage	0.136%	0.146%	0.140%	0.146%	0.139%	0.146%

Table 3.2

Fixed Assets Activity Cost Benchmark—Cost / Fixed Asset Transaction

	Total Fixed Assets Activity Cost/ Annual Number of Fixed Assets Transactions					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Cost Percentage	\$1	\$0	\$2	\$0	\$1	\$0
Lowest Cost 25%	\$12	\$14	\$24	\$15	\$17	\$15
Middle 50%	\$38	\$40	\$39	\$44	\$40	\$45
Highest Cost 25%	\$70	\$114	\$89	\$122	\$88	\$122
Highest Cost Percentage	\$310	\$487	\$354	\$570	\$427	\$570

Table 3.3

Fixed Assets Activity Efficiency Benchmark—Fixed Assets Tracked /FTE

	Total Number of Fixed Assets Tracked/ Total Fixed Assets FTE					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Most Fixed Assets/FTE	11,429	50,000	7,143	50,000	10,000	50,000
Most Efficient 25%	6,461	15,000	3,191	13,583	3,594	13,526
Middle 50%	3,914	8,353	2,702	7,657	3,126	7,657
Least Efficient 25%	2,265	4,762	2,103	3,256	2,092	3,368
Least Fixed Assets/FTE	1,367	100	440	100	538	100

Table 3.4**Fixed Assets Activity Quality Benchmark—Error Rates**

	Percentage of Fixed Assets that are Misallocated or Misclassified					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlt Group	Global	Cwlt Group	Global	Cwlt Group	Global
Lowest Error Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Lowest Error Rate 25%	1.00%	0.05%	1.00%	0.10%	0.25%	0.10%
Middle 50%	1.00%	1.00%	1.50%	1.00%	1.00%	1.00%
Highest Error Rate 25%	2.00%	2.00%	5.00%	2.00%	4.70%	2.00%
Highest Error Rate	50.00%	10.00%	40.00%	10.00%	20.00%	10.00%

Table 3.5**Fixed Assets Activity Better Practice Benchmark—Capitalisation Threshold**

	Capitalisation Threshold for Fixed Assets					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlt Group	Global	Cwlt Group	Global	Cwlt Group	Global
Highest Threshold	\$2,000	\$16,284	\$2,000	\$19,073	\$5,000	\$19,073
Highest Threshold 25%	\$2,000	\$4,071	\$2,000	\$4,768	\$2,000	\$4,768
Middle 50%	\$2,000	\$1,628	\$2,000	\$1,907	\$2,000	\$1,907
Lowest Threshold 25%	\$2,000	\$814	\$2,000	\$954	\$2,000	\$954
Lowest Threshold	\$1,000	\$2	\$1,000	\$2	\$1,000	\$2

4. Accounts Payable Activity Benchmarks

Table 4.1

Accounts Payable Activity Cost Benchmark—Overall Cost

	Total Accounts Payable Activity Cost/ Total Organisational Expenditure					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Cost Percentage	0.007%	0.005%	0.005%	0.005%	0.005%	0.005%
Lowest Cost 25%	0.078%	0.071%	0.090%	0.070%	0.076%	0.070%
Middle 50%	0.152%	0.120%	0.128%	0.119%	0.106%	0.118%
Highest Cost 25%	0.272%	0.192%	0.226%	0.186%	0.223%	0.186%
Highest Cost Percentage	0.783%	0.350%	0.640%	0.350%	0.776%	0.350%

Table 4.2

Accounts Payable Activity Cost Benchmark—Cost / Invoice

	Total Accounts Payable Activity Cost/ Number of Annual Invoices					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Cost Percentage	\$9.51	\$0.83	\$3.86	\$1.22	\$4.09	\$1.22
Lowest Cost 25%	\$16.42	\$6.74	\$11.76	\$7.70	\$12.98	\$7.70
Middle 50%	\$20.97	\$10.99	\$17.05	\$13.46	\$17.94	\$13.51
Highest Cost 25%	\$28.65	\$26.10	\$26.20	\$28.69	\$26.36	\$28.69
Highest Cost Percentage	\$86.90	\$116.92	\$57.28	\$136.94	\$45.90	\$136.94

Table 4.3

Accounts Payable Activity Efficiency Benchmarks—Processed Invoices/FTE

	Total Accounts Payable Invoices/ Total Accounts Payable FTEs					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Most Invoices/FTE	12,960	50,000	14,654	50,068	15,089	50,068
Most Efficient 25%	4,358	11,313	7,754	11,969	5,993	11,969
Middle 50%	3,481	7,412	3,884	7,325	3,714	7,262
Least Efficient 25%	2,783	5,068	2,979	4,556	2,551	4,556
Least Invoices/FTE	725	344	1,014	91	2,110	91

Table 4.4**Accounts Payable Activity Efficiency Benchmark—Size of Average Payment**

	Total Accounts Payable Payments/ Number of Invoices Processed					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Largest Average Payment	\$368,039	\$161,360	\$39,647	\$188,997	\$53,796	\$188,997
Largest Payment 25%	\$46,452	\$47,589	\$10,107	\$40,322	\$9,678	\$41,195
Middle 50%	\$9,427	\$13,167	\$5,027	\$13,619	\$5,143	\$13,619
Smallest Payment 25%	\$6,637	\$5,230	\$4,698	\$5,702	\$2,692	\$5,722
Smallest Average Payment	\$4,615	\$8	\$100	\$9	\$115	\$9

Table 4.5**Accounts Payable Activity Quality Benchmark—Error Rate**

	Total Accounts Payable Errors/Number of Invoices Processed					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Error Rate	0.07%	0.05%	0.01%	0.01%	0.004%	0.03%
Lowest Error Rate 25%	0.70%	0.98%	0.11%	0.80%	0.44%	0.80%
Middle 50%	1.45%	2.74%	0.87%	2.21%	0.67%	2.15%
Highest Error Rate 25%	3.07%	8.16%	1.70%	6.25%	1.09%	6.26%
Highest Error Rate	5.00%	34.35%	5.84%	34.35%	5.86%	34.35%

Table 4.6**Accounts Payable Activity Better Practice Benchmarks—Number of Active Vendors**

	Total Number of Active Vendors to Organisation					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Least Active Vendors	827	132	1,256	68	1,288	68
Least Active Vendors 25%	3,426	1,000	2,973	1,000	3,000	1,000
Middle 50%	7,379	2,251	4,500	2,500	3,749	2,500
Most Active Vendors 25%	10,791	5,909	9,397	6,194	10,768	6,376
Most Active Vendors	89,174	30,000	23,251	30,000	29,991	30,000

5. Close the Books and Financial Reporting

Table 5.1

Close the Books and Financial Reporting Activity Cost Benchmark—Overall Cost

	Total Close the Books and Financial Reporting Activity Cost/ Total Organisational Expenditure					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Cost Percentage	0.013%	0.005%	0.018%	0.003%	0.007%	0.003%
Lowest Cost 25%	0.065%	0.076%	0.058%	0.077%	0.059%	0.080%
Middle 50%	0.094%	0.152%	0.079%	0.155%	0.095%	0.155%
Highest Cost 25%	0.121%	0.292%	0.175%	0.297%	0.232%	0.296%
Highest Cost Percentage	0.990%	0.957%	0.488%	0.990%	0.491%	0.990%

Table 5.2

Close the Books and Financial Reporting Activity Quality Benchmark—Error Rates

	Total Number of Error Correction Journals/ Total Number of Journals					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Error Percentage	2.83%	0.02%	0.54%	0.02%	0.54%	0.02%
Lowest Error 25%	8.05%	0.61%	1.99%	0.75%	2.35%	0.75%
Middle 50%	21.43%	2.00%	3.52%	2.80%	6.42%	2.83%
Highest Error 25%	49.46%	6.62%	6.05%	7.14%	7.67%	7.27%
Highest Error Percentage	75.00%	25.00%	86.60%	25.00%	88.57%	25.00%

Table 5.3

Close the Books and Financial Reporting Activity Better Practice Benchmark—Number of Extra Hard Closes

	Number of Hard Closes in Excess of Requirements					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Least Extra Closes	0	0	0	0	0	0
Least Extra Closes 25%	0	0	0	0	0	0
Middle 50%	0	2	0	2	0	2
Most Extra Closes 25%	1	9	1	9	1	9
Most Extra Closes	12	24	11	24	11	24

6. Accounts Receivable Activity Benchmarks

Table 6.1

Accounts Receivable Activity Cost Benchmark—Overall Cost

	Total Accounts Receivable Activity Cost/ Total Organisational Expenditure					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Cost Percentage	0.0003%	0.002%	0.001%	0.001%	0.001%	0.001%
Lowest Cost 25%	0.005%	0.067%	0.023%	0.055%	0.016%	0.055%
Middle 50%	0.045%	0.118%	0.053%	0.109%	0.042%	0.111%
Highest Cost 25%	0.106%	0.212%	0.093%	0.204%	0.111%	0.204%
Highest Cost Percentage	0.293%	0.840%	0.218%	0.913%	0.162%	0.913%

Table 6.2

Accounts Receivable Activity Cost Benchmark—Cost/Credit Activity

	Total Credit and Collections Cost/ Total Remittances requiring Credit Activity					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Cost Percentage	\$19	\$2	\$18	\$2	\$27	\$2
Lowest Cost 25%	\$77	\$164	\$109	\$167	\$107	\$167
Middle 50%	\$127	\$492	\$173	\$513	\$161	\$521
Highest Cost 25%	\$368	\$1,258	\$247	\$1,314	\$258	\$1,314
Highest Cost Percentage	\$2,576	\$4,480	\$19,327	\$5,248	\$3,536	\$5,248

Table 6.3

Accounts Receivable Activity Cost Benchmark—Cost/Remittances

	Total Accounts Receivable Activity Cost/ Total Number of Remittances Processed Annually					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Cost Percentage	\$5.24	N/A	\$8.54	N/A	\$6.28	N/A
Lowest Cost 25%	\$10.44	N/A	\$30.45	N/A	\$26.82	N/A
Middle 50%	\$29.00	N/A	\$34.67	N/A	\$35.71	N/A
Highest Cost 25%	\$43.28	N/A	\$73.98	N/A	\$49.37	N/A
Highest Cost Percentage	\$98.42	N/A	\$588.95	N/A	\$288.63	N/A

Table 6.4
Accounts Receivable Activity Efficiency Benchmark—Remittances Processed/FTE

	Total Number of Remittances Processed/ Total Accounts Receivables FTEs					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwltb Group	Global	Cwltb Group	Global	Cwltb Group	Global
Highest Efficiency	9,346	28,215	8,856	26,952	12,793	26,952
Highest Efficiency 25%	4,077	7,361	2,710	7,150	3,191	7,187
Middle 50%	2,378	3,966	1,716	4,126	2,039	4,126
Lowest Efficiency 25%	1,429	1,909	1,086	2,130	1,717	2,143
Lowest Efficiency	846	154	229	192	330	192

Table 6.5
Accounts Receivable Activity Quality Benchmark—Error Rate

	Total Remittance Errors/Total Number of Remittances					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwltb Group	Global	Cwltb Group	Global	Cwltb Group	Global
Lowest Error Rate	0.00%	0.01%	0.00%	0.01%	0.00%	0.01%
Lowest Error Rate 25%	0.16%	1.04%	0.83%	1.00%	1.03%	1.00%
Middle 50%	1.00%	3.50%	1.90%	3.04%	1.97%	3.04%
Highest Error Rate 25%	1.80%	8.57%	4.28%	8.02%	3.82%	8.00%
Highest Error Rate	4.83%	25.00%	13.59%	25.00%	9.00%	25.00%

Table 6.6
Accounts Receivable Activity Quality Benchmark—Match Rate

	Total Remittances Matched First Time/ Total Number of Remittances					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwltb Group	Global	Cwltb Group	Global	Cwltb Group	Global
Most First Time Matches	100%	100%	100%	100%	100%	100%
Most Matches 25%	99%	98%	99%	97%	98%	97%
Middle 50%	97%	93%	97%	92%	94%	92%
Least Matches 25%	89%	83%	90%	83%	89%	83%
Least First Time Matches	44%	20%	81%	19%	75%	19%

Table 6.7**Accounts Receivable Activity Better Practice Benchmark—Days
Receivable Outstanding**

	Elapsed Days Between Customer Invoicing and Receipt of Payment					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwith Group	Global	Cwith Group	Global	Cwith Group	Global
Least Days Outstanding	10.0 days	5.0 days	11.9 days	5.0 days	12.0 days	5.0 days
Least Days 25%	28.0 days	30.0 days	26.5 days	30.0 days	21.5 days	30.0 days
Middle 50%	40.0 days	43.0 days	28.0 days	43.0 days	28.0 days	43.0 days
Most Days 25%	47.0 days	62.5 days	47.5 days	59.0 days	46.5 days	59.0 days
Most Days Outstanding	50.0 days	128.0 days	65.0 days	177.0 days	65.0 days	177.0 days

7. Payroll Activity Benchmarks

Table 7.1

Payroll Activity Cost Benchmark—Overall Cost

	Total Payroll Activity Cost/ Total Organisational Expenditure					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Cost Percentage	0.003%	0.010%	0.003%	0.010%	0.001%	0.010%
Lowest Cost 25%	0.082%	0.063%	0.095%	0.060%	0.093%	0.060%
Middle 50%	0.239%	0.115%	0.326%	0.118%	0.261%	0.118%
Highest Cost 25%	0.354%	0.190%	0.534%	0.222%	0.504%	0.214%
Highest Cost Percentage	0.789%	0.745%	0.677%	0.836%	1.052%	0.836%

Table 7.2

Payroll Activity Cost Benchmark—Cost Per Pay

	Total Payroll Activity Cost/Annual Number of Pays					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Cost/Pay	\$1.96	\$0.65	\$3.04	\$0.49	\$1.58	\$0.49
Lowest Cost 25%	\$10.61	\$8.88	\$12.03	\$10.44	\$12.16	\$10.34
Middle 50%	\$15.70	\$18.29	\$17.89	\$21.36	\$16.65	\$21.42
Highest Cost 25%	\$19.41	\$36.08	\$25.64	\$38.49	\$26.86	\$38.54
Highest Cost/Pay	\$38.86	\$114.23	\$31.28	\$133.79	\$52.75	\$133.79

Table 7.3

Payroll Activity Efficiency Benchmarks—Pays Per FTE

	Total Number of Pays Annually/Payroll Activity FTEs					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Most Efficient	61,682	54,823	21,206	54,823	38,308	54,823
Most Efficient 25%	7,009	11,991	7,318	11,700	8,171	11,700
Middle 50%	4,494	5,446	6,318	5,275	6,349	5,311
Least Efficient 25%	3,937	2,857	3,455	2,893	2,895	2,890
Least Efficient	2,406	190	2,266	190	1,691	190

Table 7.4**Payroll Activity Quality Benchmark—Error Rate**

	Total Number of Pays with Errors/ Total Number of Pays Annually					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwltb Group	Global	Cwltb Group	Global	Cwltb Group	Global
Lowest Error Rate/Pays	0.086%	0.014%	0.143%	0.014%	0.136%	0.014%
Lowest Error Rate 25%	0.273%	0.290%	0.158%	0.292%	0.200%	0.296%
Middle 50%	0.440%	0.692%	0.379%	0.688%	0.397%	0.690%
Highest Error Rate 25%	0.805%	1.736%	0.499%	1.791%	0.532%	1.794%
Highest Error Rate/Pays	2.946%	8.742%	4.004%	8.742%	2.642%	8.742%

Table 7.5**Payroll Activity Better Practice Benchmark—Payroll/HRIS /Interface**

	Payroll / Human Resources Information System Integration/Interface					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwltb Group	Global	Cwltb Group	Global	Cwltb Group	Global
Better Practice	71% Integrated	57% Integrated	77% Integrated	59% Integrated	85% Integrated	59% Integrated
Non-Better Practice	29% Not Integrated	43% Not Integrated	23% Not Integrated	41% Not Integrated	15% Not Integrated	41% Not Integrated

Table 7.6**Payroll Activity Better Practice Benchmark—Personnel Payment Using Direct Deposit**

	Total Employees paid by Direct Debit/Total Employees					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwltb Group	Global	Cwltb Group	Global	Cwltb Group	Global
Highest Direct Deposit Utilisation	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Highest Utilisation 25%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Middle 50%	100.00%	87.23%	100.00%	87.46%	100.00%	87.65%
Lowest Utilisation 25%	100.00%	49.08%	85.52%	51.52%	98.56%	51.55%
Lowest Direct Deposit Utilisation	87.67%	0.00%	53.47%	0.00%	54.55%	0.00%

8. Travel and Related Costs Activity Benchmarks

Table 8.1

Travel and Related Costs Activity Cost Benchmark—Overall Cost

	Total Indirect Travel Activity Cost/ Total Organisational Expenditure					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Cost Percentage	0.003%	0.001%	0.003%	0.001%	0.002%	0.001%
Lowest Cost 25%	0.012%	0.008%	0.013%	0.008%	0.009%	0.008%
Middle 50%	0.034%	0.016%	0.026%	0.018%	0.031%	0.018%
Highest Cost 25%	0.055%	0.033%	0.072%	0.036%	0.076%	0.037%
Highest Cost Percentage	0.826%	0.270%	0.394%	0.826%	0.223%	0.826%

Table 8.2

Travel and Related Costs Activity Cost Benchmark—Cost/Travel Requisition

	Total Indirect Travel Cost/Number of Travel Requisitions					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Cost/Requisition	\$2.86	\$1.59	\$1.53	\$1.53	\$1.30	\$1.30
Lowest Cost 25%	\$19.78	\$12.64	\$15.07	\$14.79	\$14.69	\$14.69
Middle 50%	\$44.08	\$26.52	\$44.46	\$31.58	\$46.10	\$31.30
Highest Cost 25%	\$70.08	\$64.86	\$58.75	\$76.05	\$49.56	\$76.25
Highest Cost/Requisition	\$192.02	\$229.77	\$124.37	\$269.13	\$128.91	\$269.13

Table 8.3

Travel and Related Costs Activity Efficiency Benchmark—Travel Requisitions/FTE

	Total Travel Requisitions/Total Travel and Related Costs FTEs					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Most Requisitions/FTE	34,120	35,850	56,867	36,706	66,667	36,706
Most Efficient 25%	5,574	9,647	5,591	9,000	5,125	9,000
Middle 50%	1,525	5,338	1,700	5,000	3,400	5,000
Least Efficient 25%	970	3,012	1,489	2,513	1,301	2,600
Least Requisitions/FTE	357	136	1,053	136	890	136

Table 8.4**Travel and Related Costs Activity Better Practice Benchmark—
Reimbursement through Payroll**

	Method of Employee Reimbursement					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Payroll	21%	17%	0%	12%	0%	12%
Other	72%	17%	86%	30%	86%	30%
Accounts Payable Cheque	7%	66%	14%	58%	14%	58%

9. Billing Activity Benchmarks

Table 9.1

Billing Activity Cost Benchmarks—Overall Cost

	Total Billing Activity Cost/ Total Organisational Expenditure					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Cost Percentage	0.0003%	0.002%	0.001%	0.001%	0.001%	0.001%
Lowest Cost 25%	0.007%	0.046%	0.011%	0.040%	0.013%	0.040%
Middle 50%	0.056%	0.118%	0.019%	0.096%	0.022%	0.096%
Highest Cost 25%	0.099%	0.282%	0.098%	0.243%	0.080%	0.243%
Highest Cost Percentage	0.225%	0.978%	0.206%	0.987%	0.189%	0.987%

Table 9.2

Billing Activity Cost Benchmark—Cost / Customer Invoice Issued

	Total Billing Activity Cost/ Number of Annual Invoices Issued					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Cost Percentage	\$5.88	\$0.10	\$9.22	\$0.11	\$8.79	\$0.11
Lowest Cost 25%	\$14.31	\$4.23	\$25.55	\$4.59	\$22.33	\$4.59
Middle 50%	\$40.27	\$11.76	\$49.57	\$14.30	\$40.35	\$14.30
Highest Cost 25%	\$56.71	\$25.41	\$57.76	\$29.91	\$52.74	\$29.91
Highest Cost Percentage	\$213.14	\$77.72	\$95.92	\$91.03	\$154.27	\$91.03

Table 9.3

Billing Activity Quality Benchmark—Error Rate

	Number of Customer Invoices Adjusted/ Total Number of Customer Invoices Issued					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Least Adjustments/Invoice	0.43%	0.10%	0.00%	0.10%	0.00%	0.10%
Least Adjustments 25%	1.36%	0.94%	1.83%	0.94%	1.71%	0.94%
Middle 50%	2.33%	2.18%	2.71%	2.13%	2.42%	2.13%
Highest Adjustments 25%	5.19%	4.27%	5.42%	4.17%	7.90%	4.17%
Most Adjustments/Invoice	8.44%	20.57%	10.33%	20.57%	15.94%	20.57%

Table 9.4**Billing Activity Quality Benchmark—Elapsed Time to Billing**

	Average Elapsed Time Between Service Provision and Billing					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwltb Group	Global	Cwltb Group	Global	Cwltb Group	Global
<1 Day	0.00%	11.86%	0.00%	9.00%	0.00%	9.00%
1-5 Days	22.23%	59.68%	10.00%	58.00%	10.00%	58.00%
6-10 Days	33.33%	10.28%	20.00%	11.00%	20.00%	11.00%
11-15 Days	33.33%	9.49%	50.00%	10.00%	50.00%	10.00%
>15 Days	11.11%	8.70%	20.00%	13.00%	20.00%	13.00%

Table 9.5**Billing Activity Better Practice Benchmark—EDI Utilisation**

	Percentage Utilisation of EDI for Billing					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwltb Group	Global	Cwltb Group	Global	Cwltb Group	Global
Better Practice EDI Utilisation	0.00%	8.90%	0.00%	8.72%	0.00%	8.72%
Middle 50%	0.00%	4.45%	0.00%	4.36%	0.00%	4.36%
Non-Better Practice EDI Utilisation	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

10. Tax Activity Benchmarks

Table 10.1

Tax Activity Cost Benchmark—Overall Cost

	Total Tax Activity Cost/ Total Organisational Expenditure					
	1998–1999	2000	1999–2000	2001	2000–2001	2001
	Cwlth Group	Global	Cwlth Group	Global	Cwlth Group	Global
Lowest Cost Percentage	0.0001%	0.001%	0.006%	0.001%	0.006%	0.001%
Lowest Cost 25%	0.004%	0.015%	0.016%	0.013%	0.014%	0.013%
Middle 50%	0.008%	0.027%	0.022%	0.027%	0.031%	0.028%
Highest Cost 25%	0.027%	0.052%	0.093%	0.057%	0.040%	0.057%
Highest Cost Percentage	0.720%	0.144%	0.257%	0.144%	0.126%	0.144%

Appendix 4

Global Best Practices® Qualitative Results

The following tables list the participating Commonwealth Group organisations’ responses to a series of qualitative questions about the finance function activities (except for Tax). The first column lists the questions asked, the second column lists the answer required to match better practice and the remaining columns list, for each of the three years of the study, the number of responses from the Commonwealth Group that were better practice, not better practice, not applicable or no answer was provided.

		1998–1999						1999–2000						2000–2001					
	Better practice answer	Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total			
TABLE 1. FINANCIAL BUDGETING	Top management sets strategic goals before business units begin developing budgets.	Yes	9	3	0	2	14	13	1	0	0	14	13	1	0	0	14		
	Business units have responsibility for their own risk management.	No	Not asked				7	7	0	0	14	7	7	0	0	14			
	The organisation relies exclusively on financial measures to chart progress towards strategic goals.	No	Not asked				14	0	0	0	14	14	0	0	0	14			
	Actual performance at the business unit level provides information for strategy setting.	Yes	7	4	0	3	14	11	2	1	0	14	11	2	1	0	14		
	The organisation trains managers in strategic goal setting.	Yes	Not asked				7	6	1	0	14	9	4	1	0	14			
	The organisation uses one set of measures in evaluating action plans from all business units.	No	Not asked				10	3	1	0	14	10	3	1	0	14			
	The organisation has consistent review procedures that are used year after year in evaluating action plans.	Yes	9	2	0	3	14	7	6	1	0	14	7	6	1	0	14		
	Cross-functional teams evaluate the impact of major proposals.	Yes	Not asked				12	2	0	0	14	13	1	0	0	14			
	The organisation monitors action plans to compare actual to planned results.	Yes	7	4	0	3	14	11	2	1	0	14	11	2	1	0	14		
	The organisation expresses performance measures in general terms, and uses the same measures for all units.	No	Not asked				13	0	1	0	14	12	1	1	0	14			
Higher-level management explicitly identifies factors that are outside the control of their subordinates.	Yes	7	4	0	3	14	8	5	1	0	14	11	2	1	0	14			
The organisation evaluates managers' performance based solely on factors under their control.	Yes	5	5	0	4	14	7	5	2	0	14	8	4	2	0	14			
The organisation uses general ledger account categories in developing costs.	No	Not asked				4	10	0	0	14	4	10	0	0	14				
Different divisions within the organisation use different costing methods.	No	5	5	2	2	14	9	5	0	0	14	10	4	0	0	14			

	Better practice answer	1998–1999					1999–2000					2000–2001				
		Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total
TABLE 1. FINANCIAL BUDGETING																
Managers use variance analysis to understand costs and develop budgets.	Yes	8	4	0	2	14	10	4	0	0	14	11	3	0	0	14
Managers have efficient tools and training to help them coordinate costs and budgets.	Yes		Not asked				10	4	0	0	14	11	3	0	0	14
The organisation creates fewer than ten whole organisation budgets per year.	Yes	10	1	1	2	14	14	0	0	0	14	14	0	0	0	14
The organisation uses standardised budgeting methods in all divisions.	Yes	10	2	0	2	14	9	5	0	0	14	10	4	0	0	14
The organisation's budget cycle takes four months or more.	No	5	6	1	2	14	8	6	0	0	14	8	6	0	0	14
The organisation distributes budgets electronically.	Yes	8	4	0	2	14	13	1	0	0	14	14	0	0	0	14
Budget developers receive complete training whenever the organisation makes changes in its information technology.	Yes		Not asked				10	2	2	0	14	10	2	2	0	14
The organisation has revised its financial reports within the last two years.	Yes		Not asked				10	4	0	0	14	12	2	0	0	14
The organisation reviews changing business conditions during strategic planning, not during budget reviews.	No	3	6	2	3	14	3	10	1	0	14	4	9	1	0	14
In developing budgets, business units create 'what if' scenarios based on varying assumptions.	Yes	5	5	1	3	14	7	6	1	0	14	8	5	1	0	14
The organisation does not revise the budget once it has been approved.	No	9	2	0	3	14	12	1	1	0	14	13	0	1	0	14

TABLE 2. FIXED ASSETS	Better practice answer	1998–1999					1999–2000					2000–2001				
		Better practice					Not better practice					Not better practice				
		Total					Total					Total				
		Better practice	Not better practice	Not applicable	No answer		Better practice	Not better practice	Not applicable	No answer		Better practice	Not better practice	Not applicable	No answer	Total
The organisation conducts gap analyses of current versus desired performance to better manage fixed assets.	Yes	5	6	2	1	14	5	8	1	0	14	5	8	1	0	14
The organisation regularly examines work flow to identify areas for improving efficiency and cost.	Yes	Not asked					12	2	0	0	14	13	1	0	0	14
The organisation distinguishes expenditures that should be capitalised.	Yes	11	0	0	3	14	14	0	0	0	14	14	0	0	0	14
The organisation has set minimum capitalisation standards.	Yes	12	0	0	2	14	14	0	0	0	14	14	0	0	0	14
The organisation sets standards for depreciable lives and salvage values.	No	Not asked					1	13	0	0	14	1	13	0	0	14
The organisation views preventative maintenance provisions as a low priority in controlling fixed asset costs.	No	8	2	2	2	14	8	2	4	0	14	9	2	3	0	14
The organisation requires authorisation of all fixed asset transactions except disposals and changes to depreciation policies.	No	5	7	0	2	14	10	4	0	0	14	10	4	0	0	14
Fixed asset procedures are clearly communicated to all relevant personnel.	Yes	11	1	0	2	14	14	0	0	0	14	14	0	0	0	14
The organisation ensures that the software provides certain basic functions such as calculation of depreciation, multi-depreciation planning options, data integration with other software products, and customised data entry menus, fields and screens.	Yes	Not asked					13	0	1	0	14	13	1	0	0	14
The organisation believes evaluation of the data entry function is not worth the time and effort.	No	Not asked					12	0	2	0	14	12	0	2	0	14
The organisation does not consider standard report production of primary importance in choosing a software program.	No	Not asked					12	2	0	0	14	11	2	1	0	14
Database fields are tailored to organisation needs.	Yes	Not asked					13	1	0	0	14	13	1	0	0	14

TABLE 2. FIXED ASSETS	Better practice answer	1998–1999					1999–2000					2000–2001				
		Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total
The organisation examines what it needs to keep track of and what level of detail is necessary.	Yes	11	1	0	2	14	14	0	0	0	14	14	0	0	0	14
The organisation conducts physical inventories on a regular basis.	Yes	12	0	0	2	14	13	1	0	0	14	13	1	0	0	14
The organisation maintains detailed property records through several databases.	No	5	6	0	3	14	7	6	1	0	14	6	7	1	0	14
The organisation uses bar coding to gather and record fixed asset information.	Yes	9	3	0	2	14	11	3	0	0	14	11	3	0	0	14
The organisation conducts ongoing reviews to maintain records.	Yes	8	1	0	5	14	14	0	0	0	14	14	0	0	0	14

	Better practice answer	1998–1999					1999–2000					2000–2001				
		Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total
TABLE 3. ACCOUNTS PAYABLE																
The organisation has calculated the cost or savings resulting from its accounts payable practices, including late payment penalties, interest and prompt payment discounts.	Yes	5	6	0	3	14	6	7	1	0	14	7	6	1	0	14
The organisation always pays invoices before their due dates.	No	9	3	0	2	14	11	3	0	0	14	11	3	0	0	14
The accounts payable group aims for specific targets in measures such as average days in accounts payable and accounts payable turnover.	Yes	3	9	0	2	14	6	8	0	0	14	8	6	0	0	14
The accounts payable group seeks advice from suppliers on how to improve the process.	Yes	9	3	0	2	14	6	7	1	0	14	7	5	2	0	14
The accounts payable group has mapped—either in words or pictures—who does what work, when, and why in processing invoices for payment.	Yes	Not asked					11	3	0	0	14	12	2	0	0	14
The accounts payable group understands how many invoices and cheques they are able to process given their operational procedures, levels of staff, computer systems, banking systems and other resources.	Yes	Not asked					13	1	0	0	14	13	1	0	0	14
The accounts payable group has identified the bottlenecks in the process, that is, where work slows down and piles up and in turn slows down the next steps in the operation.	Yes	11	0	1	2	14	13	1	0	0	14	13	0	1	0	14
The organisation tracks how long it takes to approve invoices and sets limits on the time allowed for it.	Yes	Not asked					7	5	2	0	14	8	5	1	0	14
The accounts payable group identifies the source of mismatches between invoices, purchase orders and receiving documents and then resolves the problems where they originate.	Yes	10	0	1	3	14	13	0	1	0	14	14	0	0	0	14
Only accounting and finance staff learn about the policies and procedures that minimise the organisation's exposure to financial risk.	No	9	3	0	2	14	12	2	0	0	14	11	3	0	0	14

TABLE 3. ACCOUNTS PAYABLE	Better practice answer	1998–1999						1999–2000						2000–2001					
		Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total			
The accounts payable group physically limits access to sensitive financial property.	Yes	12	0	0	2	14	13	0	1	0	14	13	0	1	0	14			
Individuals in the accounts payable group perform the full range of payables tasks, such as disbursing funds and reconciling bank accounts.	No	12	0	0	2	14	14	0	0	0	14	14	0	0	0	14			
The accounts payable group works in partnership with the information systems group to implement changes and upgrades to payables computer systems.	Yes	10	1	1	2	14	12	2	0	0	14	14	0	0	0	14			
Managers of the area that originate purchases approve each of their invoices for payment.	No	3	9	0	2	14	4	10	0	0	14	4	10	0	0	14			
The organisation requires an accounts payable supervisor or manager to approve each invoice for payment.	No	7	5	0	2	14	6	8	0	0	14	6	8	0	0	14			
The organisation requires physical invoices to pay money due to all suppliers.	No	Not asked					3	11	0	0	14	4	10	0	0	14			
The organisation assigns general ledger accounting codes to each individual invoice.	No	2	10	0	2	14	0	14	0	0	14	1	13	0	0	14			
The organisation receives and processes invoices for each individual purchase order or shipment.	No	2	9	0	3	14	1	13	0	0	14	2	12	0	0	14			
The organisation prepares its own payments and processes all of its own accounts payable transactions.	No	1	11	0	2	14	1	13	0	0	14	1	13	0	0	14			
The organisation designates a small number of locations to process accounts payable for all of the organisation's locations.	Yes	10	1	1	2	14	13	1	0	0	14	14	0	0	0	14			
Data is entered into the organisation's systems one time and then used to process accounts payable in many modules of the computer system.	Yes	10	1	1	2	14	13	0	1	0	14	13	0	1	0	14			
The organisation uses EDI or an alternative electronic method to process accounts payable documents.	Yes	6	6	0	2	14	4	10	0	0	14	5	9	0	0	14			

TABLE 3. ACCOUNTS PAYABLE	Better practice answer	1998–1999					1999–2000					2000–2001					
		Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	
		The organisation pays all of its suppliers with traditional, paper cheques.	No	Not asked				13	1	0	0	14	13	1	0	0	14
		Unauthorised purchases surface through monitoring by accounts payable.	No	Not asked				5	9	0	0	14	4	10	0	0	14
The organisation builds an electronic interface between the biller's e-billing and the payer's e-paying systems.	Yes	Not asked				3	9	2	0	14	3	9	2	0	14		

	Better practice answer	1998–1999						1999–2000						2000–2001					
		Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total			
TABLE 4. CLOSE THE BOOKS AND FINANCIAL REPORTING																			
Closing the books is a series of tasks moved along from employee to employee. The only way to improve performance is to speed up each task.	No		Not asked				13	1	0	0	14	13	1	0	0	14			
Individuals or integrated teams at the organisation manage entire portions of the close the books process, such as reconciling key ledgers and key accounts.	Yes		Not asked				13	1	0	0	14	14	0	0	0	14			
The organisation has documented each step in the close-the-books process in terms of who does it, at what point in the period, and why.	Yes	9	2	0	3	14	12	2	0	0	14	11	3	0	0	14			
Steps in the close-the-books process include tasks related to separate financial processes, like updating the budget or calculating taxes.	No	5	5	1	3	14	5	9	0	0	14	6	8	0	0	14			
The organisation puts manual entries into the general ledger, including some that recur on a regular basis.	No	2	10	0	2	14	4	10	0	0	14	2	12	0	0	14			
Some duplicate data entry is necessary. For example, employees must enter data on-line into the central accounting system as well as off-line into spreadsheets for further analysis.	No		Not asked				7	7	0	0	14	6	8	0	0	14			
The accounting staff debriefs after each period of closing the books. They report all errors in the process, investigate them, and propose solutions.	Yes	5	6	0	3	14	10	3	1	0	14	11	2	1	0	14			
The accounting staff rigorously looks for tasks to move away from period-end, such as processing allocations and accruals.	Yes	6	5	0	3	14	12	2	0	0	14	14	0	0	0	14			
As part of the close-the-books process, the accounting staff performs all account reconciliations and analyses at period-end.	No	2	9	0	3	14	5	9	0	0	14	6	8	0	0	14			

	Better practice answer	1998–1999					1999–2000					2000–2001				
		Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total
TABLE 4. CLOSE THE BOOKS AND FINANCIAL REPORTING																
The organisation reconciles all accounts to the last cent.	No	7	4	0	3	14	10	4	0	0	14	12	2	0	0	14
Line managers and accounting staff collaborate to define the key performance indicators that are meaningful to report as part of the close-the-books cycle.	Yes	4	8	0	2	14	8	3	3	0	14	9	3	2	0	14
The accounting staff creates brief, standardised, period-end reports that meet the common criteria of all line managers.	Yes	7	4	0	3	14	13	0	1	0	14	12	1	1	0	14
Line managers prepare their own rough estimates of performance for their business units during the period.	Yes	Not asked					10	2	2	0	14	9	3	1	1	14
The organisation has many charts of accounts and several general ledgers.	No	10	1	0	3	14	13	1	0	0	14	14	0	0	0	14
Most of the organisation's business units perform their accounting functions independently.	No	Not asked					12	1	1	0	14	12	2	0	0	14
The organisation has implemented integrated accounting systems across all business units.	Yes	6	4	1	3	14	14	0	0	0	14	14	0	0	0	14
The organisation rigidly enforces either an all-centralised or all-decentralised method of closing the books.	No	Not asked					5	8	1	0	14	4	8	1	1	14

TABLE 5. ACCOUNTS RECEIVABLE	Better practice answer	1998–1999				1999–2000				2000–2001			
		Not better practice		Not applicable		Total		Better practice		Not better practice		Total	
		Better practice		No answer		Total		Better practice		No answer		Total	
The organisation offers discounts or other incentives to encourage customers to pay on time or early.	Yes	Not asked		14		14		0	11	3	0	14	14
Customers contact many different areas when they have inquiries.	No	8	3	0	3	14	11	11	2	1	0	14	14
The organisation provided customers convenient access to their account information so they can identify their position.	Yes	Not asked		14		14		5	4	5	0	14	14
The organisation discusses and documents credit terms with customers at the beginning of the business relationship.	Yes	7	2	2	3	14	11	11	0	3	0	14	14
The organisation processes all payments in-house.	No	Not asked		14		14		0	13	1	0	14	14
The organisation posts payments on receipt.	Yes	12	0	0	2	14	12	12	1	1	0	14	14
The organisation reconciles mismatched payments and deductions as quickly as possible.	Yes	Not asked		14		14		13	0	1	0	14	14
Credit applications take a few weeks to process.	No	Not asked		14		14		5	2	7	0	14	14
The organisation empowers and trains its credit and collections staff.	Yes	Not asked		14		14		10	1	3	0	14	14
The entire collection process is manual.	No	Not asked		14		14		8	5	1	0	14	14
Credit and collections staff work toward realistic performance goals.	Yes	Not asked		14		14		10	0	4	0	14	14
The organisation selects collection agencies based solely on price.	No	8	0	4	2	14	9	9	0	5	0	14	14
The organisation forwards accounts with low collection probability directly to its collection agencies, regardless of age.	Yes	Not asked		14		14		2	6	6	0	14	14

TABLE 5. ACCOUNTS RECEIVABLE		Better practice answer	1998–1999					1999–2000					2000–2001					
			Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	
	The organisation uses an identical approach for all accounts including persistently delinquent accounts. Collectors have the authority to settle delinquent accounts at their discretion.	No	4	3	3	4	14	7	4	3	0	14	8	3	3	0	14	
		Yes	Not asked						2	8	4	0	14	2	7	5	0	14
		No	Not asked						0	5	9	0	14	0	6	8	0	14

	Better practice answer	1998–1999					1999–2000					2000–2001					Total
		Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	
TABLE 6. PAYROLL																	
Does the organisation have clearly defined objectives for its payroll process. Cost alone guides the organisation's decisions about whether to outsource payroll activities. The organisation has weighed the benefits of purchasing payroll software and external processing services from a single payroll vendor. The organisation's human resources information system is implemented in the payroll area only.	Yes	7	1	2	4	14	13	0	0	1	14	13	0	0	1	14	
	No		Not asked				12	0	1	1	14	12	0	1	1	14	
	Yes		Not asked				10	0	3	1	14	10	0	3	1	14	
	No		Not asked				12	1	0	1	14	13	0	0	1	14	
	Yes	8	0	2	4	14	11	0	2	1	14	10	1	2	1	14	
The organisation's HRMIS is customisable and expandable.	Yes	10	1	0	3	14	11	2	0	1	14	12	1	0	1	14	
The organisation implements the HRMIS to work with its existing business processes.	No	0	10	2	2	14	3	9	1	1	14	3	9	1	1	14	
Employees are trained to use the HRMIS.	Yes	8	2	1	3	14	12	1	0	1	14	12	1	0	1	14	
Employees have the option of submitting their time and attendance data electronically.	Yes	6	4	1	3	14	4	4	4	2	14	4	4	4	2	14	
Automated time and attendance reporting is linked to the organisation's payroll or human resources information systems.	Yes	3	5	4	2	14	4	5	4	1	14	4	5	4	1	14	
The organisation offers direct deposit to all employees.	Yes	12	0	0	2	14	13	0	0	1	14	13	0	0	1	14	
Employees are responsible for educating themselves about the benefits of direct deposit.	No		Not asked				3	4	6	1	14	5	5	3	1	14	

TABLE 6. PAYROLL	Better practice answer	1998–1999					1999–2000					2000–2001				
		Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total
Employee pay slips are provided electronically.	Yes	5	7	0	2	14	6	7	0	1	14	6	7	0	1	14
The organisation uses a HRMIS that is easy to learn, easy to use and easy to access (ie data entry is decentralised and employees can access and update their own payroll information).	Yes	4	7	0	3	14	5	7	1	1	14	5	7	1	1	14
The organisation uses a HRMIS that integrates payroll and benefits information.	Yes	Not asked					8	4	0	2	14	9	3	0	2	14
The organisation uses paper forms to capture and update tax information.	No	Not asked					3	10	0	1	14	2	11	0	1	14
Employees have online access to their earnings, savings and tax information.	Yes	4	8	0	2	14	7	6	0	1	14	7	6	0	1	14

		TABLE 7. TRAVEL AND RELATED COSTS														
	Better practice answer	1998–1999					1999–2000					2000–2001				
		Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total

	1998–1999					1999–2000					2000–2001				
	Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total
TABLE 7. TRAVEL AND RELATED COSTS	Better practice answer														
The corporate travel manager leads negotiations with the corporate travel agency and other preferred vendors.	Yes	10	1	1	2	14	8	3	3	0	14	9	1	4	14
The corporate travel manager uses management information reports to monitor travel spending.	Yes		Not asked			12	0	2	0	14	13	0	1	0	14
The corporate travel manager's role within the organisation is diminishing.	No		Not asked			11	0	3	0	14	11	0	3	0	14
The organisation's corporate card issuer offers features and options tailored specifically to the organisation's needs.	Yes		Not asked			4	7	3	0	14	6	6	2	0	14
Can employees use methods other than the corporate card to pay for reimbursable travel expenses.	No	2	10	0	2	14	3	9	2	0	14	2	10	2	14
Employees are encouraged to use the corporate card as necessary for legitimate cash advances.	Yes		Not asked			4	7	3	0	14	5	6	3	0	14
Accounting for travel and related cost expenses is decentralised with every office assuming responsibility for processing and reimbursing employee expenses.	No		Not asked			4	10	0	0	14	5	9	0	0	14
The expense accounting process is carried out manually for the most part.	No	4	7	0	3	14	6	8	0	0	14	6	8	0	14
The organisation uses or is considering using automated booking products	Yes		Not asked			7	6	1	0	14	9	4	1	0	14
Trips are audited for policy compliance only after they are taken.	No		Not asked			6	8	0	0	14	6	7	1	0	14
The organisation uses some degree of electronic ticketing to simplify airline ticket issuance.	Yes	11	1	0	2	14	14	0	0	0	14	14	0	0	14

	Better practice answer	1998–1999					1999–2000					2000–2001					
		Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	Better practice	Not better practice	Not applicable	No answer	Total	
TABLE 8. BILLING																	
Billing invoices easily accommodate changes.	Yes						Not asked	10	1	3	0	14	10	2	2	0	14
Billing frequency, type and terms are the same for all customers.	No						Not asked	8	3	3	0	14	8	4	2	0	14
Electronic billing methods are used whenever possible.	Yes						Not asked	2	7	5	0	14	3	7	4	0	14
The organisation confirms billing methods with customers and communicates them to affected employees.	Yes						Not asked	8	1	5	0	14	9	1	4	0	14
The organisation regularly evaluates the billing process for breakdowns in work flow.	Yes						Not asked	9	1	4	0	14	10	1	3	0	14
The billing system uses technology that can be modified easily as business requirements change.	Yes						Not asked	9	2	3	0	14	8	3	3	0	14
The billing system is separate from other related information systems.	No						Not asked	9	2	3	0	14	10	2	2	0	14
The organisation periodically analyses the costs and benefits of outsourcing the billing activity.	Yes						Not asked	1	6	7	0	14	4	4	6	0	14
Customers know who to contact with billing inquiries.	Yes						Not asked	12	0	2	0	14	12	0	2	0	14
Billing employees take only a reactive approach to problems and disputes.	No						Not asked	10	1	3	0	14	10	1	3	0	14
Billing data is only accessible to billing employees.	No						Not asked	8	4	2	0	14	9	3	2	0	14
Billing data is used to identify trends, planned fluctuations, seasonal patterns and cyclical patterns.	Yes						Not asked	7	3	4	0	14	7	2	5	0	14
Customers may inquire about or dispute electronic bill charges only by phone or in writing.	No						Not asked	2	2	10	0	14	5	0	9	0	14

Appendix 5

Previous Audit Coverage

Audit Report No.25 of 2000–2001, *Benchmarking the Finance Function*, December 2000

The objective of the finance function benchmarking study was to obtain, and report on over time, quantitative and qualitative data relating to finance function activities as they operate in Commonwealth organisations. The study examines aggregated benchmarking measures of cost, efficiency, quality and better practice reported by nineteen Commonwealth organisations for the 1998–1999 financial year.

The ANAO study collected benchmarking data on activities including the overall finance function, financial budgeting and analysis, fixed assets, accounts payable, close the books and financial reporting, accounts receivable, payroll, travel and related costs, billing, and tax.

The Report illustrated the areas where Commonwealth organisations were performing well and those where there were opportunities for improvement.

Audit Report No.28 of 2001–2002, *An Analysis of the Chief Financial Officer Function in Commonwealth Organisations*, December 2001

This benchmarking study examined Commonwealth Chief Financial Officers (CFOs) roles and responsibilities in undertaking aspects of financial management and financial accounting activities within their organisation. The ANAO undertook this benchmarking study to provide information on a range of relevant CFO functions in Commonwealth organisations. In particular the study sought to identify:

- the skills, qualifications and experience of Commonwealth CFOs;
- the CFOs' perceptions of their roles, responsibilities and priorities, and how these may have changed in relation to previous studies and available Andersen Global Best Practices (from the Andersen Global Best Practices® Knowledge base); and
- how Commonwealth CFOs viewed and used information technology to achieve their financial management objectives.

The results of the study suggest that CFOs consider their role to be mainly focused on the broader financial management of the organisation. The results also indicate that CFOs are becoming better placed to address a range of contemporary financial management issues. The Report outlines a number of areas where there are opportunities for some CFOs to enhance the financial management and performance of their organisation.

Audit Report No.52 of 2001–2002, *Internal Budgeting*, May 2002

The objective of this audit was to evaluate the efficiency and effectiveness of internal budget processes and to assess whether organisations had revised their approaches to internal budgeting to reflect the introduction of the new framework. The audit concluded that most organisations reviewed had sound and well-established processes for the development of internal budgets. However the audit also observed a number of shortcomings in the ongoing management of internal budgets which reduced the effectiveness of the contribution of internal budgeting to the overall internal financial management and control environment. Key areas identified in the audit that require continued focus are acquiring and retaining skilled personnel, continued involvement of operational or line managers in budget and financial management matters, clarity and increased understanding of budget management responsibilities, involvement and support from senior management and developing the functionality of 'accrual-capable' Financial Management Information Systems (FMIS).

Audit Report No.27 of 1995–1996 *Asset Management*, June 1996, Audit Report No.41 of 1997–1998, *Asset Management*, April 1998, *Better Practice Guide Asset Management*, June 1996, *Asset Management Handbook*, June 1996, and Audit Report No.8 of 2001–2002, *Disposal of Infrastructure, Plant and Equipment*, August 2001

The objectives of the 1995-1996 Audit were to assess how well agencies were managing their assets to produce better outcomes and to identify or develop better practice in asset management. The audit concluded that sound principles of asset management dealing with strategic planning, acquisition, operation and disposal were not being applied in most agencies and, where they were, they can be significantly improved. The audit also found that in relation to the management control and monitoring of assets, agencies had generally developed basic asset policies and procedures and implemented adequate asset accounting systems. The audit also outlined where improvements could be made.

In conjunction with this audit the ANAO published a *Better Practice Guide Asset Management* and an *Asset Management Handbook*. The Guide brought together the experience of a broad cross-section of Commonwealth entities and built on this by examining approaches adopted in the private sector and in other levels of government both within Australia and overseas. The Guide provides a strategic overview of asset management for executives and senior managers. The *Asset Management Handbook* helps interpret and implement the asset management principles outlined in the Guide and developed as a result of the 1996–1996 audit.

The 1997–1998 audit reviewed the degree of acceptance of the previous audit recommendations; the extent to which organisations were managing their assets in accordance with the asset management principles identified in the *Asset Management Handbook*; and central coordination activities in asset management.

Overall, the audit found there had been significant acceptance by public sector organisations of the recommendations of Audit Report No.27 of 1995–1996. However despite the general acceptance of the recommendations, many of the organisations reviewed had yet to fully adopt a strategic asset management approach to maximise performance and accountability for outputs and outcomes.

The objective of Audit Report No.8 of 2001–2002, *Disposal of Infrastructure, Plant and Equipment*, published in August 2001 was to assess whether the disposals were being carried out in accordance with Government policy, relevant aspects of the asset management principles, and applicable internal controls.

The audit confirmed the findings relating to asset management and disposal planning arising from the previous audits and concluded that organisations were disposing of assets in accordance with Government policy and mostly in accordance with relevant aspects of the asset management principles and applicable internal controls. The ANAO outlined a number of areas where organisations could make many improvements to enhance disposal management, so as to achieve more effective internal control and better disposal outcomes.

Audit Report No.16 of 1996–1997, *Payment of Accounts*, November 1996, Better Practice Guide, *Paying Accounts*, November 1996 and Audit Report No.52 of 2000–2001 *Payment of Accounts*, June 2001

The 1996–1997 payment of accounts audit assessed the management and administration of the payment of accounts function in the Commonwealth and reported better practice with a view to promoting overall improvements in public administration. The ANAO concluded that the payment of accounts function was being administered satisfactorily within the context of the current financial legislative and management framework. However, better practices could be achieved through changes in the management and organisational framework for the payment of accounts and greater use of advanced information technology.

The Better Practice Guide *Paying Accounts* accompanied the 1996–1997 audit and provides an overview of the trends and better practice approaches that were adopted by organisations in paying accounts.

The main objectives of the 2000–2001 audit were to determine whether organisations had implemented appropriate risk management strategies for the processing of accounts and whether payment for goods and services had been

properly authorised. The audit also reviewed progress since the payment of accounts audit undertaken in 1996–1997. The ANAO concluded that the payment of accounts function was being administered satisfactorily but again outlined how a number of better practices could be achieved.

Better Practice Guides, *Building Better Financial Management Support—Functions, systems and activities for producing financial information*, November 1999 and *Building a Better Financial Management Framework—Defining, presenting and using financial information*, November 1999

The two financial management Better Practice Guides were designed to assist organisations to develop a sound financial management capability.

The first Guide deals with the critical functions, systems and processes needed to deliver financial information efficiently and effectively to users and examines current trends in the evolution of the finance function. The second Guide outlines some of the critical considerations involved in using financial information that are essential to the establishment of a valuable financial management framework.

Audit Report No.29 of 1997–1998, *Management of Accounts Receivable*, December 1997, Better Practice Guide *Management of Accounts Receivable*, December 1997 and Audit Report No.25 of 2001–2002, *Accounts Receivable*, December 2001

The 1997–1998 accounts receivable audit assessed the cost-effectiveness of the management and administration of the accounts receivable function in the general government sector and reported better practice to promote overall improvements in the management of accounts receivable.

The Better Practice Guide *Management of Accounts Receivable* provides an overview of the trends and better practice approaches being adopted by organisations in the management of accounts receivable. It provides practical advice and assistance to managers directly involved in the key accounts receivable processes including invoicing, receipting payments and debt collection.

The objective of the 2001–2002 audit was to assess whether the processing, collection and overall management of the accounts receivable function was being performed in accordance with applicable legislation, government policy, applicable internal controls, and identify better practices in accounts receivable activities.

The ANAO concluded that Commonwealth organisations audited were generally processing, collecting and managing the accounts receivable function in accordance with applicable legislation, Government policy and applicable

internal controls. The ANAO nevertheless considered that improvements could be made and outlined a number of key areas where improvements could be made. The audit also identified examples of sound and better practices used by the organisations reviewed.

The results of this audit are consistent with the findings of the 1997–1998 audit and the opportunities for improvement provided in the *Management of Accounts Receivable* Better Practice guide are still relevant.

Audit Report No.19 of 2000–2001, *Payroll Management*, November 2001

The objectives of the audit were to determine whether organisations have established internal control frameworks for the management of payroll operations, assess whether payment of salaries and related expenditures is made in accordance with the relevant terms and conditions of employment, and identify better practices in the management and operations of payroll systems.

The ANAO concluded that the robustness of the control framework for the management of payroll operations varied across the organisations reviewed, although most met what could be considered minimum performance standards. The audit highlighted there is scope for all organisations to improve and enhance their risk assessment arrangements and internal control frameworks.

Audit Report No.14 of 1997–1998, *Official Travel by Public Sector Employees*, November 1997, *Better Practice Guide, Public Sector Travel*, December 1997 and Audit Report No.19 of 2000–2001, *Management of Public Sector Travel Arrangements—Follow Up Audit*, December 2000

The 1997–1998 audit covered short-term travel undertaken by Commonwealth public sector employees on official business. It addressed direct travel costs such as air fares, accommodation and allowances and considered the effectiveness of procedures and processes for managing travel expenses. It also examined the indirect costs of travel associated with processing movement requisitions and expense claims and paying invoices.

The Better Practice Guide *Public Sector Travel* provides guidance to Commonwealth organisations on the implementation of the better practices and has two parts. The first focuses on the creation of an environment in which travel reform can be affected. The second part examines the mechanics of travel process re-engineering and provides guidance on managing direct costs, stepping through a better practice model for travel administration.

The objective of the follow up audit was to provide assurance to the Parliament on the cost-effectiveness of public sector travel by ascertaining the degree of acceptance, and the extent of implementation, of previous audit recommendations and better practice principles. In addition the audit sought

to establish whether organisations were managing travel efficiently and effectively, taking into consideration recommendations and findings detailed in previous audit reports and the Better Practice Guide. The ANAO concluded that the establishment of cluster travel contracts had delivered significant savings on airfares. However, organisations have taken only limited action to re-engineer travel management processes in response to the recommendations made in previous Audit Reports and the ANAO Better Practice Guide.

Audit Report No.53 of 2001–2002, *Goods and Services Tax Administration by Commonwealth Organisations*, May 2002

The objective of the audit was to determine whether organisations had implemented adequate control frameworks and processes to mitigate the risks associated with GST obligations and transactions. In addition, the audit identified examples of sound and better practices currently used by the organisations reviewed. The audit found that key areas for improvement include using formal risk assessment to design the overall approach and management of GST, assigning ownership and accountability for GST management, implementing on-going training and procedures, implementing procedures that ensure compliance with legislation, more active management of the cash flow impacts associated with GST and the use of in-built testing programs and error logs as continuous improvement tools.

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