

Chief Finance Officer: Role and responsibilities

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AUDITOR GENERAL
VICTORIA

FOREWORD

In a public sector environment characterised by continuing change and increasing demands on organisations to deliver quality services, and to do so within a framework of responsible financial and resource management, the role of the Chief Finance Officer (CFO) is critical to achieving success.

These guidelines have been developed by the Victorian Auditor-General's Office in consultation with the Department of Treasury and Finance (DTF). They support the Financial Management Compliance Framework developed by DTF.

The guidelines focus on the diverse roles and responsibilities of CFOs in today's complex public sector environment. They provide a practical resource for CFOs, Chief Executives and audit committees, and will assist in the maintenance of an effective CFO function.

A positive response to the guidelines and supporting check list will lay the foundation for organisations to achieve the full benefits from an effective finance function.



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The role and responsibilities of the Chief Finance Officer

Purpose of these guidelines

“CFOs need the skills of politicians (to handle difficult situations) and jet pilots (to quickly identify and solve problems)” – Bill Birkett, Professor of Accounting, University of New South Wales¹.

These guidelines have been developed by the Victorian Auditor-General's Office in consultation with the Department of Treasury and Finance to promote increased awareness across all Victorian public sector agencies, including local government, of the role and responsibilities of the Chief Finance Officer (CFO) within the ever-changing public sector environment.

In particular, the guidelines provide a practical resource for Chief Executives and audit committees to assist their assessment of the adequacy of CFO functions within their agency. Where the agency is subject to the *Financial Management Act 1994* and the related *Standing Directions of the Minister for Finance under the Financial Management Act 1994*, the guidelines also assist in assessing whether the relevant legislative requirements have been met.

The guidelines are a companion to, and expand on, the above Ministerial Directions and the associated certification check list published by the Department of Treasury and Finance as part of the Financial Management Compliance Framework².

Other available guidance

Over the last few years, much has been written on the role and responsibilities of the CFO. CPA Australia produced 2 landmark studies on the role of the Chief Executive and CFO³. The International Federation of Accountants Financial and Management Accounting Committee published *CFO 2010*⁴, and the Institute of Chartered Accountants in Australia published *The New CFO of the Future*⁵. A *Code of Conduct* for CFOs and Senior Financial Officers was also published in January 2003 by the Group of 100⁶.

The Australian National Audit Office also published *An Analysis of the Chief Financial Officer Function in Commonwealth Organisations – Benchmarking Study* in 2001⁷, and the Commonwealth Department of Finance developed *The role of the CFO – Guidance for Commonwealth Agencies* in April 2003⁸.

These publications provide useful information on, and insights into, the expected role of the CFO.

These guidelines draw on each of these publications.

¹ *The New CFO of the Future – Finance functions in the twenty-first century*, Institute of Chartered Accountants in Australia, 2001, p. 15.

² Department of Treasury and Finance, www.dtf.vic.gov.au

³ *Beyond Bean Counting: Effective Financial Management in the APS – 1998 & Beyond*, Management Advisory Board, Australian Public Service Commission, 1998 and *Beyond Bean Counting 2000. A benchmark of Effective Financial Management in the Australian Public Sector*, Public Sector Centre of Excellence, CPA Australia, 2000.

⁴ *CFO 2010*, The International Federation of Accountants Financial and Management Accounting Committee, 2002.

⁵ *The New CFO of the Future – Finance functions in the twenty-first century*, Institute of Chartered Accountants in Australia, 2001.

⁶ *Code of Conduct for CFOs and Senior Financial Officers*, Group of 100, January 2003, www.group100.com.au

⁷ *An Analysis of the Chief Financial Officer Function in Commonwealth Organisations – Benchmarking Study*, Australian National Audit Office, Audit Report No. 28, 2001.

⁸ *The role of the CFO – Guidance for Commonwealth Agencies*, Commonwealth Department of Finance, April 2003.

The Victorian legislative framework – key principles for an effective CFO

On 1 July 2003, new Standing Directions of the Minister for Finance under the *Financial Management Act 1994* came into effect. These Directions and associated Procedures apply to departments and public bodies, as defined in the Act, although the principles are equally appropriate to all public sector organisations, including local government.

Procedure 2.2(a) provides that the governance and oversight of the financial management of a public sector agency is the responsibility of the responsible body, defined as the Accountable Officer for a department, and the board for public sector agencies. Procedure 2.2(b) further requires the establishment of:

“appropriate arrangements to ensure that public funds and resources are used economically, efficiently, effectively, with due propriety, and in accordance with the statutory or other authorities that govern their use”.

The Directions also outline the **principles** governing the role and responsibilities of the CFO. These are:

- financial management leadership is to be provided by a suitable experienced and qualified Chief Finance (and Accounting) Officer (Direction 3.1.2);
- the prerequisite skills, qualifications and experience for the CFO must be clearly defined and documented, together with position description, role, duties, rights and responsibilities (Procedure 3.1.2(a)); and
- the CFO must endorse all financial information submitted to senior management in any public sector agency, including information submitted to the Accountable Officer, responsible body, and peak boards and management groups (Procedure 3.1.2(b)).

Direction 3.1.2 also provides the following good practice guidance:

- the CFO should hold at least tertiary level accounting qualifications and membership of the Institute of Chartered Accountants in Australia (ICAA), CPA Australia, NIA or equivalent (Guideline 1); and
- the CFO is to ensure that the information presented in financial reports submitted to senior management is endorsed as to its completeness, reliability and accuracy (Guideline 2).

The adoption of these broad principles will establish an environment whereby the CFO will be able to contribute effectively to the changing nature of the CFO role.

CFO position – skills and experience

“A career development path solely in the accounting function does not lend itself to progression to senior finance management positions” – Stuart Rowley, Vice President Finance, Ford Motor Company of Australia Limited⁹.

As previously mentioned, the Ministerial Directions indicate that the CFO should hold at least tertiary level accounting qualifications and membership of the Institute of Chartered Accountants in Australia (ICAA), CPA Australia, NIA or equivalent.

Equally important, the CFO should have significant expertise in financial management, including the ability to:

- maintain good financial management systems and processes; and
- interpret, analyse and present financial and related information to facilitate understanding of options to resolve complex problems and take available opportunities.

The CFO should possess a good understanding of the specific applicable enabling legislation of the organisation and/or the *Financial Management Act 1994*, the *Audit Act 1994*, the Ministerial Directions, and the organisation’s governance and internal control frameworks.

As the responsibilities and influence of the CFO change, it is also important that the CFO effectively communicates on financial matters, provides high-level leadership, and has effective negotiation and change management skills.

Access to, and the support of, the Chief Executive and senior management

“It must be recognised that to a large degree no other industry sector has undergone such radical shifts in the way it operates as the public sector has with financial management reform”¹⁰.

The public sector environment has, and continues to be, subject to continuous change. What has not changed is the CFO advisory role to the Chief Executive, responsibility for the establishment of an appropriate financial management framework, the exercise of financial management responsibilities in accordance with legislation and the critical importance of the CFO contributions to organisational performance.

To a large extent, the way in which the CFO undertakes these roles will vary depending on the maturity and stability of an organisation and the priorities of, and the relationship with, the Chief Executive.

The ability of the CFO to effectively add value to the management of an organisation is, however, dependent on the CFO occupying an appropriately senior position within the organisational structure and, ideally, direct access to the Chief Executive¹¹. The level of the CFO depends on the size of the organisation, and the complexity of its responsibilities and activities. The CFO should be at a sufficient level to enable the CFO to effectively contribute to strategic initiatives, promote the internal control framework and provide financial advice within the organisation. Equally important is the establishment of reporting relationships with operational and program managers who have day-to-day accountability for the use of resources and the delivery of outputs.

Significantly, better practice guidance on the role and responsibilities of audit committees also suggests the importance of the CFO attending meetings so that strategic financial management discussions and consideration of internal control framework issues benefit from the views of the CFO¹².

⁹ *The New CFO of the Future – Finance functions in the twenty-first century*, Institute of Chartered Accountants in Australia, 2001, p. 21.

¹⁰ *Beyond Bean Counting 2000. A benchmark of Effective Financial Management in the Australian Public Sector*, Public Sector Centre of Excellence, CPA Australia, 2000, p. ix.

¹¹ *Beyond Bean Counting: Effective Financial Management in the APS – 1998 & Beyond*, Management Advisory Board, Australian Public Service Commission, 1998, pp. 43-6.

¹² *Audit Committees – A better practice guide*, Deloitte Touche Tohmatsu, Australia, April 2003, p. 10.

The changing role of the CFO and finance function

“To use an historical analogy, CEOs are the kings, business unit heads the barons and CFOs the chancellors. CFOs’ role is to maintain the power balance between the king and the barons” – Matthew Slatter, Chief Finance Officer, AXA Asia Pacific¹³.

The consistent message from recent publications on the role of the CFO is that the emerging trend for the finance function and, therefore, the CFO, is to increase the value they add to the organisation, to be more pro-active and to broaden the scope of their influence. Gone are the days when the CFO was only seen as the “scorekeeper” and responsible for “ex-post analysis” of financial information. Increasingly, the CFO is being asked to play a leadership role in business development initiatives and their management.

The CFO is the executive responsible for both the strategic and operational aspects of financial planning and management of the organisation. Integral to this responsibility is the facilitation of strategic planning at a corporate level. Key roles for the CFO should include:

- **Business leadership.** This entails the CFO assisting in determining policy, program and outcome strategies through the provision of strategic and operational performance reporting and analysis, including both perspective and prospective information, and a framework for continuous corporate planning, forecasting and cost reporting. The CFO role should not be seen as simply related to intra-organisational financial control, but to assisting program managers consider the resource implications of new policy initiatives and develop the most effective financial approach to delivery of services;
- **Business management.** This role extends to providing a comprehensive service to program managers, including sophisticated analytical techniques that go beyond analysing internal financial information and budgets to providing advice and assistance on new policy proposals and benchmarking organisational program performance against world best practice. Decision-makers should have access to whatever information they need, and at the time and form they require it; and
- **Performance management.** The CFO role extends beyond the traditional one of ensuring that financial policies and guidelines are complied with and that the quality and timeliness of financial information and reporting is assured. The CFO role includes the creation and support of a performance management system that links both qualitative and quantitative key performance indicators to the strategies and outcomes of the organisation.

¹³ The New CFO of the Future – Finance functions in the twenty-first century, Institute of Chartered Accountants in Australia, 2001, p. 8.

In a benchmarking study published by the Australian National Audit Office in 2001¹⁴, the following potential changes to the role of the CFO were rated essential and very important:

Essential

- Link financial and management reporting issues to gain a better understanding of the organisation and the relationship between the organisation's day-to-day operations and the achievement of corporate goals and objectives;
- Increase management understanding of financial issues through being an advocate of the value of linking financial and operational information for decision-making purposes;

Very important

- Focus on strategic planning through influencing and facilitating development of future strategic directions;
- Provide insight beyond financial-based performance. This could extend to the development of a "balanced score card" approach that brings quantitative and qualitative measures of performance against targets together to measure achievement of strategic initiatives and corporate goals;
- Focus more on measuring and controlling business risk through an effective financial risk management framework;

- Strategic application of technology. Utilise technology to strategic advantage. For example, the use of electronic business opportunities such as on-line communication with customers and suppliers provides opportunities for organisations to become more efficient and accessible (e-commerce). The increased use of data warehouses and on-line analytical processing (OLAP) for report generation, available beyond the Finance Group, and modelling tools will become the standard level of service expected; and
- Develop strategies for retention of skilled staff. In the changing service environment, it is critical that the CFO develops and applies strategies for retaining skilled staff, and for the recruitment of staff that will contribute to the new directions for the Finance Group.

This guide is prepared by the Victorian Auditor-General's Office. Every effort is taken to ensure that the information is accurate. Neither the Office, nor any of its employees, shall be liable on any grounds whatsoever to any party in respect of decisions or actions they may take as a result of using the information contained in this guide. The information in this guide is of a general nature only and is not intended to be relied upon as, or as a substitute for, specific professional advice.

¹⁴ An Analysis of the Chief Financial Officer Function in Commonwealth Organisations – Benchmarking Study, Australian National Audit Office, Audit Report No. 28, 2001, p. 34.

CFO check list

The Ministerial Directions issued under the authority of the *Financial Management Act 1994* place significant responsibilities on organisations, particularly the CFO. The following check list enables your organisation to assess the role of the CFO in relation to the recently announced Ministerial Directions.

The check list describes the requirements and good practice guidance outlined in the Ministerial Directions, as they relate to the CFO, whether the relevant requirement/good practice guidelines are being met and provides for an action plan to implement the requirement.

Requirement/good practice	Requirement/ good practice being met (yes/no)	Action plan	Target date
Requisite skills and qualifications			
The required skills, qualifications and experience of the CFO are clearly defined and documented, together with the role and responsibilities.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
The CFO should hold at least tertiary level accounting qualifications and membership of appropriate professional bodies.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Annual			
Report to the responsible body and the audit committee that: <ul style="list-style-type: none"> the financial reports present fairly, in all material respects, the financial condition and result of the agency; the financial reports are based on a sound system of risk management and internal control; and the risk management and internal control system is operating efficiently and effectively in all material respects. 	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Sign the financial statement certificate stating whether the financial statements present fairly the financial transactions during the reporting period and the financial position at the end of the period, and whether the statements are in accordance with the Ministerial Directions and applicable Financial Reporting Directions and comply with applicable accounting standards.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Document, review and recommend any updates to the responsible body of the level of charges for goods and services provided.	<input type="checkbox"/> Yes <input type="checkbox"/> No		

Requirement/good practice	Requirement/ good practice being met (yes/no)	Action plan	Target date
Periodic			
Approve all financial reports that are provided external to the organisation prior to their review and release by the governing body.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Endorse all financial reports submitted to senior management, including reports submitted to the responsible body, peak boards and management groups.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Provide all newly appointed audit committee members with necessary information regarding the organisation and the committee's responsibilities.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Have direct access to the audit committee, when required, to assist the committee in the effective discharge of its role.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Regularly review cash forecasts against actuals – review updates where necessary.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Review internal financial management reports prior to release.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Review, at least annually, the number of bank accounts and institutions used for banking.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Review by CFO, or an approved delegate, of an analysis of aged debtors on a monthly basis. Revenue forgone, waived or written-off must be approved by the CFO, or an appropriate delegate.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Where delegated by the CEO, monitor and review (at least annually) performance against the contract, service level agreement or equivalent, where financial services are outsourced.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Identify and approve all sources, locations and methods of cash collection.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Ratify internal control procedures established.	<input type="checkbox"/> Yes <input type="checkbox"/> No		

Requirement/good practice	Requirement/ good practice being met (yes/no)	Action plan	Target date
Compliance responsibilities			
Ensure obligations under taxation legislation are met.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Be responsible for the development, maintenance and management of the chart of accounts.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Review financial reports to ensure that the information is endorsed as to its completeness, reliability and accuracy.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Strategic and developmental			
Ensure that there is a structure for the financial management team with clearly defined roles and responsibilities to adequately support sound financial management.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Regularly review and address the developments in financial management systems to ensure the most appropriate technological support for financial management practices.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Review, at least annually, training and education needs for the financial management team. Implementation of the program should be monitored on an annual basis.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Be involved in the development of key performance indicators.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Looking forward			
Assist program managers develop an effective financial approach to the delivery of expected outcomes.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Provide a comprehensive service to program managers, including sophisticated analysis of information, benchmark data and financial advice on new policy proposals.	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Creation of, and support of, performance management systems that link both qualitative and quantitative key performance indicators to the outcomes of the organisation.	<input type="checkbox"/> Yes <input type="checkbox"/> No		



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