



UNIVERSITY OF WARSAW

Faculty of Economic Sciences

Strategic accounting

**Public sector management accounting and controls
and summary**

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Key questions

- Should public sector entities be managed differently from private sector entities?
- How the government can change the public sector to be more effective, efficient and accountable?
- Discuss the role of budgets in today's public sector organisations



New Public Management

- In recent years, many countries have embarked on a wide range of financial and administrative reforms
- The introduction of NPM in the public sector has seen a shift in focus from the adherence of formalised procedures to an emphasis on resource allocation and goal achievement



NPM encompasses the following ideas:

- From management's perspective, the public sector and private sector are not dissimilar and therefore should be managed on the same basis
- The refocus of process accountability to accountability for results
- The separation of commercial and non-commercial business activities
- An emphasis on improved financial reporting, monitoring and accountability

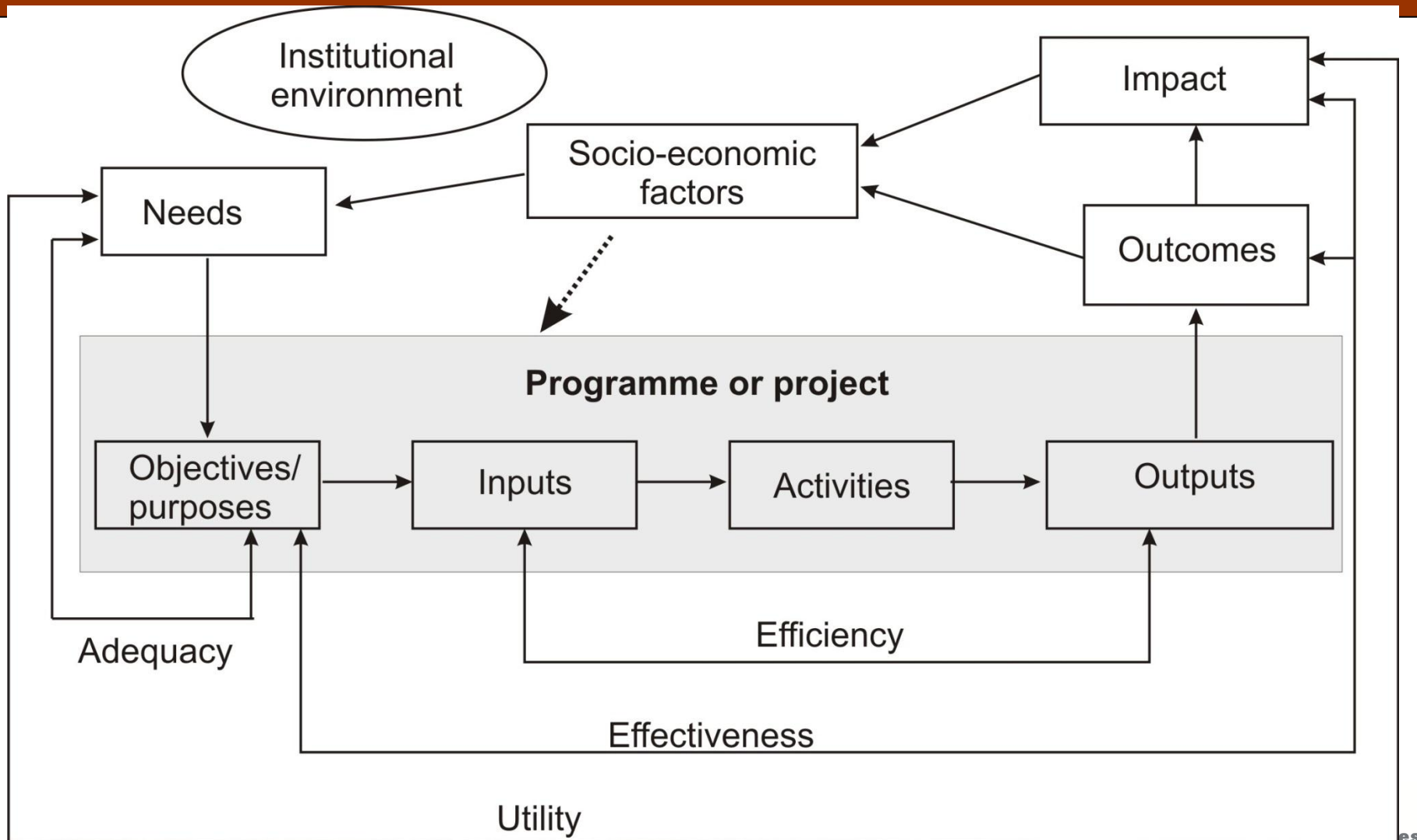


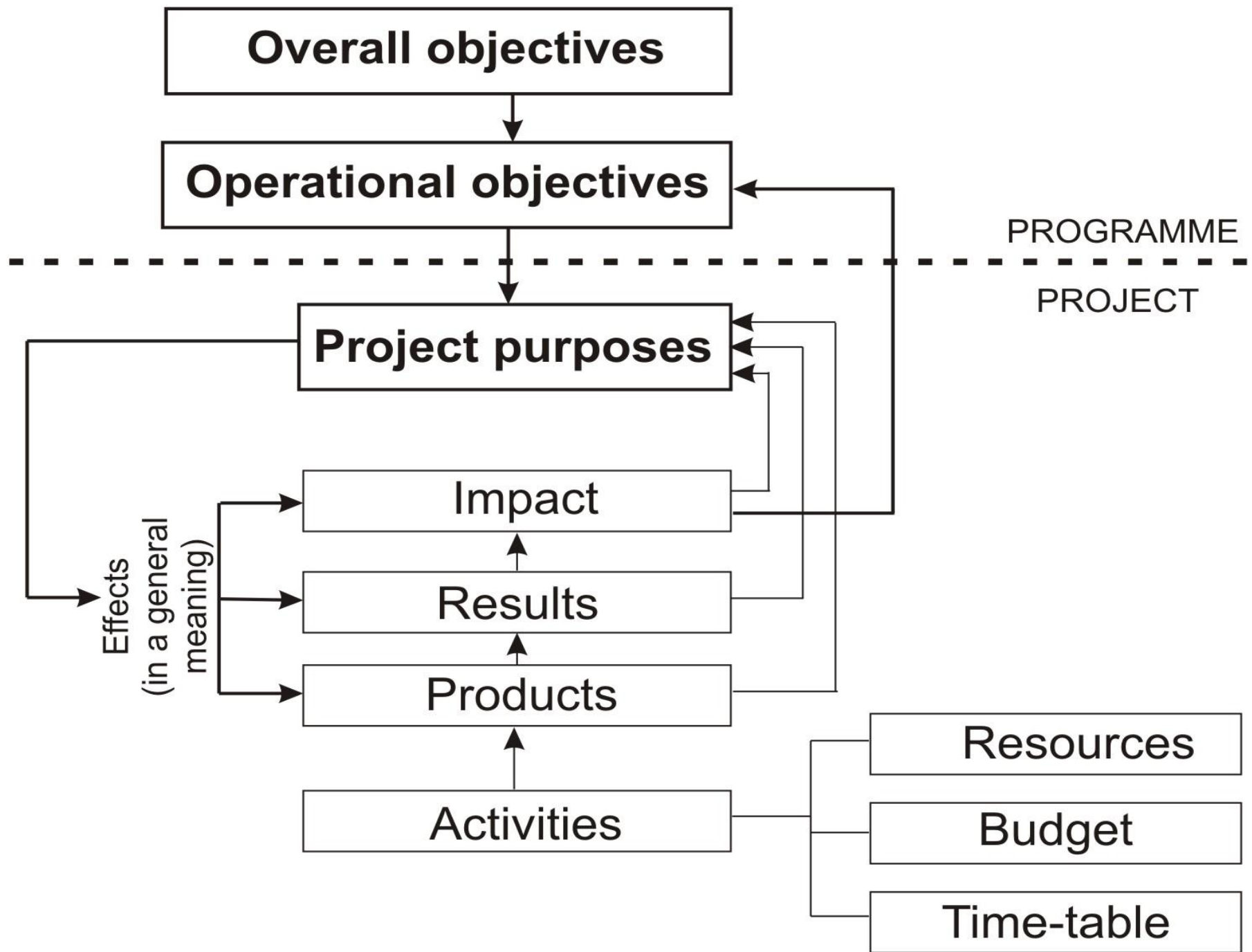
NPM encompasses the following ideas:

- An increase in the contracting out of business activities using specific contracts for short-term work
- The mimicking of private sector management practices such as the introduction of corporate plans, mission statements and strategic plans
- A shift in preference from non-monetary incentives to monetary incentives
- An emphasis on cost-cutting and efficiency



The Input – Output model





Six key forces driving the change in the public sector:

- 1) Changing community and business expectations
- 2) Resource constraints
- 3) Demands for greater accountability
- 4) The impact of technology
- 5) The process of microeconomic reform
- 6) Changing attitudes to the role of government in the economy



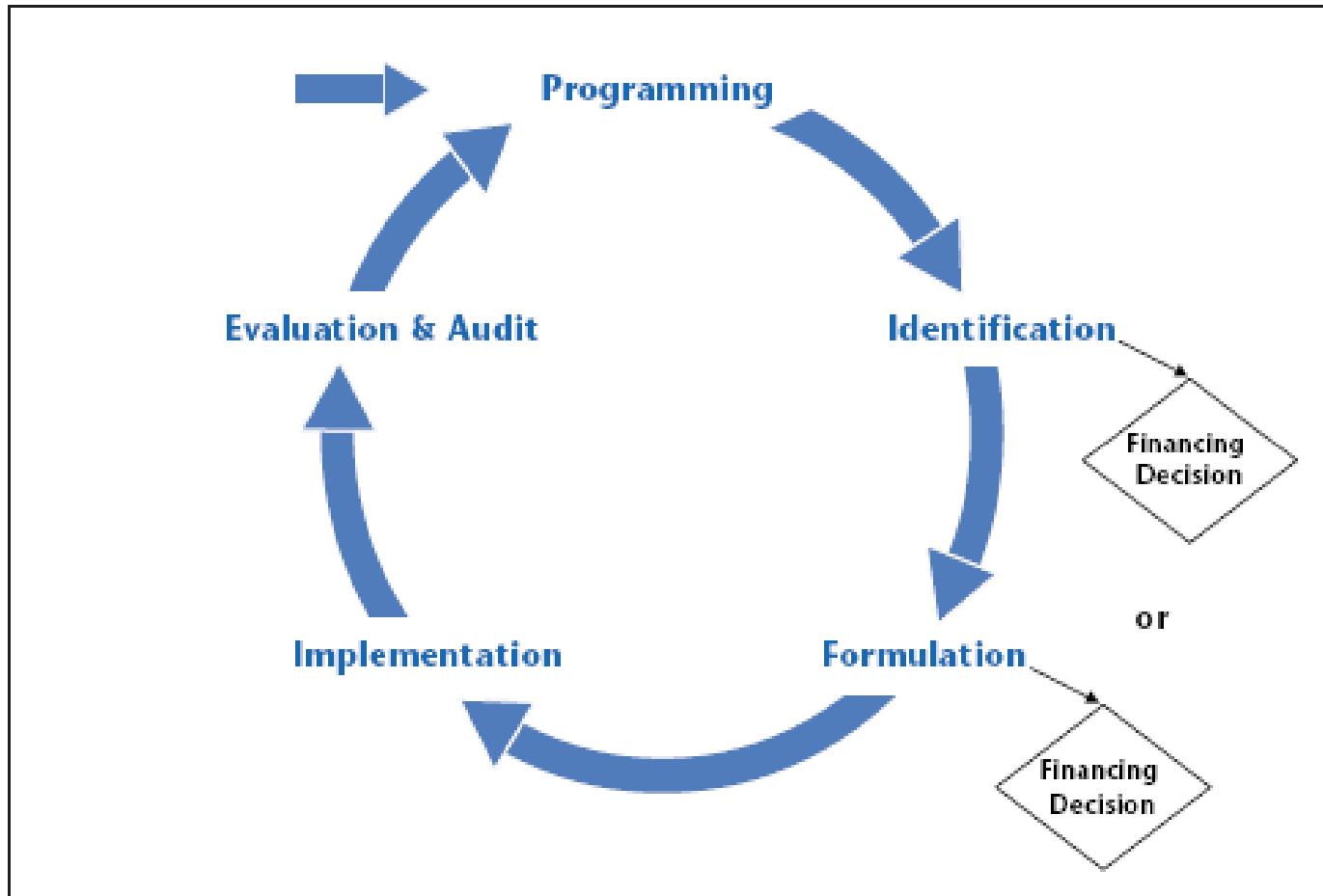
Implications of public sector reform for accounting

- Traditional accounting in the public sector focused on inputs and outputs and the control of expenditure
- The reform of the public sector has changed the traditional role of accounting to the one that is focused on accountability and the efficient allocation of resources
- This implies that accounting should concentrate upon outputs, performance measurement, efficiency, cost saving and performance management
- This in turn requires that new accounting technologies be employed such as planning-programming-budgeting, accrual accounting, performance indicators and annual reporting mechanism



Programme or Project Cycle Management (PCM)

(source: Aid Delivery Methods Vo.1 Project Cycle Management Guidelines, EC, March 2004.)



Accrual accounting

- Cash accounting requires the recording of inflows and outflows of cash
- Accrual accounting requires revenue to be recognised in the period in which economic benefits can be measured reliably. Expenses are recognised when the consumption of goods is capable of reliable measurement.



Accrual accounting

- Accrual accounting is said to improve decision-making by providing information on the full cost of operations and the resources used to deliver services to the public.
- Accrual accounting gives governments the opportunity to minimise their costs through cost identification
- Accrual accounting enables organisations to defer liabilities such as long-service leave to future periods, therefore burdening future taxpayers with these costs



Limitations of accrual accounting in the public sector

- Limitations identified from the adoption of accrual accounting include the fact that it can lead to the misallocation of resources and an inadequate disclosure of the assets and liabilities
- This reduces the organisation's ability to account for the full cost programmes due to fluctuations in costs
- The introduction of accrual accounting in the public sector requires a change in the existing information techniques



Zero-based budgeting

- Zero-based budgeting is a technique whereby the total cost (base plus increment) of every item included in a proposed budget must be justified and approved
- It suggests that no base or minimum expenditure level should be acceptable for any activity
- Resources are not necessarily to be allocated in accordance with the previous year's pattern
- This approach requires a reevaluation of all expenditures and all activity
- All activities start from a zero base



Advantages of Zero-based budgeting

- It allocates resources according to priorities, between the essential and the less essential
- It improves decision-making because budgetary allocation is related to objectives
- It makes managers plan ahead and defend their budgets; it creates a greater feeling of ownership of those budgets



Problems with Zero-based budgeting

- It is a time consuming exercise
- It is impossible to appraise all activities each year
- It is imposed for legislative and political reasons
- It generates a mass of information that cannot be adequately assimilated by decision-makers



Discussion questions

- How has accounting been affected by public sector reforms?
- Why has the public sector is moving from cash- to accrual-based accounting?
- What are the limitations of applying accrual accounting in the public sector?
- Discuss strenghts and weaknesses of zero-based budgeting?





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Strategic accounting - summary

Competitor analysis

Macroenvironment

Microenvironment

Strategic analysis

Planning/Programming/Budgeting

Activity-based costing

Balanced Scorecard

Responsibility accounting

Strategy maps



**Strategic
accounting**

Value chain analysis

Performance measurement

Financial accounting

Benchmarking

Quality cost management

Strategic outcomes

Market share

Resources

Customers

Internal processes

Workforce

Shareholders

Strategy Maps

Customer Perspective

Price
Quality
Availability
Selection
Functionality
Service

New Markets
New Products
New Distribution Channels

Financial Perspective

Improve Cost Structure
Enhance Customer Value
Expand Revenue Opportunities
Activity Based Costing



Internal Perspective

Operations Management Processes
Customer Management Processes

Resources Perspective

Increase Asset Utilisation
New Assets
Human Resources

Learning and Growth Perspective

Human Capital (Skills, Training, Knowledge)
Information Capital (Systems, Databases, Networks)
Organizational Capital (Culture, Leadership, Teamwork)



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Thank you for your attention

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