

23rd January 2006

Dear Mr Watmore,

I read with interest your report on Transformational Government and support fully its aims and objectives. For the last 7 years, as Chief Accountant of RAF Strike Command within the MoD, I have been striving to develop financial and management accounting using commercial best practice. However, my experience in this department has led me to reflect that there are significant risks to be managed if government accounting is going to develop in accordance with generally accepted accounting practice.

The main risk in my view is rather fundamental and relates to the way basic accounting principles on which Resource Accounting is based are being prejudiced by a lack of understanding at a high level about how financial management works under a RAB regime. This gives rise to a desire to bend the RAB accounting system so that it approximates to the pre-RAB cash book accounting era. This in turn leads to a non standard approach to accounting in the public sector.

A good example is the 'Near Cash' control total. This is a 'pick and mix' of figures from the operating cost statement and the cash flow report. Defining a control statistic in this way creates a need for spurious non-standard methods of analysis and reporting to be developed unnecessarily and at considerable public expense. Inevitably this then becomes an embedded feature of future RAB reporting. The Near Cash statistic is unsound. Instead the operating cost statement should be used to show the cost of resources consumed (which includes assets) and the cash flow report to show how the cash changed, explaining this relative to the operating costs, movements in working capital and capital expenditure. In this way cash flow can be delegated as a treasury function and resource management as an operational management function. Sadly an accurate consolidated forecast cash flow report has yet to be produced for in year management by the MOD and I would speculate that they are not the only department unable to do this.

The trend for non standardisation can also be seen in the approach to the definition of basic business processes which are operated at transaction level. Procurement processes provide an example of where there has been no attempt to adopt standard purchase order processes to manage requisition through to payment.

My financial management experience has been gained both in the public and private sectors, recently 13 years implementing and developing RAB in the Metropolitan Police and the RAF, before that, in the construction and civil engineering industries. In these private sector companies, to be competitive and survive, expressing operating costs on an output basis and relating this to the cash flow was essential.

Yours sincerely,

GW Sullivan FCMA, ACIS