
Improving Financial Management in the Government of Canada

*Association of Professional Executives
of the Public Service of Canada (APEX)*



During its 2004 national consultations APEX (Association of Professional Executives of the Public Service of Canada) started to hear serious concerns from executives about their ability to operate effectively within the financial management regime. They worried in particular that the federal public service would over-react to a small number of incidents of poor judgment, error or malfeasance, unleashing sweeping change that could impinge on executives' effectiveness. They felt that the system has generally functioned quite well; addressing a few problems with how it is applied should be sufficient.

In response to executives' concerns, the Association decided in the late Spring of 2005 to launch its own review, beginning with an analysis of the extent and nature of the problem.

We solicited help from a mix of line executives and financial specialists from across the country. The study was directed by a fifteen-person Steering Committee composed of public service executives from Public Works and Government Services, Western Economic Diversification, Health Canada, the National Parole Board, the Atlantic Canada Opportunities Agency, the RCMP, Fisheries and Oceans, Treasury Board Secretariat, the Office of the Auditor General, the Canada Revenue Agency, and external advisors from the Conference Board of Canada, and Queen's University. A series of round tables set up by the Committee focussed on determining executives' views on:

- Balancing the evolving role of the finance function and program management
- Oversight and transparency
- Major reforms and initiatives

We also asked executives to complete a 70-question electronic survey on these same topics. The fact that fully 1100 executives responded indicates the extent of the inter-

est in these subjects. Information from the survey was provided to the round tables.

In October 2005, the Committee and its round tables held a retreat to discuss the research findings and to agree on a series of recommendations for a public report which was published January 30, 2006. Outlined below are the key messages, principal survey findings and a summary of the Association's recommendations.

Key Messages

- Executives support strong financial accountability in government and believe they have always exercised probity in their financial duties with good support from financial professionals within their departments.
- Executives are concerned that their ability to deliver public programs effectively may be compromised by the lack of appropriate risk management strategies: isolated problems could lead to generalized and unnecessary changes to financial management systems; and generally sound financial management practices may be discredited without foundation.
- The need for improvement in the financial management regime extends to *Parliament and the expenditure review process*. The latter element is considered to be in need of serious reform.
- *Deputy Ministers' accountability* for their departments should be reinforced and they should be equipped with better tools so they can exercise those responsibilities.
- Requiring departmental Chief Financial Officers (CFOs) to report functionally to the Comptroller General while still reporting directly to their Deputy Minister will *clarify accountability* for the latter and ensure the capacity of the CFO to advise and serve Deputy Ministers.
- Central agencies should *focus on strengthening current processes* – expenditure management oversight, internal control and

evaluation – and avoid *adding further controls*.

- The financial community may be in *danger of being overwhelmed*. It is faced with new and conflicting roles, ill-equipped to take on these new roles and vulnerable because of inadequate renewal of the community.
- Executives need to be assured that they will continue to receive *appropriate training and the ongoing support* required to allow them to fully exercise their financial management responsibilities.
- Although not purely a financial management issue, new administrative initiatives such as shared services and procurement reform are seen as worthwhile only if *real results* can be realized, if all players are fully involved and if the *savings and resource gains are shared*.

Survey Findings

The survey demonstrated that executives generally feel well-briefed on their financial management responsibilities – for which they say they are held to account in an appropriate fashion – and get good support from financial staff as well as proper training. They are very aware of the need to achieve the expected results while following proper procedures. Most are confident that they do a good job of providing information to Parliament but are not sure this information is fully understood.

Executives who participated in the survey strongly support the role of the Office of the Auditor General and have confidence in the usefulness of internal audit. However, they also believe the system is starting to tilt towards compliance at the cost of effective results and service to the public.

The survey revealed some ambivalence about the efficacy of recent financial initiatives; respondents expressed cynicism about central agencies' consciousness of the cost and impact on services. In that regard,

Expenditure Review and other similar exercises are seen by many as a hunt for dollars, without regard to the dangers of program distortion or cuts to service. Respondents had little confidence that centrally-driven shared services initiatives will deliver either cost savings or service improvements but think that similar initiatives launched and managed within regions have a better chance of success.

Recommendations

APEX sent its report and an executive summary with recommendations to key decision makers – the President and the Secretary of the Treasury Board, the Clerk of the Privy Council, the Auditor General, the Comptroller General, the Canada School of Public Service and all Deputy Ministers and Deputy Heads.

APEX based its October 28, 2005 brief to the Gomery Inquiry on this same report. What follows is a summary of the recommendations the brief contains. (The full report can be accessed on APEX's Web site at <http://www.apex.gc.ca/428/Gomery%20Commission.htm>.)

Role of Parliament

Parliamentarians and senior government officials should assess Parliament's expenditure review process with a view to encouraging greater involvement by parliamentarians. Further, the government should evaluate the state of reporting to Parliament as well as the performance reports to Canadians so the results are better understood. Designing a code of ethics governing interactions between officials and parliamentarians should also be a priority, as should creating a stronger focus by Parliament on the public service as an institution, opening the door to long-term study and review rather than episodic appearances and headline-driven hearings.

Internal reporting relationships

Any policy statement regarding the responsibilities of a departmental CFO should recognize that the Deputy Head is the senior departmental officer accountable for all aspects of the Financial Management Control Framework (FMCF). Further, it should make it clear that the CFO reports directly to the Deputy Head and provides direction to program managers, departmental financial units not reporting to the

CFO and for horizontal initiatives affecting departmental operations and reporting requirements. All managers are responsible for ensuring the application of the FMCF within their respective programs and in that regard, Deputy Heads must ensure that performance management agreements contain clear expectations with respect to the FMCF; performance against these expectations must be measured and taken into account in determining executives' performance pay.

Departmental internal audit function

Chief Audit Executives should report to the highest appropriate level within the department, in order to ensure compliance with accepted standards of independence and objectivity. Deputy Heads need to be confident they are being well-served in terms of the assurance, advice and recommendations from the Audit Committee on both financial and non-financial matters. There should therefore be a direct reporting relationship between the Audit Committees and the Deputy Heads of the organizations in which they are constituted.

Refining the understanding of "audit"

The Treasury Board Secretariat, in consultation with the Auditor General, should clarify what is meant by "internal audit" and take steps to avoid excessive use of the tool. In addition, the government should develop a systematic risk management framework to help determine what should be audited. *Risk management* guidelines should also be used to establish the potential impact on programs of either reductions or increased controls resulting from internal audits. Finally, the Treasury Board Secretariat should foster sound internal audit processes and clarify how its comptrollership responsibilities over internal audits will be exercised.

This recommendation has several corollaries. It implies development of a reasoned, risk-based audit system within each department. It also suggests provision by the Treasury Board Secretariat of long-term support for a centre of excellence open to the internal audit community and the managers who are the clients of audit. Finally, the Treasury Board Secretariat should have an active oversight role for audit issues that cut across departmental lines. This means it

should actively engage in risk analysis across the government to determine the need for inter-departmental or pan-governmental audits AND maintain the capacity to carry out such audits.

Audit resources

Central agencies, in partnership with departments, should develop a human resource strategy to address the long-term needs of the audit community.

Shared services initiatives

An opt-in approach to such initiatives, so as to build a 'coalition of the willing', would help develop expertise and confidence in their potential. Shared services should not be organized or run by central agencies; their role should be limited to the development of administrative policy. Instead, special user-run organizations should take the lead, focussing on meeting clients' needs in the most cost-effective manner. Responsibilities must be clearly established both at the political and the administrative levels and cost savings planned in a strategic fashion rather than as an across-the-board initiative. Special service guarantees and assistance must be provided to smaller agencies.

Training

Financial management training for executives must be appropriate to their level and consistent across the government. Each course or learning activity should include a knowledge evaluation component to ensure that the material is well understood. Regular refresher training should be obligatory in all aspects of financial management and training on the use of delegations should be mandatory before such delegations are assigned.

Conclusion

The time has come to change the Public Service's organizational culture. We must focus on blending a strong sense of prudence with a better understanding of accountability so that the public's confidence in delivery of public programs can be rebuilt. As an institution, we must be careful to distinguish between honest error and deliberate wrong-doing and then take appropriate action in proportion to the problem.

Accountability works when those involved share a clear understanding of its implica-

tions, including the roles and responsibilities of each party and the form in which accountability requirements must be met. APEX has noted too many instances in which those accountable for program results or for following certain processes have genuinely tried to meet requirements – as they understood them – only to be confronted later by different expectations from external auditors or legislative oversight bodies. At present, there is no single government-wide process to define results and expectations or to hold organizations to account in a disciplined fashion.

Public Service executives believe strongly in fiscal prudence and are committed to

good financial management. They want to see flaws in the system addressed but cannot do it alone. APEX will be monitoring the Government's response to the Association's recommendations and its progress in implementing its accountability agenda.

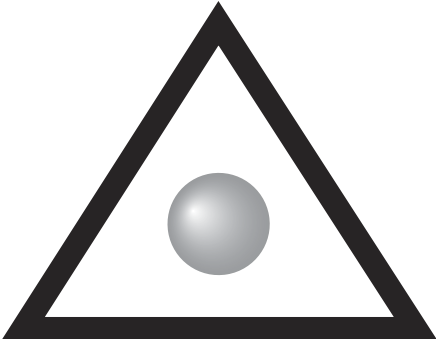
Progress to Date

Since APEX's 2005 consultations, there has been activity on a number of fronts. The new internal audit policy, published April 1, 2006 addresses most of the issues raised in the APEX report, while the proposed Federal Accountability Act covers the designation of accounting officers. APEX appreciates the progress made to date, and

hopes that the other various issues raised by executives will be addressed in due course. As well, we look forward to determining whether there is an appropriate role APEX could play in implementation of the Internal Audit Policy and proposed Federal Accountability Act.

The final report and the executive summary are available at

- <http://www.apex.gc.ca/files/FINAL%20Report%20Jan%2030%202006.pdf>
- <http://www.apex.gc.ca/files/EXEC%20Summary%20Jan%2030%202006-eng.pdf> ■



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