



Executive Summary

Improving Financial Management in the Government of Canada

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

January 30, 2006

Acknowledgments

APEX, the Association of Professional Executives of the Public Service of Canada, wishes to thank the many executives who participated in this Financial Management Initiative, including :

- ★ *1100 executives across the country who responded to a 70-question survey during the summer of 2005*
- ★ *Our steering committee (see full report)*
- ★ *Members of three round tables (see full report)*
- ★ *Participants in an October 2005 retreat, organized to discuss a final report, recommendations and a submission to the Inquiry led by Justice John Gomery (see full report)*



This report was developed between May and October 2005. It captures the context, situation and views of federal public service executives during that period. It does not take into account the substance or impact of any subsequent Government announcements on financial management reforms.

Introduction – Context

Basis for APEX's financial management initiative

- Ever since the APEX cross country 2004 annual consultations, executives have raised concerns about their ability to operate effectively within the current financial management regime. Further, executives in general have worried that a small number of incidents of poor judgment, error or malfeasance in the federal public service could trigger sweeping change that is unnecessary and that would impinge on their effectiveness.
- Executives acknowledge that there are some issues with the application of the current financial management regime. Addressing these will improve a system that has generally functioned well. Indeed, the Association hopes that any changes to the financial management regime can be seen as positive and useful improvements and not simply a reaction – or over-reaction – to concerns for the efficacy of the financial management regime in general.
- APEX believed it was important to start its review by understanding the actual extent and nature of the problem. That is why we launched our own Financial Administration, Accountability and Transparency initiative in the late Spring of 2005

Process used

- Throughout this process a good mix of line executives and financial specialists, from regions and from the NCR, participated. We began by creating a Steering Committee to direct the study. It was composed of 15 senior public service executives and external advisors from PWGSC, WED, Health Canada, National Parole Board, ACOA, Queen's University, RCMP, F&O, Conference Board of Canada, TBS, Office of the Auditor General and CRA
- We then established a series of Round Tables led by members of the Steering Committee. Their mandate was to seek out the views of executives on the following topics:
 - ▶ Balancing the evolving role of the financial function and program management
 - ▶ Oversight and transparency
 - ▶ Major reforms and initiatives
- We asked federal government executives to complete a 70 question electronic survey on these topics; 1100 executives responded – this is a significantly high response rate, demonstrating clearly that executives have concerns and things to say. This information was provided to the Round Tables to complete their research.
- At a retreat in October 2005, the group discussed the round tables' findings and survey results and agreed on the recommendations to be included in its public report. The present document sets out a summary of the findings as well as a series of conclusions and recommendations.

Key Messages

- Executives...
 - support strong financial accountability in government
 - believe that they have always exercised probity in their financial duties and that they have been well supported by financial professionals within their departments
 - fear that there would not be in place appropriate risk management strategies to ensure their ability to deliver public programs effectively. For example:
 - isolated problems could lead to generalized and unnecessary changes to financial management systems
 - generally sound financial management practices may be discredited without foundation
 - new far-reaching initiatives could inhibit their ability to manage effectively
- The need for improvement extends to *Parliament and the Expenditure review process*. Those consulted indicate that the latter is in serious need of reform.
- *Deputy Ministers' accountability* for their departments should be reinforced and better tools made available so they can exercise those responsibilities.
- Requiring the CFO to report functionally to the Comptroller General whilst reporting directly to the Deputy Minister will *clarify accountability* and ensure the capacity of the Chief Financial Officer to advise and serve the Deputy Minister.
- Central agency initiatives 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 conflicting roles
 - ill-equipped to take on these new roles
 - vulnerable due to inadequate renewal of the community
- Executives need to be assured that they will receive *appropriate training and the ongoing support* required to allow them to fully exercise their financial management responsibilities.
- Although not a purely financial management issue, it is important to indicate that new administrative initiatives such as shared services and procurement reform are worth pursuing, but only if *real results* can be realized, if all players are fully involved and if the *savings and resource gains are shared*.

Key Findings from APEX's Survey of Executives

- Executives are generally confident about comptrollership and financial management, feeling well informed, supported and trained
- They feel well briefed on their responsibilities as managers, are held to account and are generally well supported by financial staff.
- They are very aware of the need to achieve expected results while following proper procedures.
- Executives believe the system is tilting towards compliance at the cost of effective results and service to the public (this is not because they are breaking rules, but because they are very aware of the time and resources spent on compliance)
- They strongly support the role of the Office of the Auditor General and have confidence in the usefulness of internal audit.
- Executives feel confident that they do a good job of providing information to Parliament but are not sure if this information is being understood.
- They are ambivalent about the efficacy of the financial systems currently in use and wonder whether central agencies are concerned about the cost and service impact of various initiatives.
- Expenditure Review and other similar exercises are seen as a hunt for dollars, without regard to program distortion or level of service.
- Although not financial management initiatives per se, we note that executives have little confidence that centrally driven shared services initiatives will deliver either cost savings or service improvements. They see more hope for regionally based shared service initiatives.
- Executives also say that paper burden should be reduced for not-for-profit organizations, even though this does not directly fall under financial management

APEX Recommendations

GETTING TO THE ROOT OF THE PROBLEM: CHANGING ATTITUDES

Recommendation #1

Parliamentarians and senior government officials should engage in:

- *A review of Parliament's current expenditure review process, including the budgetary cycle, in order to permit greater involvement of parliamentarians*
- *An evaluation of the state of reporting to Parliament and performance reports to Canadians so as to improve the understanding of results.*
- *The design of a code of ethics and behavior for interactions between officials and parliamentarians*
- *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, headline-driven hearings or mixed and confusing agendas.*

EVOLVING ROLES: THE FINANCIAL FUNCTION AND PROGRAM MANAGEMENT

Recommendation #2

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 FMCF*
- *The CFO reports directly to the Deputy Head*
- *The CFO provides the centre of expertise to help ensure the effective application of the departmental FMCF and provides functional direction to:*
 - *Program managers*
 - *Departmental financial units that do not report to the CFO; and*
 - *Horizontal initiatives that affect departmental operations, reporting requirements and functioning*
- *All managers are responsible for ensuring the application of the FMCF within their respective programs*
- *Deputy Heads must ensure that performance management agreements for the department contain clear expectations with respect to the FMCF; and*
- *Performance against these expectations must be measured and taken into account in determining performance pay for executives.*

OVERSIGHT AND TRANSPARENCY

Recommendation #3

- *Chief Audit Executives should report to the highest appropriate level within the department, in order to ensure compliance with standards of independence and objectivity*
- *There should be a direct reporting relationship between the Audit Committees and the Deputy Heads of the departments-organizations in which they are constituted. 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*

Recommendation #4

- *The Treasury Board Secretariat, in consultation with the Auditor General, should clarify what is meant by an “audit” and take steps to avoid their excessive use*
- *The government should develop a systematic risk management framework, not only for departmental programs, but also in order to determine what should be audited. Risk management should also be used to establish the risk to programs through reductions or increased controls*
- *The Treasury Board Secretariat’s role with regard to the audit function must be more clearly expressed and actively practised, in two areas:*
 - 1) *the fostering of a sound audit process; and*
 - 2) *the exercise of the Board’s comptrollership responsibilities over audits*

This recommendation has several corollaries. First, there must be a sound policy in place which requires establishment of a reasoned, risk-based audit system within each department. Second, the Treasury Board Secretariat should create and provide long-term support for a centre of excellence for the audit community as well as for managers who are the users of audits. Finally, the Treasury Board Secretariat should have an active oversight role for audit issues that cut across departmental lines. For that reason, 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.

Recommendation #5

- *Resources must be allocated to support a sustainable, long-term oversight function*
- *Central agencies, in partnership with departments, should develop a human resource strategy to address the long-term needs of the audit community.*

MAJOR REFORMS AND INITIATIVES (e.g. Shared Services)

Recommendation #6

- *On shared services, there should be an opt-in approach that would build a 'coalition of the willing' to develop further expertise and confidence in the potential of this initiative*
- *Shared services should not be organized or run by central agencies, rather the lead should be with special user-run organizations that focus on meeting the needs of clients in the most cost-effective manner*
- *A user-based governance mechanism should be established to ensure that the users are fully committed and that appropriate resources are devoted to the initiative*
- *Cost savings for shared services should be planned in a strategic fashion rather than as an across-the-board initiative*
- *Central agencies should limit their role with the shared services initiative to the development of administrative policy*
- *Accountabilities must be clearly established both at the political and the administrative levels*
- *Special service guarantees and assistance must be provided to smaller agencies*
- *The government must strive towards one or a very few systems platforms for the public service*

TRAINING

Recommendation #7

- *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 by participants. Regular refresher training should be obligatory in all aspects of financial management*
- *Training on the use of delegations should be mandatory before such delegations are assigned*

CONCLUSIONS

APEX trusts that the impetus behind the recently announced set of reforms is not to address a limited number of significant errors of commission and omission. In fact, the time has come to change our organizational culture. We must focus on blending a strong value of prudence with a better understanding of accountability, on developing the skills to deliver and on understanding at all levels what that means. Only in this way can the legitimacy and trust that the public demands of all players be delivered. Further, when there are wrongdoings, either through deliberate action or honest error, they must be seen as just that and dealt with. They must not become evidence of system breakdown or invite massively expensive and corrosive changes.

Accountability only works in practice when those involved have a clear, mutual understanding of its implications, 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 set government-wide standard process to define results and expectations or to hold organizations to account for them in a disciplined fashion.

APEX believes that its members and the executives who responded to our survey share strong values of prudence and commitment to good financial management. They want to see flaws in the system addressed but cannot do it alone.

APEX will therefore monitor the government's progress as it moves forward with its public service management agenda over the next 2-3 years as well as its response to the Association's recommendations resulting from its Financial Management Initiative.