

Association
of Canadian
Financial
Officers



Association
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des agents
financiers

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In Pursuit of Balance

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1.0 Executive Summary

In response to a series of scandals and instances of fiscal mismanagement, successive governments have imposed new regulations and policy directives. Many of these regulations and directives were put in place with an eye to improving accountability but failed to take into consideration the importance of a balanced risk management system.

Just because accountability is a fundamental democratic value does not mean that there can never be too much accountability. However, excessive and burdensome accountability requirements can detract from responsiveness, innovation and efficiency. The usual assumption is that accountability processes lead to the disclosure of abuses and mistakes and this in turn leads to learning and improvement. However, the presumed relationship between accountability and learning is more often taken on faith than demonstrated in practice through systematic follow-up and evaluations.

Furthermore, recent reports and position papers have called for a fundamental shift in the definitions of ministerial and deputy ministerial responsibility. This has been done without engaging front-line public servants in the debate, even though they stand to be greatly affected by any changes. Moreover, any changes would require their participation to effectively be introduced.

Notwithstanding the proposed changes to the definitions of responsibility listed above, the current regulatory environment has shown a heavy bias towards control. Following the public outcry over financial impropriety in the sponsorship program, for example, the Treasury Board issued its *Strengthening Public Sector Management* document. There were four general goals laid out in the report but the following flurry of initiatives totaled 238 new measures, according to former Deputy Minister and highly-respected commentator Arthur Kroeger.

In addition, the current emphasis on control has led to a performance reporting model in which more than 1,000 performance reports are submitted for Parliamentary review each year despite no empirical evidence, and indeed a high volume of contradictory anecdotal evidence, to suggest the reports are being utilized effectively.



This emphasis on control fails to take into account the need for a balanced risk management system that also recognizes that public servants must be able to perform their duties without excessive burdens.

Risk management is an expression often used but not well understood, thanks in part to the multiplication of scandals and the understandable public outrage that resulted. Well-intentioned efforts to tighten controls have led to an imbalance in public service risk management; there needs to be a clearer balance between innovation and the need to prevent crises.

A vital component of such a risk management system is a professional, qualified financial management community. Financial officers play an important proactive role in ensuring public money is managed appropriately. They must meet one of the highest selection standards in the federal public services prior to being employed. This results in a highly professional and qualified resource with the necessary tools to aid in decision making and add value to the process of mitigating risk. Their role is one that must be understood and respected in order to ensure the long-term stability and sound management of the public service.

As understood in the concept of Modern Comptrollership, financial officers must be a part of the decision making process and must be allowed to get to know the government program that they are employed to support. This appears to run contrary to the trend towards service centralization and further underscores the need to create an attractive work climate to offset the combined threats of private-sector competition and low employee morale.

The following paper looks at these issues in greater detail and offers recommendations for addressing the concerns raised. There are understandable challenges in putting in place the highest standards of accountability – allowances must be made for efficient service delivery and policy implementation. A better system needs to be put in place to strengthen the risk management system. The system needs to look at existing rules, new proposals and service delivery and seek out a balance that addresses the concerns of politicians, public servants and Canadians as a whole.



Recommendations:

1. Engage public servants in a wide-ranging debate on the issue of ministerial and deputy ministerial accountability and its impact on the public service
2. Impose a test for all new rules and regulations on financial management
3. Commission an empirical study of the current performance reporting system
4. Undertake a thorough review of the professional climate for financial officers

2.0 Introduction

In recent years, the political scene in Canada has been dominated by scandals and questions about the government's ability to adhere to principles of good governance. As a result, many Canadians have started to question the government's management of taxpayers' dollars; a negative light has been cast on both elected officials and civil servants.

In response, successive governments have imposed new regulations and policy directives. In order to further restore faith in the way the government manages its budget, several voices have called for even more regulations, punitive measures and changes to the relationship between elected officials and public servants. While such measures are positive steps towards restoring faith in the public service, not enough emphasis has been placed on preventive measures at the operational level of the public service, nor on the need to maintain an effective risk management system that is mindful of the need for balance.

Well-intentioned efforts to tighten controls have led to an imbalance in public service risk management. More time and effort is spent on control functions and too little is left over for program and project delivery.

This paper explores the need for a balanced approach to risk management. It looks at how the current regulatory environment was created and what limitations this environment has placed on the public servants tasked with operating it. It then offers suggestions on how best to restore the balance, ever mindful of the need for control while at the same time making trade-offs to ensure the public service is able to function.

Finally, it examines the role of Financial Officers within the risk management system, what they can offer and what could be holding them back.

There are understandable challenges in putting in place the highest standards of accountability – allowances must be made for efficient service delivery and policy implementation. A better system needs to be put in place to strengthen the risk management system. The system needs to look at existing rules, new proposals and service delivery and seek out a balance that addresses the concerns of politicians, public servants and Canadians as a whole.

3.0 Framing the Debate

3.1 Defining Principles and Values

While the public debate about financial management issues has been rife with calls for greater accountability and more clearly-defined delineations of ministerial and deputy ministerial responsibility, there is an overwhelming lack of consensus about what the terms themselves mean. As described by Justice Gomery in his second report on the sponsorship program, “there is a remarkable lack of uniformity in the abstract definitions of responsibility, answerability and accountability offered by the Government, by career officials and by academics¹.”

Before engaging in a study of the ramifications of regulation and the need for a balanced approach to fiscal management control, there needs to be greater clarity of the principles and values involved. Indeed, even the call for balance has become something of a cliché. There is an implication that all relevant principles and values can be equally recognized and fulfilled. In practice, however, trade-offs are required. This is even more consistent in the frequently changing world of government. This report endeavours to use balance in a more precise and practical way that recognizes the realities and dilemmas of governing and managing on the basis of multiple principles and values.

Designing a sound budgetary and financial management system involves defining and applying the following political and administrative principles and values:

- *Responsiveness* to the legislative and spending priorities of the elected government as approved by Parliament and to the changing economic and social circumstances. In this area, there can be tension between the need for top-down direction, planning and a disciplined approach with the requirement for flexibility, discretion and change.
- *Control* can have many different meanings. In the narrowest sense it refers to following strict rules and procedures. In the broadest sense, it refers to the creation of conditions that lead to the achievement of results, as when we say some institution or

¹ Gomery, Justice John H., *Restoring Accountability: Recommendations*, 2006, Public Works and Government Services Canada, Ottawa, pg. 9

individual took control and made good things happen. In other words, control can be both restricting and enabling, an apparent paradox. It restricts to prevent abuse and unwanted events and it is enabling by providing the context of delegated authority, resources and accountability. Over the past three or four decades there has been gradually less emphasis on control defined as preventing mistakes and more emphasis on control defined in the positive sense of creating the conditions necessary to achieve results. Control became less procedural and more normative, it relied less on rules and procedures and more on commitment to substantive goals and public service values and ethics.

- Control can be *strategic* in character, involving the allocation of spending to various public policy purposes and the assessment of results to determine progress. This is predominantly a political function.
- *Managerial* control refers to the rules and procedures for ensuring the economy, efficiency, effectiveness and equity of programs and spending. This is mainly the responsibility of the public service, but scrutiny by ministers and Parliament is necessary to reinforce the norms of financial discipline and commitment to improved results.
- *Legal* control refers to the authority, probity, accuracy and integrity of the program activity, decision-making and spending of public officials, both elected and appointed.
- Another major principle of a sound budgetary and financial management system is *informed choice*. Parliament, ministers and public managers must have access to “quality information” – information which is relevant, timely, valid, reliable, balanced, comprehensive and comprehensible. Generating, delivering and interpreting quality information for multiple purposes and different audiences is a challenging requirement.
- *Accountability* refers to the obligation to be answerable for the performance of responsibilities that have been assigned or negotiated. It also includes the need to be subject to sanctions of various kinds for the failure to meet agreed upon expectations and / or standards of performance. Accountability processes depend upon the provision of quality information as defined above. They also require the willingness and capacity of the authorizing institution to monitor performance and to insist on improvements when it is found to be deficient. This is the

essence of accountability relationships and process, but there are in practice multiple types of accountability arrangements within government and numerous mechanisms for the enforcement of accountability.

- *Identifying, evaluating and managing risk* have become important components of acting responsibly and being accountable, both for elected ministers and for appointed public servants.
- *Administrative feasibility* in terms of the *workability* of control procedures, the *capacity* of organizations to comply with internal regulatory requirements and the *predictability / consistency* of the application of rules and procedures is another consideration in the design and operation of the budgetary and financial management systems. The devolved management structures which have been preferred recently – at least rhetorically, if not always in practice – demand a high degree of financial literacy and skills from managers throughout the organization and at all levels.

3.2 A Closer Look at Accountability

While all of the above terms and concepts are essential components of a truly balanced budgetary and financial management system, it is the concept of accountability that has become the most clouded in recent years. It has become something of a mantra for politicians and commentators reacting to a series of scandals, but just because accountability is a fundamental democratic value, however, does not mean that there can never be too much accountability. Excessive and burdensome accountability requirements can detract from responsiveness, innovation and efficiency. The usual assumption is that accountability processes lead to the disclosure of abuses and mistakes and this in turn leads to learning and improvement. However, the presumed relationship between accountability and learning is more often taken on faith than demonstrated in practice through systematic follow-up and evaluations.

With regards to ministerial and deputy ministerial responsibility, it is more and more frequently suggested that ministers will not and should not be held accountable for mismanagement within their departments, but instead senior public servants should be held directly and personally accountable. Evidence of this can be seen in Justice Gomery's recommendations, wherein he calls for senior civil servants to be available to appear before Parliamentary committees. This would be a fundamental change to the long-standing

constitutional convention that responsible ministers must answer to Parliament for everything that happens within their departments and resign when there is a serious policy mistake or gross mismanagement in which they were involved or knew of. Furthermore, this would be a change brought about primarily based on the specifics of one example – the sponsorship program. However, both Justice Gomery and the Auditor General noted that the sponsorship program was an aberration – most public servants are committed to obeying the rules in place and doing their job well.

This fundamental change is also manifested in the Conservatives' *Federal Accountability Act* policy document with the introduction of the Accounting Officer model. Under that framework, Deputy Ministers would receive the Accounting Officer designation and be "responsible to Parliament for the departmental spending and administrative practices of his or her department²."

Under the traditional doctrine of ministerial responsibility, public servants were not to be named and blamed in public for mistakes. Disciplinary matters were to be handled confidentially within the administrative hierarchy on the basis of established rules and procedures. Based on Justice Gomery's recommendations, the Conservatives' planned Accounting Officer model and other notable shifts in the thinking about responsibility, the conventions related to ministerial responsibility are under strain. This poses serious risks for public servants because the rules with respect to responsible and accountable administrative behaviour are unclear.

Therefore, what is needed is a wide-ranging debate on the issue that engages the public servants who would be most affected by this culture shift. The issue of ministerial and deputy ministerial accountability has been debated at length by Parliamentary committees and various academics but to this point, the front-line public servants who would be most affected by radical transformations to the responsibility model have not been engaged. A debate that adequately involved these public servants would not only ensure that their views and concerns related to the practicality of the various responsibility models were expressed, but it would also give these public servants a sense of ownership of whatever model was selected. This would ensure a total buy-in and facilitate the introduction and implementation of the new model.

3.3 The Current Regulatory Environment

Given the multi-faceted nature of the principles and values outlined above, even notwithstanding the potential changes to the responsibility model, it's clear that striking a balance is a complex task involving subjective judgments and trade-offs. There is no single, all-encompassing formula that can cover all eventualities – especially given the pace, scope and depth of changes occurring inside and outside of government.

Clearly, formal control and accountability procedures have an important role to play. In the current government context there is no shortage of such controls: laws and regulations; organizational structures and reporting relationships; plans and budgets; administrative policies and procedures; internal and external audit; performance measurement and reporting requirements; and the application of rewards and sanctions, to name just a few.

These formal controls are supplemented by informal controls that exert influence on decisions and behaviour through leadership; culture and climate; levels of trust; values and ethics; motivations of employees; and the degrees of commitment to organizational goals. These informal controls are vital, because no matter how many formalized internal and external controls are put in place, responsible behaviour will always depend on the capabilities of public officials and their commitment to serve the public interest.

While the need for a mix of formal and informal controls is clear, the latter hardly makes for tangible policy. This is not a burden on the public service *per se*, but the temptation to correct problems (real and imagined) with new regulations is indeed great. Following the public outcry over financial impropriety in the sponsorship program, the Treasury Board issued its *Strengthening Public Sector Management* document. There were four general goals laid out in the report (strengthen comptrollership and oversight; review government expenditures and modernize management practices; assure accountability, transparency, good governance and an enhanced role for Parliament; build capacity across the public service) but the following flurry of initiatives totaled 238 new measures, according to former Deputy Minister and highly-respected commentator Arthur Kroeger.

What was initially unclear was how these new initiatives would complement or replace existing systems and regulations. There is an argument to be made that over time, rules meant to guide and

constrain behaviour lose their effectiveness as they become background parts of organizational life. Informal rules about when it is permissible to violate the rules come into play. That said, the necessity of such wide-ranging new regulations was not clear. In her 2004 report, the Auditor General of Canada noted:

While management is always a balance between exercising flexibility and imposing control, adding more controls might not address identified problems. I have said that more controls are not necessarily the solution; existing controls should be made clear and meaningful and should be applied consistently.³

While the *Strengthening Public Sector Management* document is perhaps the most striking example of what could be described as an overreaction to the size, nature and frequency of the problems with financial management, it is certainly not the only one. The long list of reforms and regulations are, for the most part, part of the *Financial Management Policy Framework*. That framework boasts five central policies (financial management roles and responsibilities; resource management; internal control; financial information and reporting; financial systems and infrastructure) and a wide array of policy directives and regulations.

Clearly the focus of successive administrations has been to address scandals and instances of mismanagement with rules. Indeed, new rules and policy directives are among the most visible remedies a government can introduce; they can go a long way towards placating public anger. But what risks are there in implementing new rules? Is enough attention paid to existing regulations?

³ Office of the Auditor General of Canada, *Report of the Auditor General of Canada to the House of Commons: Matters of Special Importance*, 2004, Public Works and Government Services Canada, Ottawa,

4.0 In Pursuit of Balance

4.1 Managing Risk

The above-outlined measures are not bad or dangerous in and of themselves. The danger lies in failing to accurately balance the control mechanisms with the freedom for employees to perform the tasks they have been assigned. As introduced in section 3.1 of this report, there needs to be a balance between control and accountability on one hand and the administrative feasibility to carry out assigned tasks on the other. This balance is essential in developing and implementing an effective risk management system.

Problems can not be eliminated with laws and rule-making alone. Experience teaches us that laws, regulations, rules, administrative policies, organizational flow charts and reports are not a substitute for sound management judgment. Of course, there must be clear parameters set for decision-making, monitoring to ensure the effective and ethical fulfillment of responsibilities and clear, understood, accepted and fair procedures for holding people accountable for their behaviour and results. However, such mechanisms are not a complete substitute for professionalism and an internalized, subjective commitment to uphold the public interest. There is the very real danger with the new financial management regime that too much time will be spent on checking and too little time will be spent on leadership and managing – not a balance which will serve Canadians well. A further example of this is explored below in section 4.2.

Looking beyond the public service, of concern to Canadians and diverse organizations dealing with the federal government is the multiplication of rules, forms and reporting requirements that make it extremely difficult and time consuming to have any financial dealing with the government. Non-profit organizations benefiting from grants and contributions are apprehensive about the time it now takes to complete proposals and report on funding received. While no one questions the importance of proper reporting, the process should help prevent financial mismanagement, not stop organizations from seeking the support of our government.

Furthermore, an over-abundance of rules can create a stifling climate in which employees are subconsciously encouraged to underachieve and take as few risks as possible. The stereotypical

image of the stodgy bureaucrat is reiterated. Well-trained, well-qualified professionals, upon seeing such a work climate, would likely be inspired to instead examine their options in the private sector, where it would appear there is more tolerance for risk as balanced with room for creativity. Rules are of course needed and guidelines are important, but there must be a trade off. A balance must be struck in order to ensure a suitable climate – one which juxtaposes responsiveness with evaluations of risk; workability with control – exists.

It is essential to ensure that all new measures are not only put in place to provide added financial controls but that they provide a streamlined approach to government program management. Whenever possible, with the introduction of a new rule, process or form, there should be a review of all existing ones with the understanding that rules that are no longer necessary should be eliminated.

4.2 Reporting vs. Performing

As discussed above, there is a real threat that with the imbalance in the risk management system weighted more towards control than delivery, performance in the public service will be stifled. A prime example of that trend is that of performance reports.

Under the previously issued *Management Accountability Framework*, departments are required to provide proof of satisfactory performance each year on the basis of 40 indicators and 150 measures of management practices. Departmental performance plans and departmental performance reports have been prepared and tabled in Parliament since the mid 90s.

Since 2000, the Government of Canada has produced a whole-of-government review of operations to go along with the myriad departmental and agency reports. It is one of the few governments in the world to attempt to combine business line reporting on programs within individual departments with the production of whole-of-government social indicators which attempt to measure the net impacts of all government activities on the progress being made in strategic areas of the Canadian society and economy. Linking the two levels of analysis has been the goal but it has proven to be a difficult conceptual and analytical task.

When it is all said and done, over 1,000 reports from departments and agencies are submitted annually to Parliament. Presumably such

reports are meant to be used both for internal management purposes as well as external accountability purposes. The practice stems from the experiences of the private sector, where such reports are common and, arguably, easier to implement. Unlike the private sector, where measuring standards are more limited and almost universally accepted, measuring government performance is thought of in less-precise terms complicated by the fact that outcomes being sought are often multiple, vague, shifting and in many cases conflicting. Recent reports from the Office of the Auditor General indicate that reporting on outcomes (not just inputs and outputs) remains weak, departmental performance reports are often incomplete (failing to discuss problems and shortcomings) and financial and performance information are seldom integrated. The Auditor General has called for closer connections among such activities within departments and non-departmental organizations as program planning, budgeting, performance management and periodic evaluations triggered by performance reports.

Still, the Government of Canada has made great strides in implementing these performance reports and the sheer volume of them produced is indicative of a commitment to accountability in the Public Service. As a result, there is more information available to Parliament, interested groups and citizens at large and external accountability is indeed possible. Today, within the Government of Canada there is at least the potential for the integration of greater amounts of performance information in to the key activities of planning, budgeting, program management and periodic in-depth evaluations.

Unfortunately, in order for such external accountability to exist, the reports must not just be produced, they must be studied in detail. Based on ample anecdotal evidence, however, it would appear that a low percentage of performance reports are ever read let alone studied in detail. A research study done for the Gomery Commission by Peter Dobell and Martin Ulrich confirmed how little actual use was made these documents in the course of the Supply Process, which is the parliamentary procedure that provided the original basis for the assertion of Parliament's right and duty to hold governments accountable for their use of public money and for the overall performance of government⁴.

The cost-effectiveness of producing these reports depends entirely on them being utilized efficiently. Generating information,

⁴ Dobell and Ulrich, "Parliament and Financial Accountability," Restoring Accountability: Research Studies Volume I, Minister of Public Works, Ottawa, 2006

analyzing it, preparing reports and producing thousands of copies is not without its costs, both in terms of staff time and direct expenditures. Compared to the total costs of government the amounts might be small, but if there is no audience and little use made of the documents it raises the question of whether this is a necessary and valuable expenditure.

The message here is not to give up on performance measurement; rather it is to call for a more selective and focused approach. Such an approach would concentrate more on information that is relevant and meaningful to the managers who are actually likely to use the information. It would concentrate on information that can be used to support decision-making. It will also be necessary to examine the role that incentives and trust play in encouraging managers to report honestly and completely on how well their programs are doing. It is also necessary to discuss whether the information gathering and reporting requirements/formats can be the same for internal management purposes as for external accountability purposes to Parliament and the public. There needs to be some investigation and debate about what constitutes quality information for different purposes and different audiences.

For these reasons, a thorough study of the whole performance reporting model must be undertaken. This is not without precedent, indeed, Britain, the United States and several US states seen as leaders in the field have all recently revised their reporting requirements. Canada should endeavor to undertake such a review to ensure that performance reporting is done effectively and efficiently.

5.0 The Role of the Financial Officer

5.1 Financial Officers and Risk Management

An efficient and effective risk management system, as described above, requires the active participation of qualified professional public servants. To that end, financial officers play a key role that is proactive and focused on prevention. While audit systems can detect financial impropriety after the fact, a qualified financial officer working closely with a project team can be proactive and uncover questionable practices before they become full fledged scandals. They can develop processes and management models that find workable balances between reasonable risk and the obligation for program deliverance.

Financial officers must meet one of the highest selection standards in the federal public services prior to being employed. For the most part, financial officers are required to have a professional designation, such as a CA, CM or CGA, and/or a business degree with a specialization in financial management. This results in a highly professional and qualified community with the necessary tools to aid in decision making and add value to the process of developing innovative means to mitigating risk normally found in a complex management framework such as the federal government. Qualified and experienced financial officers can draw on established corporate knowledge to offer sound judgment on financial management, resource management and strategic issues.

5.2 The CFO Model

However, in order for financial officers to effectively carry out their duties, their role needs to be recognized and respected. Under the leadership of the Office of the Comptroller General, steps have been taken to reinforce financial management in the public service through the introduction of the Chief Financial Officer (CFO) model. The CFO position will be the single point of accountability for financial management in a department, reporting to the Deputy Minister for overall performance and to the Comptroller General on issues related to professional standards.

For their part, CFOs will require an accounting designation, among other requirements for personal competencies and experience. As

evidenced by experiences in other jurisdictions, CFOs have evolved from being seen as “bean counters” to being influential members of executive teams. As the principal financial manager in a department, the functions of the CFO should involve planning, budgeting, management control, information systems, audits and the development of performance information. A strong CFO can be a true partner with program managers, helping them to plan, allocate and evaluate the financial resources available in an informed and timely manner.

5.3 Private-Sector Competition

While the introduction of the CFO model, along with the renewed emphasis on recruitment in the Financial Officer Recruitment and Development (FORD) program, reflected the importance of reinvesting in the financial management framework, there are still challenges that need to be addressed. The public service will be losing a significant number of experienced financial professionals either through retirement or voluntary departures over the next five years. For the most part, newly-recruited finance professionals will not have the experience, depth of knowledge and credibility of the people they are replacing. In addition, the government will be entering a tough competitive market in terms of recruiting new financial officers because of the trends in both the corporate and the public sector to boost their capabilities in the financial field. This can be addressed, in part, by an increased focus on training and career development at all levels of employment.

In addition to building much-needed capacity, comprehensive training programs are effective tools to improve employee loyalty. Writing in the *Globe and Mail*, John Izzo (author of Values Shift: The New Work Ethic) noted that “one of the most significant changes [in workplace culture] is the central role that learning and career development play in the new loyalty⁵.” Izzo cites a 2005 survey by Grantz Wiley Research that found “the perception that career development opportunities existed within a company – having opportunities to learn and grow – was the only significant predictor of employee loyalty⁶” for younger workers.

Clearly, making public sector employment attractive will involve more than competitive remuneration packages; it will require a demonstrated commitment to providing qualified financial

⁵ Izzo, John, “Employee loyalty: not dead, just different,” *Globe and Mail*, March 5, 2006, pg C1

⁶ *ibid*

professionals with meaningful challenging work, significant autonomy and discretion, opportunities to further their training and appropriate recognition (both tangible and symbolic) for the value of their contribution to the progress of their organizations.

5.4 Centralized Service Delivery

Prior to the change in government, there was a clear shift towards the centralization of “sharable” services such as human resources, procurement, information technology and finance. Under the Corporate Shared Services Initiative, the government intended to move towards the creation of a central agency for internal shared service delivery, much like the creation of Service Canada was a step towards a central agency for external service delivery.

While it is unclear whether the Conservative government intends to carry out the Corporate Shared Services Initiative, the overall trend towards shared services in the private sector and the general inclination towards small-government philosophies in conservative camps would suggest it is likely to remain a priority in coming years. There is a clear cost benefit for centralizing certain administrative services – including some financial services. That said, one need only look to the problems in the sponsorship program to see why centralizing financial management is a dangerous idea when there is a legitimate expectation that funds be managed appropriately.

There was no financial officer within the Advertising and Public Opinion Research Sector or the Communications Coordination Services Branch – the government offices responsible for administering the sponsorship program. Contracts and invoices were authorized under the *Financial Administration Act* by people with no formal training – either in matters related to the *Act* or in general financial administration fields. As a result, as noted by Justice Gomery in his first report on the sponsorship program, *FAA* requirements “were not systematically followed by the public servants who handled contracting and payment in relation to the Sponsorship Program⁷.”

The idea that a financial officer working in a centralized office can exercise due diligence on a project file without being intimately aware of the project’s details is counter-intuitive. As demonstrated in the CFO model, there must be financial expertise at the

⁷ Gomery, Justice John H., *Who is Responsible*, 2005, Public Works and Government Services Canada, Ottawa, pg. 137

departmental, branch and project levels. This is why there should be a qualified financial officer in place within the management structure of all major government programs where there is an accountability expectation for resource management.

5.5 Accountabilities and Liabilities

Another major issue that arose during the Commission of Inquiry into the Sponsorship Program was that of accountability and liability. Justice Gomery cited a lack of willingness of anyone to accept responsibility for the program's failings. This is hardly a new phenomenon, indeed clarifying accountabilities and liabilities was the subject of the second volume of the *Checks and Balances* series of reports released in September 2004⁸. Of particular concern to financial officers are four themes that potentially give rise to liabilities for front line financial officers engaged in certification and verification functions under sections 33 and 34 of the *Financial Administration Act*:

1. Within the hierarchical structure, financial officers are pressured to certify payments based on processes that fail to comply with the requirements of the control framework. Although this is not experienced in the majority of transactions, these are not isolated incidents. Financial officers have been pressured to authorize payments where they have expressed concerns that controls were inadequate. Pressures have taken the form of real or perceived threats to job security, promotions and reprisals such as marginalization in the workplace.
2. The automated payment system does not lend itself to conformity with section 33 FAA accountabilities where the verification process is delegated as a function of the high volume of payments generated within the automated system. Most departments have assigned one individual to authorize all payments; practically speaking, it is impossible for that person to ensure that the control framework is working as it should across the country. Yet, legally, this one individual is accountable.
3. There is a circularity embedded in the section 33 (payment) and section 34 (verification) processes that obscures the distinction between the separate accountability ascribed to the two functions. Section 34 officials are responsible for transactions they

⁸ See Association of Canadian Financial Officers, "Checks and Balances Volume II: Accountability and Liability under the Financial Administration Act" 2004



authorize; however, section 33 officials are obligated to ensure that section 34 officials are fulfilling their responsibilities. Therefore, financial officers certifying under section 33 reexamine transactions for errors. This in effect obscures the accountability.

4. There is a need to re-evaluate accountabilities under the control framework insofar as payment authorization functions are performed by individuals who may not meet the requirements to otherwise exercise financial officer responsibility. These individuals may not meet the business, education or financial expertise requirements of the financial officer classification within the public service.

While issues of accountability and delineations of responsibility have been discussed in detail in recent months and years, the liabilities related to the application of that accountability and responsibility have not been made clear.

6.0 Conclusion

In the wake of a series of highly-publicized scandals and instances of financial imprudence, Canadians are understandably concerned about the management of their tax dollars. That said, the tendency to solve problems by introducing new rules threatens to impede the progress of the public service. Many of the problems that have led to financial mismanagement in the past stemmed not from a lack of rules but from a poor understanding or intentional violation of the rules in place.

While successive governments have introduced measures aimed at addressing these concerns and restoring faith in the public service, there seems to be a disconnect between the need to maintain a proper balance in the risk management system and the new rules created. A proactive approach aimed at identifying what is working adequately, what needs to be strengthened and ensuring proper service delivery should be developed. Whether this approach is government-wide or based on individual programs, a rigorous and systematic model must be implemented to strengthen the existing risk-management system.

Furthermore, the financial management system requires proper staffing in order to ensure its efficiency. This is not a new concept. When building a house, Canadians turn to qualified architects. When people suffer from health issues, they turn to experienced physicians or specialists. Financial officers with the proper qualifications and experience are the financial management specialists. It is unrealistic to believe that the system will work without the proper individuals to provide sound management and oversight. With the proper qualifications and the right amount of experience needed to deal with complex financial management systems and business practices, financial officers are a great asset to the existing system and provide a level of protection that in their absence would otherwise not exist.

Canadians have made it clear: They demand and deserve good governance. By strengthening the systems in place and establishing a clear and workable balance between the need for control and the need for innovation, this can be delivered.

7.0 Recommendations

The Association of Canadian Financial Officers is proud to have offered constructive recommendations in its previous two volumes of *Checks and Balances*, many of which were later adopted and implemented by the federal government.

Below are recommendations relevant to the intent of this report: Restoring balance in the risk management system and ensuring the right people are in place to work within that system.

1. Engage public servants in a wide-ranging debate on the issue of ministerial and deputy ministerial accountability and its impact on the public service

A number of reports and position papers, including Justice Gomery's report on the sponsorship program and the Conservatives' *Federal Accountability Act* election platform, have called for greater Parliamentary accountability for Deputy Ministers. This marks a profound shift away from the traditional definitions of ministerial and deputy ministerial accountability.

While such a shift has been debated at the political and academic level, thus far no effort has been made to engage front-line public servants in the discussion. A formal debate process should be established to allow those public servants to express their views on the proposed changes and how they could affect how the government operates. This would allow them to contribute their organizational knowledge and also give them a sense of ownership in the process.

2. Impose a test for all new rules and regulations on financial management

Some of the recently announced rules are a welcome addition to the financial management framework. However, with each new announcement, there is the potential for confusion within the public service and the Canadian population.

Greater accountability is the goal everyone would like to reach. Confusion, misunderstandings, duplication and the creation of more "red tape" should be avoided.

Therefore, prior to the announcement of new rules, the following steps should be taken:

- a. There should be a review to determine whether the new rule is in conflict with, or a duplication of, existing rules. If so, a decision should be made as to whether old rules should be archived or the new rule is to be changed to avoid duplication.
- b. A review of how the new rule will affect service delivery should be done in order to try to minimize the impact on the Canadian public. While the government should strive to achieve maximum accountability, it should not be done in a way that ends up preventing Canadians from communicating with their government.

3. Commission an empirical study of the current performance reporting system

The cost-effectiveness of the current performance reporting model – wherein more than 1,000 reports are submitted to Parliament for review each year – can not be effectively evaluated based solely on the available anecdotal evidence (which suggests the reports are not being utilized effectively).

A thorough study based on the principles of empirical research must be undertaken to evaluate the utility of the current model and, if necessary, make recommendations to ensure performance reports are utilized.

4. Undertake a thorough review of the professional climate for financial officers

While important steps have been taken towards making public service employment attractive for Canadian financial officers, more must be done to offset the combined threats of private sector compensation and low-employee morale.

A thorough review must be undertaken to examine issues related to career development opportunities, classification, accountabilities and liabilities and centralized service delivery.

These four recommendations are not meant to obscure other recommendations made in previous volumes of *Checks and Balances*. Indeed ACFO, while pleased that some of its recommendations have been adopted, is concerned that others have not been followed



and would like to see a more consultative process put in place where the government does not only go to outside experts in order to solve its issues but also work with its own employees and their representatives to gather the best solutions to restore faith in the public service.