

The Changing Accountability Environment and What it Means for CFOs and SFOs*

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The financial management community represents a very important community – both for the Public Service and for the Government. Its skills matter today as never before. Its issues are almost inevitably big issues, even if Deputies and Ministers may not always realize it right away.

I've seen this through my work as an informal advisor to the Comptroller General over the past couple of years. And I've seen it, through another lens, through my role on two of the new Departmental Audit Committees on which I sit as an outside member.

I have no doubt that your Deputy is much more conscious of your role, and of the importance of good financial management, than he or she was only three or four years ago. Five years ago, the term "Chief Financial Officer" meant almost nothing in government – it was private-sector title. It certainly didn't mean a job with well-defined responsibilities and a specific role as a key adviser to the Deputy Minister in the conduct of departmental business.

The world *has* changed. We are living in a new environment, one in which the obligations of Deputies and their supporting senior officials have been put into sharp relief, not only by events on the Hill, but by the larger and longer-term requirements of effective management in government.

That's what I want to talk about. I will talk about this new environment, especially the new accountability environment, and what it means for people doing your jobs in the Public Service today. In my remarks, I want to make three points in particular.

First I will argue that the world really has changed in important ways, and that this is not just a swing of the pendulum. There's no going back to the old ways of doing things; there is only a way forward, and it's your job to help make that a positive direction.

Second I will argue that while the CFO is a key advisor to the Deputy and a pillar of good management in the department, the CFO's role will always mean something different in government than it does in the private sector.

Third, I want to talk about some of the particular challenges facing CFOs and SFOs today in government, and about what I think you can do to try to meet those challenges.

The New Environment

The first thing we should note about this current focus on accountability (some would call it an excessive or even obsessive focus), on worrying about financial control, and about results and problems of mismanagement, is that it's not entirely new. It didn't start with this Government. It goes back at least to the 1970s, and in some respects to decades before that.

Don't forget, the government used to be so focused on control that until the 1960s, every expenditure in a department had to be approved, directly or indirectly, in advance by an official in Finance called the "Comptroller of the Treasury". Now that was control! Then Glassco came out in 1962 and said, "let the managers manage". He called for a different role for the Treasury Board, and much great authority (and accountability) for line managers.

The pendulum of authority swung

away from central controls and over to where it belongs – that is, to Ministers, Deputies and their subordinate officials. Parliament wasn't always happy with this, because Parliamentarians expected to be able to address issues of financial management via the single window of the Treasury Board Secretariat. They weren't happy to be told that they had to ask every single Deputy for information which they thought should be held centrally. They wanted greater central oversight and control, though their own interest in issues and problems of actual financial management was never very high.

At the same time, there was growing recognition of the complexity of government administration, and of the challenges of financial management in the federal public sector. Parliament expected higher performance from the government, and more in the way of information and clear answers from the officials appearing before it.

This trend was accentuated as MPs became aware of cases of mismanagement, or actual fraud, or reporting on expenditures (such as the costs of the gun registry) that they felt was misleading. The Martin government responded to these pressures with a wave of reform that was picked up by the new Conservative administration when it took office in 2006. The centerpiece of their package of initiatives was the *Federal Accountability Act*, which as you know amended numerous statutes having to do, in one way or another, with matters of accountability and control.

That's where we are today. We are surfing a wave of administrative reform, focused on management and accounta-

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bility, whose full impact has yet to be felt, though your community is right at its centre.

But where we are today is not simply another “swing of the pendulum”. My friend Ian Clark has talked about two “governance pendulums”¹: the first he calls *centralization-empowerment* and the second, *propriety-performance*. Right now, we’re hard over on the centralization/propriety side; over time, things will even out to some extent.

But in the information-intense environment of 2007 and beyond, we must expect that Parliament and the media and the public will demand more and better information about what government is doing, and how well it is managing. Their expectations about performance, efficiency, and probity, will not diminish in the coming years. Precisely how those expectations are met, and just what they mean for officials, has yet to be finally determined. But the requirement for better information and clearer accountability is not going to go away.

The Role of the CFO

As CFOs and SFOs, it’s your job to support your Deputy in fulfilling his or her accountability to the Minister, and to the Treasury Board and the PCO and all of the other points of authority inside government that have a claim on the Deputy in one way or another.

This is not a new responsibility – you and your predecessors have always done this. One thing that *is* new is your greatly expanded duty to support the Deputy in his or her appearances before standing committee, a forum where MPs are now looking for clearer and better answers to their questions, and generally for an attitude of respect and responsiveness to Parliament’s legitimate interest in how departments and agencies are doing their business.

Another obligation coming down at you like a freight train, is your obligation to produce auditable financial statements by 2008-09. Your job, like that of the CFO in a private-sector corporation, is crucial to the CEO fulfilling his or her responsibilities for the effective management and, indeed, the success, of the enterprise. But your job is not the same

as a private-sector CFO. In part, this is because the objectives of the public sector are more complex and multifaceted than those of an organization in the private sector. There, the goal is fundamentally growth and profit. In the public sector, by contrast, objectives always include social, political and economic considerations that are often difficult to balance and usually impossible to calculate with precision.

In government, timely and accurate financial information is important to success, but the financial bottom line is not the only one. In government, the judgment of the CFO on what to do or not to do does not represent the determining advice for the Deputy or the Minister. Other factors – some political, some policy, and others outside the control of the Minister or Deputy – weigh heavily in the equation.

That’s not to say the CFO’s job is not vitally important in every department or agency, or that it doesn’t require people of the very highest quality and dedication. Rather, it means that the realities and challenges of the private sector are fundamentally different from those of the public sector, and this has implications for what we expect of the CFO.

While good management, and especially good financial management, should always be a priority for Deputies, it will never be the top priority. The Deputy’s top priority will always be delivering on the Minister’s objectives in support of the broader agenda of the government. In this the CFO will play an important role, but seldom the determining one.

The CFO and the DM’s Accountabilities

So you’re important, and while the whole world is not resting on your shoulders, your accountabilities are incredibly complex:

- To your profession, with its rigorous professional standards;
- To the Comptroller General;
- To your colleagues in your department or agency;
- And to the deputy heads whom you serve.

Let me say a few words about how you support the Deputy in fulfilling his or

her accountabilities to Treasury Board and before Parliament. It’s not just how you run your shop; or how well you prepare the accounts, or how you brief the DM. It’s not about how well you do in appearing with the Deputy before committee.

It’s really about how you play your role in your department or agency:

- How good you are at developing and implementing modern systems of information and control;
- What you do to about strengthening management decision making;
- What you do to get senior line managers to take up their responsibilities in financial management.

This is the larger role of the CFO that the system wants you to play. It’s the role Deputies want you to play. It’s an active role, not a passive one. It’s a leadership role above all.

Challenges Facing CFOs Today

What are the challenges facing you today as CFOs? Here are some that come immediately to mind. The first is building capacity in financial management. As the Comptroller General has been reminding us for the past few years, this is a pressing requirement almost everywhere in government. Another is creating a management culture in your departments and agencies that is built on (a) awareness of the importance of financial management and (b) competency on the part of line managers in dealing with issues of control and financial accountability. Another is defining and fulfilling your role as CFO or SFO in actual practice, as opposed to the commendable theory that emanates from the OCG.

And just to add one more, we should not overlook the importance of grooming your successors. Like every professional community in government, the financial management community is aging. Even today, we don’t have as many highly qualified and capable senior financial managers as we need. We can’t afford to lose them through retirement. Renewing that community has been, and will continue to be, a top priority for the Comptroller General.

My Advice to CFOs and SFOs

I have three pieces of advice to offer you

as you do your work as CFOs and SFOs in this challenging environment.

First, take ownership of the financial management agenda laid out by the Comptroller General –

not just in your own departments, but government wide. The OCG feels strong sense of ownership of the financial community. My advice to you is, *take ownership of the OCG*. They need your help. They need your ideas and your experience. They need your buy-in to their agenda. To a very large extent, your successes will determine their successes.

Second, having said that you're not the most important person in the department, let me also remind you that your jobs are certainly bigger today – much bigger – than they were in the past. You need to see yourselves in this larger way. You are key advisors to the Deputy. But a larger role doesn't simply come with the title. It's what *you* make of it.

My third message is that if you're going to be able to look credibly at the programs in your department, you have to know what you're talking about. If you're going to offer a critical perspective on new spending initiatives, you better have your facts right. One obvious error and you can set yourself back a couple of years in terms of your credibility within the department.

What specifically do you have to do to succeed? You need to install and manage top-quality financial systems and control mechanisms in which the people in your department can have confidence. Without delivering on this – your basic job – you can hardly expect people to listen when you talk about their business.

On the issue of accountability, you should start with the specific obligations of the accounting officer under the amended *Financial Administration Act*. Let's remind ourselves of what those obligations are.

Section 16.4 (1) of the amended *FAA* makes the Deputy "accountable before the appropriate committee of Parliament for:

- a) the measures taken to organize the resources of the department to deliver departmental programs in compliance with government policies and procedures;
- b) the measures taken to maintain effective systems of internal control in the department;
- c) the signing of the accounts that are required to be kept for the prepara-

tion of the Public Accounts pursuant to section 64; and

- d) the performance of other specific duties assigned to him or her by or under this or any other Act in relation to the administration of the department."

You play a key role in supporting the Deputy under every one of those sections. If the Deputy can't rely on you, he's cooked. You will find (and many of you are already finding) that in the new world of audit, it is the CFO who spends most of the time under the spotlight of the Departmental Audit Committee. If you can't deliver in this new environment, *you're* cooked.

But look on the bright side – you have big jobs, there are big expectations to meet, and you've got the support of the government and Parliament for what you do. Who could ask for more?

Reference

1. See Ian D. Clark "Governance Pendulums in Public Sector Reform: Lessons on Downsizing and Modernization from Ottawa and Queen's Park", November, 2007.

About the Author

James Mitchell is a founding partner of the policy consulting firm Sussex Circle. He is a former Assistant Secretary to the Cabinet (Machinery of Government) and Assistant Secretary of the Treasury Board.

Alan G. Ross Award Winner

The 2009 Alan G. Ross Award for Writing Excellence was awarded to François Brouard for his article entitled "Strategic Intelligence – Also Useful in the Public Sector: Part 2 – Collection and Protection Cycles" published in the Spring/Summer 2009 issue of the *fmi*✶*igf* Journal.

Congratulations!

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