

Financial Management Framework

Key Concepts Developed for Government of Canada Federal Departments

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**Financial Management Framework
Key Concepts**

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Note: For a more detailed briefing and components of a comprehensive FMF, please contact Peter Ostapchuk, CA, ACC, CA-IT of icorp.ca inc. at 613.852.5596

The Financial Management Framework

A Financial Management Framework (FMF) must set out the Senior Executive's and Senior Financial Officer's (SFO) standards and expectations for sound financial management and control across the organization, consistent with the Financial Administration Act (FAA), Treasury Board Secretariat (TBS) policies, and the Management Accountability Framework (MAF). The objective of the FMF is to ensure that a robust financial management governance framework exists that clearly articulates Legislation & Policies, Values & Principles, Authorities & Accountabilities, Roles & Responsibilities, Processes, and Enablers that will, when adhered to, lead to a number of positive financial and business Results.

The FMF needs to be applied to all decision-making processes in the management of public and departmental resources that contribute to the efficiency and effectiveness of program and service delivery within important accountability frameworks, including: *TBS Management Accountability Framework (MAF)*, *Departmental Governance Model*, *HR Framework*, and *Integrated Control Framework*.

The FMF needs to reflect the commitment of the senior executive and the SFO to enhance financial management transparency and accountability across the organization to strengthen oversight and sound management of public resources entrusted to the organization. This includes every manager's commitment to:

- more rigorous oversight of organizational revenues, expenditures, assets and liabilities, including the need for reallocation and realignment of resources based upon organizational priorities, within Parliamentary constraints;
- reflect the organization's focus on ensuring value for money through the utilization of the FMF for sound financial management;
- provide leadership in ensuring that the organization complies with Treasury Board and organizational policies for strong revenue management, expenditure control, asset and liability management and rigorous stewardship of public funds;
- ensure continued learning and skills development in financial management through training and knowledge development to meet FMF requirements; and
- provide meaningful accountability and integrated financial management information consistent with the organization's Program Activity Architecture (PAA) and other reporting objectives to report upon the stewardship of public resources.

The FMF is an integral component of every manager's fiduciary responsibility to strengthen oversight and sound management of public resources entrusted to everyone. The FMF is thus an integral governance instrument for a standard approach to financial management across the organization. Adherence to the FMF is a significant accountability of all Managers and personnel, and forms part of all managerial performance accords.

Components of the Financial Management Framework

A sound FMF needs to be comprised of 5 elements (Rules, Values & Principles, Authorities & Accountabilities, Roles & Responsibilities, and Processes) supported by Enablers that when adhered to produce Business Results.

Legislation & Policies are the foundations of sound financial management, including legislation and regulations, and policies.

Values & Principles set out the ethical value statements and foundations of sound financial management, which guide Managers in fulfilling their financial management duties.

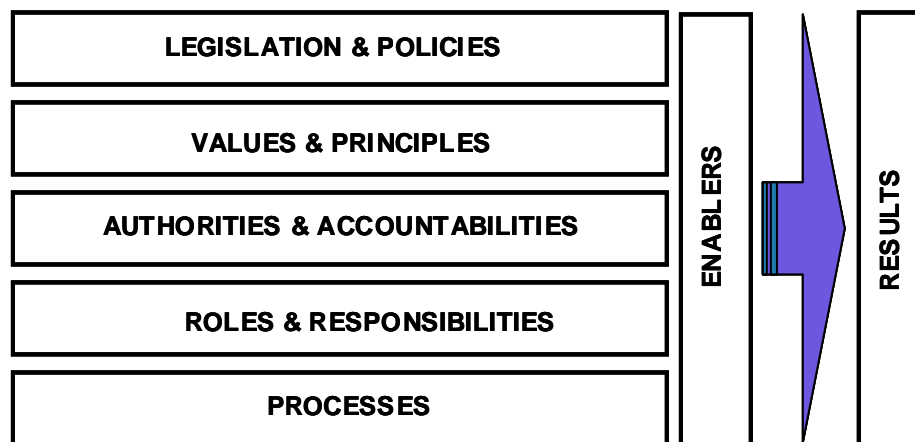
Authorities & Accountabilities reflect delegated authorities and financial management accountabilities.

Roles & Responsibilities reflect the expected financial management responsibilities of Business Managers, Senior Management, and Financial Officers. The Roles and Responsibilities reflect the concept that financial management is everyone's responsibility.

Processes are the means by which the FMF is operationalized. The FMF identifies financial management process standards for resource allocation, revenue and expenditure management, asset and liability management, transactional procedures, and ongoing monitoring and assurance.

Enablers are the underpinnings of the FMF, and represent the essential elements that must be in place across the Department. Enablers include visible senior management commitment, skills and knowledge capabilities, and quality integrated financial management information that is transparent, timely and reliable, supported by appropriate financial management systems and tools.

Financial Management Framework



Financial Management Legislation & Policies

The Financial Administration Act (FAA) outlines how public funds are to be managed and controlled. The FAA prescribes specific rules for Business and Financial Managers in terms of expenditure initiation and spending authority. Specific Treasury Board Secretariat (TBS) financial management policies expand on these rules, and provide broad procedural directives that are to be followed to ensure proper financial management. In certain cases, the organization has developed Departmental policies and / or Guidelines to provide additional detail and elaborate upon unique Departmental circumstances.

Business and Financial Managers must be aware of the rules contained in these policies and guidelines and must comply with them in conducting their business activities, consistent with commitments set out in performance accords.

Business and Financial Managers must be aware of the rules contained in these policies and guidelines and must comply with them in conducting their business activities, consistent with commitments set out in performance accords. The following table sets out the existing Legislation and TBS / Organizational policies and guidelines for financial management in the organization.

Financial Management Values & Principles

Values set out the ethical qualities and foundations of sound financial management expected of every manager and all personnel across the organization. The DM is responsible to ensure that all Departmental employees and officers are guided in their work and their professional conduct by a balanced framework of public service values: democratic, professional, ethical and people values, as set out in the *TBS Values and Ethics Code for Public Servants* and *Statement of Ethical Values*.

Principles are the pillars that govern organizational business practices, and embody concepts of prudence, objectivity, independence, legislation, regulations, and policies. Managers are expected to govern business practices within these financial management principles.

Financial Management Authorities and Accountabilities

Parliament controls public money, all of which is received and paid from a single Consolidated Revenue Fund (CRF). Parliament further controls the supply of money through the use of appropriations. An appropriation is defined as an authority to pay money out of the CRF, which specifies the amount which can be lawfully spent and its purpose.

Most appropriations are “voted” and require Parliament’s approval each year. However, some appropriations are “statutory”, which means they have been approved under other statutes, and do not require annual approval. Most departmental organizations have both non-statutory and statutory votes. Non-statutory votes are Vote 1 – Operating, Vote 5 – Capital, and Vote 10 – Grants and Contributions. Within the non-statutory Vote 1 are “Separately-Controlled Allotments”, which are controlled by Treasury Board Ministers. Responsibility for the control and spending of public money in the organization rests with the Minister and Deputy Minister in accordance with the FAA. Through the *Delegation of Authority* instrument, the Minister and Deputy Minister delegates responsibility to Managers within the Department and specifies the financial authorities of specific positions within the organization to initiate and approve transactions.

Accountabilities reflect delegated authorities and financial management expectations. The *Governance Framework* is about leadership and sound management, and articulates authority, responsibility and accountability. Although authority and responsibility can be delegated, financial management accountabilities cannot. Given that Managers are entrusted with public resources – human, financial and asset-based – they are expected to use these public resources to achieve business results. Managers are accountable for, and therefore have a duty to report upon, the effective management of these public resources used to achieve their agreed upon results.

In government, Managers are accountable not only for the aggregate manner in which they discharge their responsibilities, but also for the propriety of each individual transaction. Thus, Managers must be aware of, and incorporate all aspects of, this *Financial Management Framework* into their business activities.

Financial Management Roles and Responsibilities

Financial Management is the responsibility of everyone in the organization. In carrying out their duties, all **Business Managers** are responsible for considering the financial implications of their actions – for managing the resources entrusted to them in a cost effective way. Business Managers are responsible for understanding and complying with all aspects of the Financial Management Framework, including relevant legislation, policies and guidelines.

All Managers are ultimately Business Managers. However, within the population of Business Managers, certain Managers have additional Financial Management roles and responsibilities. These are **Senior Management**, including the Deputy Minister (DM), Senior Financial Officer (SFO), Assistant Deputy Ministers (ADMs) and Regional Directors General (RDGs). Senior Management has overarching responsibility for:

- Ensuring that effective and sound financial management exists and is demonstrated across the organization;
- Monitoring the system of financial management across the organization, and provide assurance that it has done so;
- Setting an appropriate tone of respect for the *Financial Management Framework*, by giving priority to it and demonstrating fiduciary responsibility.

The DM is responsible for the *Governance Framework*, which includes the accountabilities for sound stewardship and financial management.

The SFO is responsible to support the DM for the design and implementation of the *Financial Management Framework*, the *Integrated Control Framework*, appropriate integrated financial management systems, and financial management policies and processes across the department.

Finally, **Financial Officers** have specific Financial Management responsibilities. Financial Officers provide financial guidance and advice to business Managers and senior management and ensure prudence and probity are exercised in spending public funds and that a proper accounting of funds received and spent is provided. The responsibilities of Financial Officers are numerous.

Financial Management Processes

Processes are the means by which the FMF is operationalized. Legislation and Policies exist and provide direction to Business Managers in carrying out their financial management responsibilities. Processes provide additional detail and describe how the Legislation and Policies are to be implemented in the organization. The FMF identifies process standards or expectations in areas such as:

- **Resource allocation and re-allocation**
- **Budgeting**
- **Forecasting**
- **Commitments (FAA Sec 32)**
- **Revenue management**
- **Expenditure management (FAA Sec 34)**
- **Asset / liability management**
- **Grants and contributions**
- **Costing**
- **Responding to material changes in circumstances**
- **Cash and appropriation management**
- **Reporting**
- **Ongoing monitoring, assurance, and quality control**

Financial Management Enablers

Enablers are the underpinnings of the FMF, and represent the essential elements that must be in place across the Department. Enablers include visible senior management commitment, skills and knowledge capabilities, and quality integrated financial management information that is transparent, timely and reliable, supported by appropriate financial management systems.

Financial and Business Management Results

Results are the end-state of operating within a sound financial management framework and achieving business objectives. Sound financial and business results are thus achieved after integrating the various components of the FMF into one coherent way of operating.

Financial and business results will reflect an agenda for continued improvement, and if the FMF is employed appropriately, the organization can expect:

- an integrated approach to management, with enhanced management and decision-making;
- value through the provision of better overall financial management and business results;
- support to the business community to lead to results;
- improved reporting, demonstrated accountabilities and effective policy implementation;
- consistent, integrated standards and approaches; and
- linkage of resources to results.