

Canadian Public-Sector Financial Management

3rd Edition



Andrew Graham

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Public-Sector
Financial
Management
3rd Edition

Andrew Graham

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Thoughts and Thanks for the Third Edition

I never thought it would come to this, another edition of this text. I also never thought that it would take so much to keep up to date in public sector financial management. This is a dynamic, changing and powerful field. So much has happened that has moved the getting, spending and accounting for resources front and centre in government. The public sector has changed too. We see all kinds of innovation in how governments deliver their programs and the way they relate to citizens in explaining and clarifying what they have done with their money. I see First Nations taking control of their resources, moving towards greater self-determination, by building financial capacity.

I chose to reorganize the text to follow the basic metaphor that I use to explain how I see public sector financial management: getting the resources (budgeting), delivering the services (control and operations) and explaining what was done with the money (reporting and performance measurement). What binds these three elements together is accountability, a basic public sector value and risk, the core concern that builds resilience. I have consistently found people respond to this metaphor. For those in government or studying public administration, the metaphor is similar to the public policy model of creating policy, implementing policy and being held to account for that policy.

When I began this text, governments were on the verge of major changes in financial management. Accrual accounting was only beginning in government. Today it has been fully implemented. As such, I treat it as a *fait accompli* that we still have to understand but not debate. In early days of writing and teaching in this area, accountability to citizens took on very formal, distant and often hard to understand reporting. A lot of that is still there, but the improvements and innovations are impressive with more and more efforts to have citizen-centric reporting that combines formal financial reporting, program performance metrics and ways to communicate it that are innovative, relevant and digitally available.

I have a lot of people to thank for helping get to this stage. More than anything, my students continue to be an inspiration. I asked them what to do with the third edition to make it better. One quite wisely said, “Have it catch up with your lectures and our class discussions.” Sound advice as I have continually updated class material, taking into account developments in standards, new ways to communicate and emerging issues. Another student, a Professional MPA students with work experience, told me that in her office in a provincial government, a copy of the second edition could be found in most of the offices in her unit. Her advice was to keep the practitioner in mind, especially the one who had little experience managing a budget. So, advice taken. My colleagues across the country who use the text have provided helpful feedback. Much appreciated. I particularly benefited from advice from Robert Shepherd of Carleton University and Patrice Dutil of Ryerson University. Wise counsel. I have also benefited from an increasing engagement with CPA Canada, the accounting and standards setting organization in our country. It has been insightful to work with leaders in this area from across the country on CPA’s Public Financial Management Advisory Committee. Through the First Nations Financial Management Board’s resources, I have learned much about leading practice among First Nations and the emergency of centres of excellence.

Once again, the School of Policy Studies, Queen’s University has been a wonderful environment in which to learn, teach and research. The leadership of Dr. David Walker and Lynn Freeman, as well as their personal support, is much appreciated. So too is that of Mark Howes from our Publications Unit.

My wife, Katherine Graham, continues to be a great support. During the rewriting of this text, she was working on a book of her own with a colleague. We did our daily chapter updates and moved through each other’s effort step by step, encouraging along the way without delving into what it was we were actually writing.

Andrew Graham
Kingston, Ontario
December, 2018

Introduction to the Third Edition

“It’s All about the Money”*

Chapter Objectives:

- Setting financial management in the public sector context: a framework.
- Describing what a financially literate manager and organization means.

Money matters in government. It gets things done. The art and science of securing funding, spending it to meet public policy objectives in the right way and then being able to report and account for it is what this book is about.

The text is intended for both classroom use and as a reference guide for practitioners. I well recall the point in my own public service career when, upon promotion, I found myself employed as a budget manager for the first time. In the sink-or-swim learning environment, I swam, with more than a little help. Luckily, I found a colleague who would show me the ropes. Luckily, I had financial advisors who would take the time to explain things to the newbie. Luckily, I had a boss with a tolerant view, at least at the outset. This book was written with that experience in mind, not just because it was mine, but because, throughout my public service career and in the years teaching at Queen’s, I heard versions of it time and time again. So, for the upcoming public servant who finds herself being called a budget manager or responsibility centre manager, here is a little help to get on board. The focus here is the practical application of financial management to achieve a public good, be it implementing a new policy or operating and sustaining an established program.

The Framework for Financial Management: A Public Policy Implementation Focus

The public sector of Canada is a large and important part of the social, economic and fiscal landscape of this country.

Taken at its broadest possible definition, it encompasses a wide range of public activities, some under the title of government, the broader public sector encompassing hospitals and school boards, for example, but also all contracted services and special agencies of government.

The successful delivery of public services, be they policies, regulations, direct client services, or payments of some kind, depends on having the resources available. While the term *resources* embraces many elements – people, time, attention, focus, and capacity – in the end, the amount of money available to deliver the program is the key variable for success. In that sense, it is all about the money.

Effective management of these funds by the managers responsible is the principal focus of this book. As the cycle of public policy outlined in **Figure 0.1** shows, there is more to the public sector than simply spending money, and it all begins with public policies. An array of tools has evolved to deliver public goods under the overall umbrella of the public sector, be it government, near-government agencies, wholly independent public organizations, fully independent nonprofit organizations and private sector firms.¹

This text is organized to address the elements of this framework, which is represented diagrammatically in **Figure 0.2**. Accounting for the proper expenditure of funds is

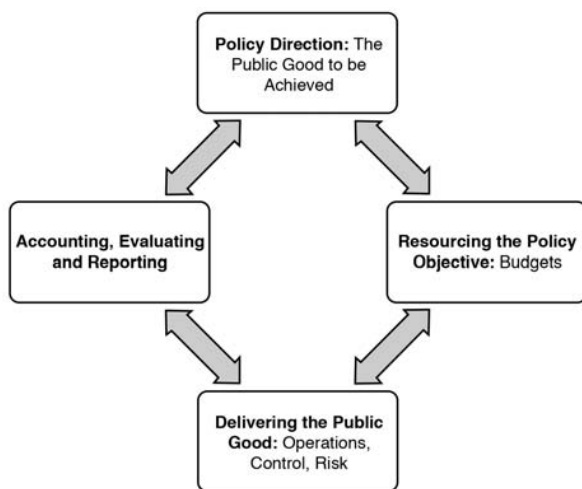
1 An excellent discussion of these tools and their implications for public-sector governance in the future is the work of Dr. Lester Salamon, editor, *The Tools of Government: A Guide to the New Governance* (New York: Oxford University Press, 2002).

* This quotation is attributed anecdotally to Tommy Douglas, former Premier of Saskatchewan and former Leader of the New Democratic Party, who was reputed to have said in reference to his dealings with some federal government officials, “When they say that it’s not about the money, but about the principles involved, it’s all about the money.”

not only an element of good management: it is essential to good government and good governance of the public enterprise. It is also where governments are most heavily scrutinized and where they can get into a great deal of trouble. The Centre for First Nations Governance drives this point home very well:

Financial Management Capacity ensures that our good work is not derailed by an inability to plan for, monitor, and account for financial resources. Financial capacity permits long-term, multi-year planning and proactive decision making. Effective financial management permits communities to plan beyond the arbitrary end of a fiscal year or a federal funding cycle and instead to plan for generations.²

Figure 0.1
Public Policy and Resource Cycle



Public policy drives how the public sector operates. Without it, no measure of public activity would make any coherent sense. However, it rarely stops there. Otherwise, we would have no end of interesting public-policy pronouncements, but little or no action to bring them to life. Furthermore, so much of the effectiveness of any policy turns on matching resources to policy aspirations. It is often called “delivering on promises.” This process is continuous. Policy direction may be the notional start of the cycle of resourcing and accounting, but time does not stand still and seldom is one policy ever implemented in isolation. A policy may start as one thing but it is often reformulated by the experience of operations and assessment of results. The loop is continuous and can move in

2. *The Five Pillars of Effective Governance*, Centre for First Nations Governance, see <http://fngovernance.org/publications>

both directions. That is why understanding and adapting to risk is a key financial management skill.

There is no shortage of good ideas in the public realm. There is equally no shortage of advocates for specific policies or courses of action. But there are never enough resources to get things done. Eventually, the “wants” will meet the “won’ts.” Tradeoffs will be made. This is a fact of public administration life. Further, neither policy decisions, nor allocations of resources to support them, are made in isolation. There is a continual and fierce competition among departments of governments for both policy attention and resources. For any player in the public sector, it is vital both to have an understanding of how governments balance their objectives and allocate funds to them, and to know both the formal and informal decision-making systems for budgetary allocation and reallocation. Succeeding within those systems is often a measure of one’s capacity to obtain resources on behalf of a program or policy initiative. This does not mean that bigger budgets are an indicator of success. As we will see, being a successful financial manager – meaning manager of finances – also means being able to identify the risks in the environment that will affect achieving your objectives and to find internal resources to adapt to changing circumstances. It may also mean being able to reduce your budgets while sustaining program integrity – a tough challenge.

The challenge does not end there. Just getting the money is the first step. It has to be spent for the purposes intended according to the rules. Results have to be achieved. Accounts have to be rendered of both performance and compliance for the public policy good and for the resources themselves. There has to be a continuous refinement of the policy, public good, or program to make it more effective and efficient, which can involve resource reallocations and outright reductions. This, then, is the framework of financial management. **Figure 0.2** puts this framework in the context of public policy but also the core actions within financial management that support it.

Getting funds approved by whatever authorizing body to perform some measure of public good is the start of the financial-management cycle that this text examines. Not all public-sector managers need to be accountants to do their jobs. (This text will certainly not qualify you as one.) Nevertheless, effective management of funds requires an understanding of basic accounting language and tools.

All public-sector managers are financial managers to some degree. For instance, they may have direct authority and responsibility for spending funds, approving expenditures

Figure 0.2
The Cycle of Public Policy and Financial Management



and contracts, being concerned with the policies that allocate them, or being responsible for monitoring their use from a range of perspectives, e.g., as the client or the organization, or in an external oversight role. Each of these roles in the delivery of public goods has a financial aspect.

There are tools we will look at so that managers at all levels within public-sector organizations can effectively spend and account for the resources they are responsible for. These tools include risk and accountability, accounting principles, program information and control mechanisms to ensure that the funds are being spent, properly monitored, and accounted for.

Funds do not spend themselves. Decisions must be made and actions taken. Procedures must be put in place to make sure that spending happens. Cost controls and the avoidance of over-expenditure through effective management practices are vital aspects of financial management. Effective control requires an understanding of how to build and use financial reports even if you do not do this yourself. A key relationship here is that between the practitioner and her financial advisor. All the time public policy is being implemented in any organization, there are financial practices

in place to make sure that funds are accounted for. Much of this is technical in nature, although the effective financial manager must understand the basis for the accounting, even though she will not be doing that work. It also puts financial management squarely into the realm of human relations, organizational behaviour, interpersonal relations, deal-making, and deal-breaking. Financial management is not just about numbers. It is also about people. It requires a constant eye on the public and political implications of poor management of funds allotted.

Such managerial behaviours are all part of a cycle of control of public funds. The ability to demonstrate, in terms both of procedures and of results, that you are in control of your resources is essential to creating public confidence. Establishing such measures of management control that are consistent with risk, material importance, and clarity go to the heart of both internal and external accountability.

Accountability is integral to public-sector management. All public-sector organizations have both internal and external accountability mechanisms to both justify and control their funds. There are two key elements of public accountability:

- Funds are expended for the purposes for which they were budgeted.
- The manner in which they are spent follows legal rules set out to avoid fraud or misuse of public monies.

While the issue of control often centres on questions of misuse of funds, it is more complex than that. Control is a positive element of management that focuses on how the organization is achieving its goals, what variance it is seeing against plan and how to mitigate the risks that arise from that variance. Without control, it is impossible to deliver public goods and manage public funds. There is a reasonable expectation that financial results also bear some connection to program results. Thus, financial management is a part of the greater accountability to deliver on policy objectives. Financial information is often central to determining if those objectives have been met.

Accountability also has many internal-to-government dimensions. In measurement and evaluation, the issue of profit and loss is seldom material in assessing the performance of a public-sector institution, but the question of being within budget certainly is.

Financial information is of interest for other reasons. For example, the public, or the politicians representing them, will often be concerned with the equity issue. Did we get our share? Such debates and interests pervade public discourse. They find their substance in reported financial data.

In that context, financial information often serves as a surrogate for other performance data. Often non-financial performance data are unavailable. The expected program outcomes cannot be readily measured. Many governments do not do a good job of reporting on performance, and financial information is often the clearest data that come forward on a regular basis. That is changing, for the better.

This practice does not mean that financial information presents a full picture.

Although the accounting profession sets high standards for its work, there is also a tendency to treat all financial information as absolute. Think twice about that. However, as we shall see, issues of recognition and reporting cycles have to be understood in order to interpret financial information.

There is, then, a full circle of elements to financial management in the public sector. The size of the organization and the scope of its activities will dictate the degree to which this circle is complex or simple. Regardless of size, all agencies spend other people's money. They must do so effectively and efficiently and be prepared to answer for it

at the end. This, then, is the framework that we will adopt for this text. It is illustrated in **Figure 0.3**. The organization of this text follows that framework.

Financial Management Is About People and Organizations

Too often financial management has been presented as objective and not affected by such matters as politics, power or culture. The reality is that it is very much about all of these things. Resources are managed within the operating culture of the organization. They are subject to all kinds of pressures. In the public sector, pressures include the general public wanting to know about how their taxes are being spent, the client with a program entitlement, the legislative auditor, the senior managers and political leadership, as well the employees who want to know if the budget will keep them in work and doing what they feel they are there to do. All have agendas. All interact. All want to affect outcomes.

Similarly, the interpretation of so-called objective information is always open to debate. Within this framework of financial management in the public sector, therefore, lies a recognition that games get played, that interpretations of financial events and decisions vary, and that many tensions are at play. That is why this text contains sections with such headings as **“The Budget Games that People Play”** as a frank recognition that financial management operates in a rich and human culture.

The in-year management of approved budgets receives considerable attention in this text for several reasons. First, little attention has been given to the managerial and organizational skills often needed to manage budgets within the fiscal year. Second, the process of managing a budget effectively is an important managerial skill, involving not just cash projections, but also judgements about how the organization will behave within the year and the risks it must mitigate. Third, in-year budget management is where financial and performance information meets organizational culture. Finally, the effective management of the budget plays a large role in ensuring that budget targets are met in terms of being spent effectively for the public good but are not overspent.

It would be impossible to cover fully all forms of financial management practice in all parts of the public sector in Canada. The objective of this text is to develop a broad understanding of the basic assumptions that come into play in managing public resources for both the student and the practitioner. Their applicability in specific circumstances

Figure 0.3
Public-Sector Financial Management Framework



will vary across the spectrum of public-sector organizations, so the examples are chosen to apply to different kinds of organizations.

For those who are not involved in the complexity of accounting processes or whose heads begin to spin when they see a report with charts and numbers, financial management can be frightening. But, as many students have recognized in considering whether or not to take a course in financial management, “This is something I know I have to understand.” Indeed, this is true. One of the principal purposes of this text is to demystify financial management for students and public-sector managers. To that end, they do not have to become accountants. Rather, they need to understand the framework, see the principles at play, to develop some awareness of them, and in the end, use financial management as another tool of good governance.

Financial management is the application of wisdom, experience, and sound judgement using tools that you often do

not fully understand but that, in the end, deliver what you need as a good public servant: the money you need to get the job done and the ability to use that money effectively while keeping yourself and your political masters out of jail, or worse, out of too many appearances before public accounts committees or the excessive and never (let’s be honest here) happy attentions of your external auditors.

To that end, this Introduction will end with a discussion of just what is financial literacy, both in individual and organizational terms.

First Nations Financial Management: How This Text Relates to an Emerging Field

This text is ambitious enough to be relevant to all governments in Canada. That includes First Nations. Recognizing and respecting some major differences in culture, governance and resources, the basic principles, tools and

techniques of public sector financial management outlined here apply to First Nations. As with other governments, the user of this text is envisaged to be someone, be it a student or practitioner, who is not an expert in accounting or finance. Rather, it is designed for the government official who has to put together a policy and understand where the budget fits it, or who must manage a program to serve people in the community, managing a budget, forecasting changes and adapting to them.

The opportunities and challenges for First Nations to manage their resources to better meet their needs and establish their control of their communities have increased over the past decade. There are 634 First Nations within Canadian territory. They vary dramatically in size, financial capacity and governance capacity. As such, developments in the area of financial management vary among them. So too does their dependency on transfer payments from the federal government as their prime source of revenue. These transfer payments come with a number of conditions and reporting requirements from the federal government, some of them burdensome for First Nations. However, First Nations also have own-source revenue sources that vary from income from natural resource agreements, operation of various forms of tourist activities, income from joint ventures and local taxation of business.

First Nations are required by law to make audited consolidated financial statement public. However, this one requirement is built on traditional values of strong accountability to members, based on traditional, family- and community-based governance and decision making. Samples of First Nations financial accountability will be found in this text. Further, over the past decade, First Nations have come together to bring more leadership and resources to support First Nations' financial management capacity. First Nations, as governments, follow PSAB's accounting and financial reporting standards – Canadian Public Sector Accounting Standards. The First Nations Fiscal and Statistical Management Act, a piece of federal legislation that was proposed by First Nations themselves in 2005 provides for each First Nation government to enact a Financial Administration Law, similar to the kinds of legislation that the federal and provincial governments have enacted, generally called a Financial Administration Act. Over a third of First Nations have ascribed to this Act. In 2008, CPA Canada issued a report called *Financial Reporting by First Nations* to provide guidance on the delivery of financial services. Concurrent to this was the creation in the 2005 legislation of the First National Financial Management Board to support the development and implementation of good governance and financial

practices. It developed the Financial Administration Law prototype and the Financial Management System Standards. These were first implemented by the Songhees Nation in 2009. It was also in this period that First Nations acquired the right to borrow from the First Nations Finance Authority, another creation of the 2005 legislation. In 2013, this Authority was given investment grade credit ratings. Strong borrower performance from First Nations made this possible.

This short history points to the growing strength in financial management in many First Nations. As they evolve towards greater self-determination, and as the financing relationship with the federal government moves away from the traditional transfer model of contributions agreements with onerous reporting relationships and detailed conditions, the challenge of effective financial management will grow, especially as First Nations across the country co-operate more fully in setting standards, improve their own accountabilities to their members and expand their own-source incomes through various activities.

There are very few differences between the financially literate public servant doing policy work or managing a client-centred program for the federal government in Winnipeg and a person in a similar role in Kahnawá:ke First Nation. Stresses, opportunities, history and context may vary quite a bit, but from the point of view of financial management, what is in this text applies equally and well.

Case Study in Building on Sound Financial Management

This story reinforces the words above. The Fisher River Cree Nation in Manitoba leveraged effective financial management to take control of its future to fund a new school. The path, recorded on the website of the First Nations Management Board (FMB), shows how the path of good financial management leads to results:

On October 16, 2013, Fisher Nation enacted their Financial Administration Law (FAL). They gained their Financial Performance Certificate later that month, which allowed the Nation to become a borrowing member of the First Nations Finance Authority (FNFA).

The real work started after enacting their FAL. In order to also achieve Financial Management System (FMS) Certification, Fisher River Cree Nation began working closely with the FMB staff to bring their FAL to life.

The FMB supported Fisher River Cree Nation's needs in a variety of ways, including:

- holding a conference with technical sessions on the Finance & Audit Committee, multi-year financial planning, risk assessment and policy development
- putting Fisher River in contact with other First Nations who have completed their FMS certification to share experiences and tools at the FMB's annual FMS conference
- providing ongoing tools, templates, sample policies, webinars, and working groups

The outcome

Fisher River Cree Nation achieved FMS Certification on October 27, 2017. The FMS Certification provides a range of benefits to Fisher River Cree Nation and its members, including

- transparency and accountability to Fisher River's members and future partners
- interest savings when borrowing through the FNFA
- building a reputation for strong governance and finance practices
- giving staff the skills and tools they need to better manage the Nation's finances
- long-term stability and continuity through agreed governance and finance practices
- better risk management
- The Nation obtained funding for a new school to house grades 7 to 12.³

What Is Financial Literacy for the Public Manager? The Answer Is A Two-Way Street⁴

“They Just Don't Get It”

In my teaching, as well as my interaction with senior government officials and commentators, I hear that there is a dearth of what they describe as financial literacy when it comes to sound public administration. This manifests itself in a number of ways, often reflecting the biases of

the observer. For the senior government executive, there is a frustration that bright policy or operational public servants arrive in positions of responsibility poorly equipped to effectively manage their financial accountabilities. They rely too often on the school of hard knocks to pick up their financial skills. In addition, they fail to take cost and related financial implications into account when they make proposals. Most tellingly, they do not focus enough on cost reduction or cost avoidance.

When I teach public servants in our professional program, they often feel uncertain about their financial roles. Many times, they have no clear sense of where their roles begin and those of financial advisors end – not an easy question. They are uncertain about what level of financial expertise they need to get the job done. I can almost hear some of them asking “Am I there yet?” when it comes to understanding their financial role and executing it effectively. The reality, of course, is that they are never fully there as the demands of the work evolve and respond to the changing environment of public-sector financial management.

Too many times has the phrase, “They just don't get it” been applied by senior executives or financial experts to public-sector managers in general. What don't they get? The need for effective financial control. The need to reduce budgets. The need for good costing. The need to find new ways to finance projects. Often these deficiencies in individual managers are identified by the very people responsible for the strategic management of their department or agency who should be equipping them to “get it.”

Financial literacy among public servants is vitally important for the effective and efficient delivery of public goods. Why? Because very few policy pronouncements mean much until we know what resources are going to go into making them happen. Further, as governments strive with competing demands for resources that are increasingly constrained, the impacts of changes in policy, delivery and finances become even more linked. We are also seeing a worthy focus on the intergenerational impact of policy decisions. The introduction of full accrual accounting and budgeting has reduced the capacity of government to make announcements today without taking into account the costs in the future. Sustainability is on the radar.

Finally, public reaction to financial missteps in government creates the notion that public-sector managers cannot manage the funds effectively – to get the work done, efficiently – best bang for the buck and properly – by the rules and with probity. The truth, seldom finding itself onto the headlines page of media websites, is that most govern-

3. See <https://fnfmb.com/en/clients/stories/fisher-river-cree-nation>

4. This section is based on an article I wrote for the *FMI*IGF Journal*, Spring, 2013.

ment officials do all three quite effectively. However, we cannot be naïve. These scandals raise again, in a different way, the question of what is enough financial literacy and “Are we there yet?”

But, is there a “there”? I am not sure that we could collectively agree on what financial literacy actually is and, even more daunting, when we have it. What I would like to do is offer some ideas about what financial literacy actually is for the public manager. My conclusion, however, is that financial literacy will only be achieved when we realize that it is a two-way street. To have a financially literate manager, you need a financially literate organization. This is more than just a matter of personal skills and training. In fact, it takes leadership and good governance too. So, for those top managers complaining about the financial prowess of their managers, tend to your own role in all this.

The Financially Literate Manager

Too much mystery surrounds this question. Financial literacy is not magic, just work. It certainly does not mean that line managers have to become financial experts. But they do have to become informed users of financial information, not just when it arrives as a regular report in their email or on the department’s website, but throughout the policy and delivery processes.

Here are some of the characteristics of a financially literate public-sector manager. He or she:

- Understands how policy, delivery and costs are linked.
- Can identify the key assumptions behind numbers and link them to the policy or to the delivery environment.
- Applies a full life-cycle and secondary cost lens to recommendations.
- Can identify and, with experience, anticipate the cost impacts of events, changes, or those many small decisions that get made on a daily basis.
- Is aware of the financial framework within which his or her unit is working – budget limitations, opportunities, strategic directions.
- Understands his or her own budget, the components, the anticipated outputs it should produce, and how those numbers relate to the public policy good they are working to achieve.
- Can read and interpret well-presented financial reports and recognize badly produced reports.
- Can identify the kind of financial information he or she may need on a regular basis – generally built up

over time and with inevitable trial and error– to do his or her job.

- Understands the necessary limitations and process requirements of financial practice, be it in procurement, in delegations, and in that very important area: financial probity.

At a practical level, an effective public manager needs to be able to:

- **Understand the lingo:** Some core terminology is essential. However, much of this terminology may have nuanced meaning in the particular operating culture of one organization.
- **Understand costs:** Managers have to spend time developing an understanding of cost factors in their operations. They have to understand the implications on their costs of changes to policy or practice. Even a tweak in procedure can have an impact on virtually any cost element. A minor policy shift seldom comes free of cost. A financially literate manager or policy advisor will understand this and try to determine the cost implications.
- **Read the reports:** This is best translated as being an intelligent user of financial information, be it costing for policy design or cash forecasts for the first quarter of the fiscal year.
- **Get clarity:** This may mean asking dumb questions. It may also mean pushing the point of understanding so that everyone is actually talking about the same thing. Financial advisors play a key role in developing this understanding and ensuring that there is, in reality, no such thing as a dumb question.
- **Marry up numbers on a page with what happens at the mission end of the organization:** A financially literate manager can see the link – or insist that it be clearly stated – between what may be for some just a bunch of numbers and the policy and operational impact.

What About the Financially Literate Organization?

There is a simple reality that only seems to present itself when things go wrong. You can have all the most financially literate people working for you but your organization itself does not act in a way that is financially literate. I do not mean corrupt, although that is a possible outcome of this deficiency. More often, it translates itself into managers saying: “Why bother? No one takes this financial stuff into account at the top. They are all policy wonks.” Or “Who cares? It’s all arbitrary and no amount of good control at our level will make any difference.”

As I noted at the outset, I have heard too many senior managers bemoan the poor quality of financial savvy they see in their reports without also talking about their own behaviour. Financial literacy is both personal and organizational. One depends on the other. Go back to the “they just don’t get it” mentality, which blames others for failing to appreciate the importance of public finances in policy and operational decisions. People pay attention to what their bosses pay attention to. Therefore, an organization without a culture that respects the financial side of the public good process – policy and execution – will never get it. Further, it is incumbent upon those organizations to set up elements of their governance that do the same. The organization must become financially literate.

Therefore, a financially literate organization is one that:

- Works hard to ensure integrated approaches to policy and delivery that takes into account costs and related financial implications.
- Establishes decision-making bodies that regularly review financial performance.
- Develops the means to communicate financial information widely throughout the organization.
- Makes financial literacy a core competency in developing its staff.
- Links financial performance to overall performance on objectives.
- Ensures that financial advisors are on the team, that their work is integrated, and that they, too, are held to account for achieving the organization’s mission.
- Works hard to train managers and upcoming staff on financial issues.

Financial Literacy Is a Systemic Quality

Perhaps the final point with respect to the search for financial literacy is that it is not a matter of just having finance for non-financial managers training. The reality is that financial literacy means that financial matters are integrated into policy design and delivery. This is everyone’s responsibility. This is not to denigrate such training, but the issue is a bit bigger than that. Well-trained line managers need to be supported by financial advisors who also get it with respect to the link between policy and finances, and the need for useful and relevant financial information. Financial advisors need to provide easily understood information on what might be, at times, complex information. These same managers need to know that being financially literate also means there is governance in place that actually uses the financial information and makes decisions based on it.

In the end, financial literacy is both personal and organizational. It is also both technique and art. Very few line managers aspire to be financial managers. But the reality is that they all are in modern terms. However, it is only through time and practice that an individual can be said to be financially literate.

I am offering a small checklist of questions that managers and their organizations can ask themselves. It may not fully answer the question “Are we there yet?” but might help with the trip.

Financial Literacy Checklist

For the Public Servant

- Do I understand the basis for our financial statements: accrual accounting, our external financial statements, funding sources, financing options?
- Do I understand what things cost? Can I apply adequate cost sensitivity analysis to possible changes in costs and predict their outcome?
- Do I understand how budgets are formulated where I work?
- Do I receive timely information on my financial performance in-year so that I can make adjustments and reallocate resources?
- Do I understand what resources I rely upon to get my job done but do not control?
- Am I aware of, and capable of, effectively using our procurement processes?
- Do I regularly include costs in proposals for change?
- Am I engaging with my financial advisor and is that person meeting my needs?
- Are the financial statements I see clear to me? Do they relate to what I do?
- If I have delegated authority, do I understand how I am to exercise it?
- Do I know the main operational and financial risks we are facing?
- Do I understand key financial concepts such as control, materiality?
- Do I link my responsibilities to the government’s fiscal situation?

For the Public Organization

- Is there an effective integration of the financial functions into the policy, operations and decision-making activities of the organization?
- Do we as an organization generally understand the financial impact of the policy and execution decisions we make or recommend?