

Governing in the Public Interest

FINANCIAL GOVERNANCE TRAINING
FOR BC PUBLIC SECTOR
BOARD MEMBERS
May 2019





MODULE 2 - FINANCIAL GOVERNANCE

What does financial oversight look like for public sector organizations?	2
What are the different roles and responsibilities in financial governance?.....	4
What is the board responsible for in financial governance?	4
How do finance and audit committees support the board?	4
What are individual directors responsible for?	6
What is the organization’s management staff responsible for?.....	6
What is the “ministry responsible” responsible for?.....	7
What does fiscal planning and reporting look like for public sector organizations?.....	8
How does the provincial budgeting process work?	8
What are the financial reporting requirements for public sector organizations?.....	8

WHAT DOES FINANCIAL OVERSIGHT LOOK LIKE FOR PUBLIC SECTOR ORGANIZATIONS?

As a public sector board member, you play an important role in advancing public policy objectives and protecting the public interest. Financial oversight by a board is a critical component of governance from a citizen-centred approach. British Columbians expect that public sector organizations will use tax dollars in a responsible manner to deliver quality services equitably in all regions of the province.

For this reason, supporting responsible stewardship of the financial assets for your respective organization is one of your key roles as a board member.

Principles of Citizen-Centred Governance

- Put the interests of citizens at the centre of decision making.
- Behave with integrity, demonstrate strong commitment to ethical values and respect the rule of law.
- Ensure openness and respectful engagement with all citizens.
- Strive for outcomes that support healthy communities in British Columbia, including social, economic and environmental well-being.
- Implement actions to achieve the organization's mandate.

Effective financial oversight is necessary to successfully implement the four governance responsibilities of public sector organization boards:



- 1. Oversight and monitoring in the public interest:** The board is responsible to oversee organizational performance and ensure the activities of the organization align with the mandate.

This includes ensuring that the organization's budget advances its mandate and that there are adequate financial controls in place to ensure appropriate use of funds.



- 2. Developing the organization's capacity and culture:** Together with the senior staff person, the board is responsible for building a common understanding of an organizational culture and philosophy that will best support your organization's mandate.

This includes developing a culture of transparency and ensuring that robust financial policies are in place and followed.



- 3. Effective leadership:** This entails ensuring that the organization's senior leadership has what it needs to succeed. It means there is a robust process for the *recruitment and selection* of the senior staff person that aligns with the current requirements of the organization, as well as ongoing *performance management, and supports* in the form of professional development opportunities, mentorship or coaching.

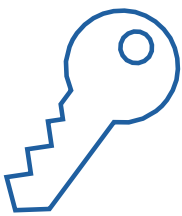
Transparent accounting and reporting processes ensure that the organization's leadership has the information necessary to make critical decisions.



- 4. External context and perspective:** As a diverse group of individuals, a public sector board can provide a variety of perspectives and insights to the work of the organization. As a board member you bring unique experiences, connections and knowledge that can inform your organization. Consider the economic, social and environmental impacts of the organization, and long-term sustainability of your work.

- a. Information and knowledge about current trends: *What are external influences that are relevant to your public sector organization?*
- b. Building public trust: *How can the board and the organization work to augment the relationships of the organization with key partners?*

By sharing information and knowledge about current trends, board members ensure that the budget and strategic plan achieve the organization's mandate. Their external perspective also helps to ensure that the financial controls in place ensure transparency and build public trust.



KEY MESSAGES

- *Financial oversight is a critical component of governance from a citizen-centred approach.*
- *Effective financial oversight also helps fulfill the four governance responsibilities of public sector board members.*



WHAT ARE THE DIFFERENT ROLES AND RESPONSIBILITIES IN FINANCIAL GOVERNANCE?

What is the board responsible for in financial governance?

The board of directors is responsible for ensuring financial accountability and providing financial oversight.

This includes:

- Approving the organization's capital and operating budgets, which should align with their respective strategic and planning documents (including the Service Plan, if applicable);
- Establishing and regularly reviewing financial policies and procedures;
- Ensuring that financial statements, internal controls, financial information systems, projections, forecasts and audited statements are accurate and reflect the financial reality of the organization;
- Approving major transactions;
- Ensuring compliance with legal and regulatory requirements; and
- Ensuring that reporting, monitoring and accountability obligations are met.

These specific responsibilities can be summarized into the following categories:

- **Forecasting:** Budgeting and planning that align with organizational goals and the public interest.
- **Monitoring and control:** Processes to monitor the organization's financial reality.
- **Compliance:** Ensuring that regulatory obligations are met.

Fulfilling many of these financial responsibilities requires a specialized skill set. Therefore, most boards will establish a finance and audit committee (or several committees) comprised of people with the relevant skills to review the information and break it down for the other board members.

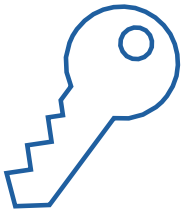
How do finance and audit committees support the board?

Finance and audit committees support the board in fulfilling their financial governance responsibilities. These committees, comprised of individuals with relevant expertise, provide technical oversight and make recommendations to the board.

The terms of reference for a finance committee will vary according to the nature of the organization. Generally, the finance committee oversees the organization's budget, financial operations and results; monitors the adequacy and condition of capital assets; reviews and makes recommendations on capital activities; and appoints the organization's signing officers or other financial delegates.

If you are part of the audit committee, you will assist the board to fulfill its financial accountability and oversight responsibilities. The committee does this by reviewing the financial and performance information that will be provided to the stakeholders, monitoring the systems of internal controls that management and the board have established as well as overseeing the internal and external audit processes.

Depending on the needs of the organization, the finance and audit functions may be fulfilled by a single committee.



KEY MESSAGES

- *When it comes to governing in the public interest, financial governance means that accountability and oversight are administered effectively by the board.*
- *Financial accountability and oversight entails forecasting, monitoring and control, and ensuring regulatory compliance.*
- *Finance and audit committees are indispensable tools when it comes to effective and responsible financial governance.*

What are individual directors responsible for?

As a board member governing in the public interest, you can make a meaningful contribution by equipping yourself to read and understand the relevance of all financial statements and financial reports, and ensuring that the:

- Strategic plan or Service Plan allocates resources towards initiatives and activities that will have the most beneficial impact on the organization’s mandate and will support the public interest;
- Budget demonstrates the alignment of financial resources towards the mandate of the organization, and towards, broadly speaking, supporting the public interest;
- Organization is financially healthy and on-budget;
- Organization has enough financial reserves to protect itself;
- Organization is not taking unwarranted financial risks;
- Organization’s financial reporting is timely, accurate and complete; and
- Organization is on-side with legislative and reporting requirements.

What is the organization’s management staff responsible for?

The senior management staff of the organization are responsible for supporting the board with strategic financial planning and for carrying out the day-to-day responsibilities involved in financial management. Large organizations typically have three levels of financial staff who fulfill strategic, management and financial services and administration roles.

Role	Responsibilities
Strategic i.e. Chief Financial Officer or Finance Director	<ul style="list-style-type: none">• Aligns budgets and spending with the mandate and strategic goals• Financial risk management and long-term financial sustainability• Financial performance management• Capacity-building
Management i.e. Controller	<ul style="list-style-type: none">• Managing financial services and administration• Budgeting and cash flow projections• Meaningful financial reporting framework• Useful financial report design• Cost allocation methodology
Financial services and administration i.e. Financial Analyst	<ul style="list-style-type: none">• Bookkeeping and accounting• Payroll, vendor payments• Simple financial reporting• Basic funder reporting

What is the “ministry responsible” responsible for?

Alongside Treasury Board Staff and the Crown Agencies and Board Resourcing Office, the ministry responsible ensures that public sector organization spending aligns with government priorities. Operating and capital forecasts provided by the public sector organizations are used by Treasury Board Staff for the preparation of the provincial budget and ongoing management of the fiscal plan.

Public sector organizations have a high degree of independence within the public sector, and, in most cases, the ministry responsible does not play any direct role in the financial management of the organization beyond the responsibilities listed above.



KEY MESSAGES

- *All board members are expected to be able to read and understand the financial statements of the organization and to assess whether the financial resources are aligned with the mandate of the organization and the public interest.*
- *Both ministerial and organizational staff will support the financial governance of public sector organizations.*

WHAT DOES FISCAL PLANNING AND REPORTING LOOK LIKE FOR PUBLIC SECTOR ORGANIZATIONS?

As entities within the broader public sector, fiscal planning and accountability for public sector organizations are constrained by the government budget cycle and other legislation. As a board member, it is important to understand how your organization's budget impacts the provincial budget, and the process through which it is approved.

How does the provincial budgeting process work? Approximately two-thirds of all government spending flows to public sector organizations, either directly or through the ministry responsible. Most public sector organizations either receive funding from, or contribute funding to, the provincial government. The budgets for these organizations are approved as part of the provincial budgeting process.¹

The provincial government presents the annual budget and three-year fiscal plan to the Legislative Assembly on the third Tuesday of February.

Mandate Letters and Service Plans (for applicable public sector organizations) are published on or after budget day.

What are the financial reporting requirements for public sector organizations?

The government establishes financial and reporting requirements for public sector organizations. These requirements are set out in the following Acts:

- *Auditor General Act*
- *Budget Transparency and Accountability Act*
- *Public Sector Employers Act*
- *Financial Administration Act*
- *Financial Information Act*
- *Balanced Budget and Ministerial Accountability Act*

In addition, there are several Treasury Board directives that may apply to your work in public sector organizations, including remuneration guidelines and procurement. Standards in financial controls and policies must follow the spirit and intent of government's [Core Policy and Procedures Manual²](#) (CPPM). As a board member, it is important for you to understand which acts and directives apply to your organization.

The Public Accounts are a detailed account of actual spending, revenues and debt incurred the previous fiscal year, and they are released by the Ministry of Finance each year on or before August 31. The public accounts also include the financial balances and results of public sector organization operations. Annual Service Plan Reports for some public sector organizations are released on the same day.

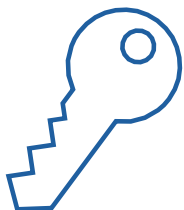
Public Accounts and Annual Service Plan Reports are an opportunity for you to consider how actual spending and progress made towards organizational goals reflect the alignment of your organization's activities with your mandate and the public interest. It can be empowering for board members to ask, "When our expenditures are released to the public, what story will they tell?" or "Are we on track to

¹ Budgets for commercial Crown corporations are submitted directly to the Treasury Board for approval, while the budgets for all other public sector organizations with a responsible minister are provided as part of the ministry budget.

² <https://www2.gov.bc.ca/gov/content/governments/policies-for-government/core-policy>

meet targets for each of our performance measures? If not, why not and what should we be doing differently?”

On the same day as Public Accounts, government typically releases a broad annual executive compensation disclosure that outlines the total compensation for the chief executive officer and the top four decision-makers at (most) public sector organizations. If this applies to your organization, your board chair will be required to verify the accuracy of the information being disclosed.



KEY MESSAGES

- *For many public sector organizations, there is an interdependent relationship between the provincial budget and the organization’s budget.*
- *The provincial budgeting process and timing may have a significant impact on your organization’s financial reporting and processes.*

What might this look like for you?

Two-thirds of public spending flows to public sector organizations. As a board member, you play an important role in ensuring that your organization spends its financial resources responsibly. At a minimum, here are some things you can do, and questions you can ask, to support responsible financial oversight of your organization.

- Understand where your organization’s revenue comes from.
- Satisfy yourself whether your organization is using revenue to achieve its mandate in a way that both protects and advances the public interest.

Ask questions like:

1. *Are our organization’s resources being used in a way that will have the most beneficial impact on the mandate?*
2. *How does our organization ensure the accuracy of financial reports, and can everyone on the board understand these reports (including those without a background in financial management)?*
3. *What financial controls does our organization have in place?*
4. *Does our financial reporting enable us, as a board, to understand trends and make decisions about the future of our organization?*
5. *What do our expenditures make possible for B.C. citizens?*
6. *When our financial reports are released to the public, what story will they tell?*





Crown Agencies and Board Resourcing Office (CABRO)

tinyurl.com/BoardsofBC