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PROJECT:

FINANCIAL MANAGEMENT



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FINANCIAL MANAGEMENT

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Min. des Affaires extérieures
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FOREWORD

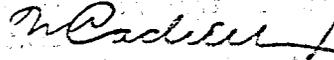
In the last thirty years the Department of External Affairs has grown from less than two hundred employees serving in Ottawa and at six posts abroad to our present 3,500 at headquarters and 85 posts in 69 countries. We have grown not only in size but in complexity as we have tried to keep pace with technological changes, and with changing concepts of management within the Public Service.

The world is changing very rapidly and the Department is keeping pace with those changes. The relevance of our experience 30 years ago, however, is limited in today's world and perhaps nowhere is this more true than in the field of management and administration. The computer has not replaced intelligence but it certainly has replaced the quill pen.

Under the stimulus of the Glassco Commission report, the methods of Government have altered and departmental procedures must be made to reflect this fact. With this in mind the Department last year commissioned a study of our financial management system by Woods Gordon and Company. Their findings and recommendations make sense and we have accepted them since, apart from their intrinsic merit, they offer many benefits to us. I do not believe we have ever undertaken an administrative reform as important and far reaching. Because the recommendations are so radical in their concept they

will take time and much perseverance to implement. I hope that each member of the Service will support the considerable effort which will be needed to give effect to the principal recommendations made in the Woods Gordon Report.

The pages that follow summarize the principal elements of the new system. They are spelled out in greater detail in the full Report that was circulated earlier and they will be amplified and no doubt modified in the light of experience. As the Report itself says: "The proposed plan involves more than just a change in mechanics of financial management. To be successful it will require a change in management philosophy as well." I have no doubt that the Service will rise to this challenge.



M. Cadieux

Under-Secretary of State
for External Affairs.

Ottawa, January 1969

FINANCIAL MANAGEMENT - WHY?

Whenever the suggestion is made that something should be changed in an organization, the first and fairest question to be asked is "why?". What has happened in the Department or in the Government that calls for such basic changes in our system of financial management?

In his Forward the Under-Secretary mentioned the Department's growth in size and complexity. This in itself creates a need for improved systems for management. He also referred to the impact on the Government generally of the Glassco Report of 1962.

"Management revolution" is the tag that is often applied, with some overstatement, to the aftermath of the Glassco Report in Ottawa. Since 1962 the operations of most departments have been studied and re-studied. There has been constant discussion. In some departments, significant changes have in fact begun to appear. But the overall impression continues to be of more talk than action. In External Affairs, the Program Review was initiated three years ago as the first step in a new direction. Project-Financial Management, which will decentralize our financial system, represents the next step in extending the "revolution" in our own Department.

What is it supposed to accomplish?

There has always seemed to be a fundamental flaw in financial responsibility within the public service. We refer to the traditionally negative criteria of Government financial management whereby the avoidance or the reduction of expenditures frequently becomes the primary objective, replacing the real purpose or activity for which funds were originally appropriated or programmed in the budget. This is accomplished under the present system by exposing responsible employees to constant suspicion of dishonesty until they are able to satisfy the authorities on each expenditure that such suspicion

is unwarranted. Unless this negative outlook - which in many instances has become an obsession - can be eliminated and faith in the essential element of human integrity restored, it is unlikely that any new system of financial management can be implemented successfully. There is not much profit in delegating more authority to employees who are too intimidated or too frustrated to use it effectively.

What seems to be required is a completely different approach. The basic postulate should be that responsible employees are honest, rather than dishonest; and that although they are accountable for the performance of their duties, the latter will be assessed on a positive basis of results rather than the negative standard of reduced expenditures. It will, of course, take time to inculcate in the service the conviction and the confidence necessary to make these criteria effective. But the first steps can and will be taken in the implementation of the Woods Gordon report. It becomes the occasion for abandoning the somewhat paternalistic and condescending postures which have been and still are much too characteristic of the relations between financier and executive officer. The new concepts will not be simply imposed on posts abroad through a gigantic manual of regulations and guidelines. Successful implementation of the system will depend on a working partnership between the financial experts in Ottawa and the program expert at the post abroad; there will be no room in such an association for petty posturing or archaic attitudes toward financial responsibility.

Accountability

The other side of the coin must be noted as well.

The technical term for our new system of financial management is responsibility accounting, the definition of which can be found later in this handbook. However, the terminology serves to emphasize that the system rests on responsibility and accountability.

The responsibility is expressed in delegations of authority, in greater freedom of action for employees throughout the Department. But it brings with it proportionate obligations. Those in management positions will be held responsible not only for getting their assigned job done, but also for the public funds expended in doing it and for the propriety with which they are spent. This is the accountability implied in responsibility accounting. There has to be accountability when real responsibility is delegated. And nearly everyone will welcome the prospect of more delegation in the financial area. It offers a real increase in the flexibility and effectiveness of operations when we learn how to use it.

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THE FINANCIAL MANAGEMENT SYSTEM

The Basic Approach

The new system of financial management which the Department has decided to introduce is an adaptation of a concept known as budgetary control, a concept which is widely accepted in business and industry and which is gaining ground as a means of promoting effectiveness in government operations.

What is Budgetary Control?

Budgetary control is a way of reconciling two requirements of management that are inherently conflicting; the needs of operating managers to have maximum freedom and autonomy in order to effectively carry out their assigned tasks; and the overriding needs of top management, at the centre of things, to direct all activities toward the desired ends of the organization, and to deploy the organization's total resources among various activities in the manner best suited to achieve these ends. This last requirement has two phases - the initial judgements on resource allocation and then a control mechanism to ensure that these judgements are carried out in practice.

These conflicting sets of management requirements exist in almost every organization. There are three alternative solutions available. Operating managers can be given complete autonomy without formal central controls. This is characteristic of very small organizations where the people, through close informal association, maintain overall direction and coordination. This alternative is really not available to an organization of any size because it would result in anarchy.

A solution at the other extreme is the completely centralized structure. Central management exercises

all authority, dispenses individual dollops of resources in response to specific requests, supervises as closely as possible the work of subordinate managers and relies principally on exhortation to keep the troops moving forward. This type of management is found in quite a number of organizations. In some, it is the most appropriate alternative. In an airline, for example, the really important matters lend themselves to central direction - equipment selection and quantities, equipment scheduling, fare structure. The field office tasks of ticket sales and reservations are clerical by nature and should be given no autonomy in either their operations or their use of resources. In many other organizations, however, centralization is simply bad management; it hampers effectiveness, lowers morale, and often wastes resources as well. For example, the regional manager for a brewery, if one of his brands suddenly catches on with the ski set, must be free to hire second shift drivers and to rent and buy more trucks to move the product out to customers. Without such freedom his effectiveness, measured in gallons per skier or whatever, is likely to be very low.

The third alternative, budgetary control, falls between the two extremes and is the type of management found in most organizations. It shares with many other good ideas the virtue of simplicity.

How Does it Work?

First, the operating manager and the top management reach agreement on the job or jobs to be carried out by the former during the year ahead. This agreement may be a straight edict from the top or it may involve varying degrees of consultation and negotiation.

Second, the operating manager carefully plans his operation for the year and forecasts the manpower and money required to carry it out. This

forecast is put forward as a "requisition" on top management.

Third, a staff review is made of this resource request to ensure that it conforms to the previous agreement on tasks and that it is efficient; i.e., that it contemplates using no more resources than absolutely necessary for the jobs to be done.

Fourth, top management examines the sum of these resource requisitions, usually finds that it exceeds what they have available, and proceeds to examine the individual submissions to determine where the saving will be made. This is the most difficult task. If choices were between good and bad it would be easy. But, when the choice must be which of all the good things one can afford, it becomes more difficult. The judgements of top management at this point results in a cutback in the resources of selected managers and instructions are issued to these managers as to the tasks they should discontinue because of the cutback.

What emerges from these top management deliberations is a plan of action for the new year expressed in the form of a budget. Each operating manager has an approved budget and an approved set of goals.

Finally, when the new year begins the operating manager is free to operate autonomously provided only that

(a) he stays within budget and

(b) he achieves his goals.

The central management intervenes only in the event that one of these conditions is not met. The operating manager refers to central authority only if factors appear that make it impossible for him to fulfill both conditions.

Thus, through the mechanism of the budget, top management is able to exert its directing and coordinating authority, and to ensure efficiency in the use of resources while at the same time the operating manager preserves the autonomy necessary for his effectiveness.

Is This Financial Management?

Before proceeding to an examination of how the concept of budgetary control is to be applied in the Department of External Affairs, it is worth noting that its scope is greater than traditional financial management.

If budgetary control were to be swept into the function called "financial management" then clearly it must be a "financial management" much more broadly defined than heretofore in government. As described, budgetary control involves the objectives and goals of the organization and the tasks of the units in the organization - not merely the estimating and accounting of money. It provides a framework for "general" as well as "financial" management. It makes possible the clarification and formalization of the responsibilities of each unit in the Department and of the various levels of authority.

On the other hand the principal medium of budgetary control is the budget, clearly a financial document. Too, the whole process of budgetary control is scheduled within the financial calendar of government - program review, estimates, public accounts. Thus, it is possible to think of budgetary control as nothing more than "financial management". This is semantics.

What precedes and follows the budget document itself makes of this process an integrated system of management; determination of objectives and goals to begin with, advance planning of operations before budgeting; autonomy for each manager as the new year

begins, full spending freedom within his budget. He alone has responsibility for getting the job done, and he alone is accountable for his accomplishments, or lack of them.

There will be no place in this system for paternalistic administrative divisions. Foreign Service officers who make policy decisions must make the resource decisions that derive from them. Administrative divisions will have to cease "managing" the Department and assume a service role. With resources of personnel and money securely under the control of program officials the way is cleared for improvements in planning, and for the collection of information in the way that is most helpful to those who make decisions. Not the least of considerations, it will lead to greater credibility for the Department before Treasury Board. A Department deserves to be believed when it is charged with important program responsibilities and when its resources needs are justified in terms of this program.

Budgetary Control Adapted to External Affairs

In the terms of reference for the financial management survey, in the consultants' report itself, and in much of the discussion since, the term "Responsibility Accounting" has been used to describe the modified version of budgetary control which, with much cutting and fitting, has been developed for this Department. This term will be used frequently in these pages. You may be either reassured or dismayed when told that its meaning is 95% responsibility and 5% accounting. Many special characteristics of the Department of External Affairs call for a special approach and for special provisions in its system of financial management. The more important of these characteristics are the rotational system, the geographic dispersion of posts, and the preponderance of manpower among the resource needs of the Department. In this latter characteristic it

contrasts with those departments which make large outlays of money, such as family allowances in Health and Welfare, and with departments which operate large expensive facilities such as Transport. We will describe the main features of the new financial management system and explain where they have been tailored to this Department's individual requirement.

The Organization of Responsibilities

At the operating level, what units in the organization are to be designated as budget centres or, more correctly, responsibility centres? At the next higher level, what middle managers should direct and control the activities of the responsibility centres below? And associated with the second point, what are the appropriate groupings of responsibility centres under individual middle managers?

The first of these questions poses no particular difficulty. Each basic unit of the Department, division in Ottawa and post abroad, should become a responsibility centre. They are viable organizational units with a specified task to carry out and are each managed by a responsible Head.

The second problem, that of grouping responsibility centres together under a second level of authority, likewise poses no great difficulty in the case of the headquarters divisions. They are already organized in groups reporting to a particular Assistant Under-Secretary or in Branches reporting to a Director-General. This structure seems to make sense as well for the planning, budgeting and control that are required under responsibility accounting.

For posts, it becomes more difficult to define the most appropriate second level for financial management. The post reports through the

area division on substantive matters and receives its instructions through the same channel. It has been argued, therefore, that financial management should follow the same pattern and that the area divisions should be made responsible for supervising and coordinating the planning, budgeting and spending of all posts in their area. Moreover, such an arrangement would fit perfectly the theory of budgetary control which calls for resource management to be in the hands of the program executives and for financial planning and control to be part and parcel of program planning and control.

There are a number of arguments against adopting this arrangement, one of them very compelling. Much of the expenditure control in a post operation has to do with the minutiae of administrative support and to turn this over to the area divisions would swamp them unless they were staffed with cadres of specialists in personnel and other aspects of administration. In addition to being an improper use of the area divisions, such a solution would weaken the concentration of specialists in the staff divisions.

A happier compromise emerges when an examination is made of the nature of expenses incurred by the Department and, in particular, by posts abroad. The principal program resource of the Department is manpower and the largest element of its expenditures are the salaries and allowances which pay for this manpower. Further examination of the typical expenses of a post reveals that, for the most part they are related to support of the personnel assigned to it; they are for accommodation, equipment, furnishings, maintenance and repair, travel, etc. In other words, these latter financial requirements flow out of posting decisions. The Department, therefore, plans to adopt a middle management structure in which manpower, the principal resource at the Department's disposal, comes under the

EXHIBIT - 1

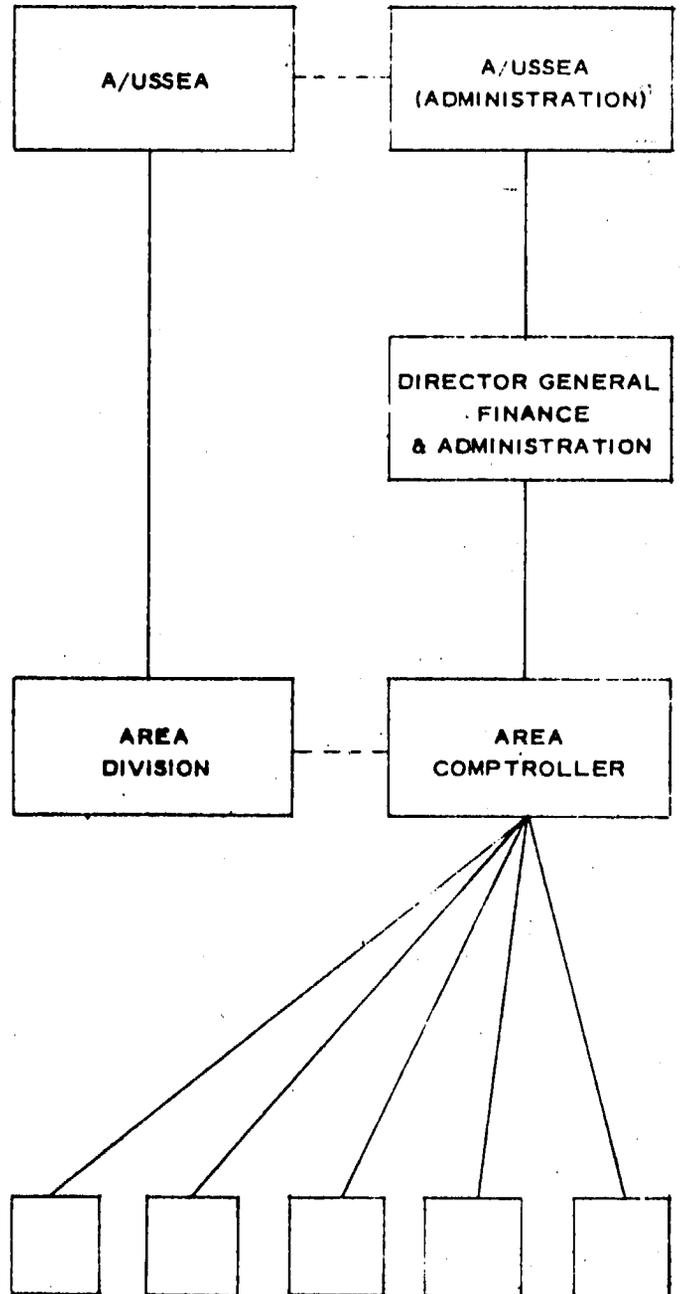
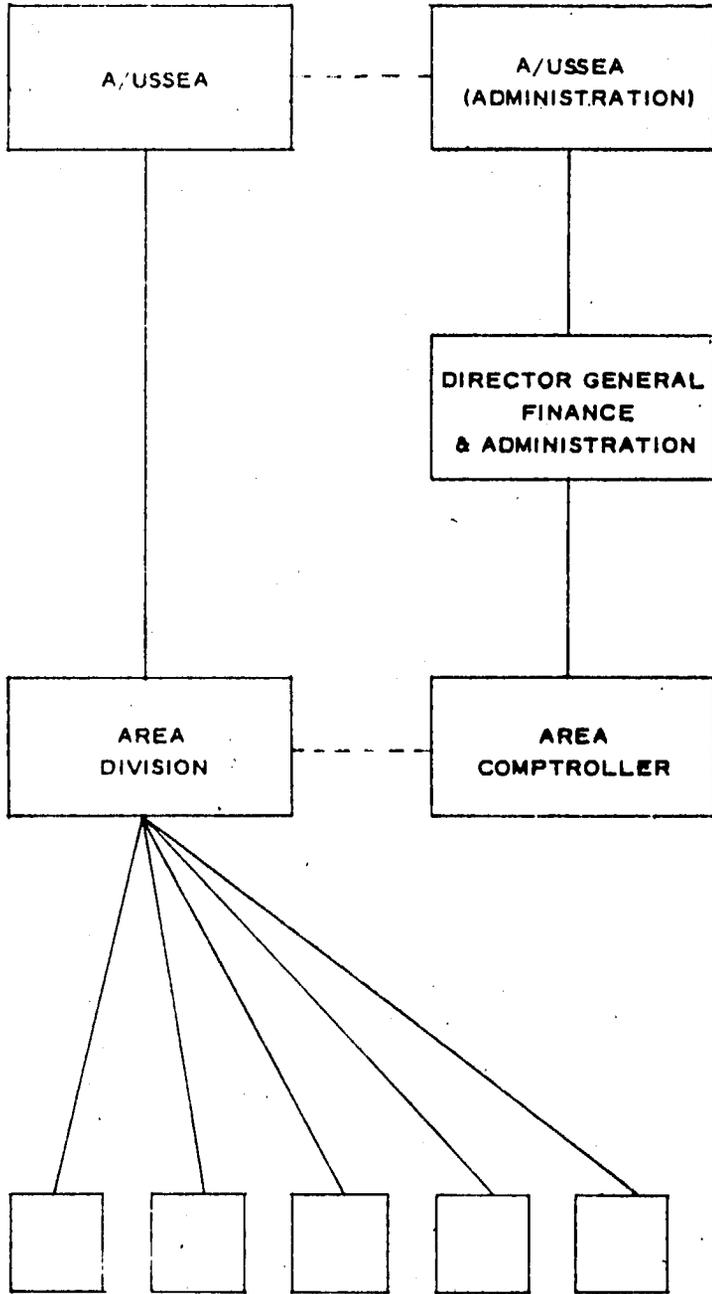
POST REPORTING STRUCTURE

FOR PROGRAM REVIEW AND
OPERATIONAL DIRECTION

FOR ANNUAL ESTIMATES AND
ROUTINE FINANCIAL MANAGEMENT

————— REPORTING
- - - - - CONSULTATION

————— REPORTING
- - - - - CONSULTATION



POSTS IN THE AREA

POSTS IN THE AREA

on the basis of the area division while financial requirements are handled elsewhere.

The arrangements needed to carry this into practice are diagrammed in Exhibit I. The diagram on the left shows the posts in a geographic area being the responsibility of an Area Division under an Assistant Under-Secretary with consultation with the administrative side along the way. On the right, we show the same posts as the responsibility for annual Estimates and financial management purposes, of an official called the Area Comptroller. The Area Comptroller is part of the administrative organization but must maintain close consultation with the area division. Further along, there will be a description of the function of this new position, the Area Comptroller, and of some of the procedures which will be used to make this split arrangement work.

Kinds of Costs Budgeted

Having decided as a first step that the posts and divisions of the Department will be the basic responsibility centres, we had to determine for what kind of expenses each can appropriately be held accountable. The manager of a responsibility centre should be held accountable for any expenditure that meets two criteria:

- (a) It is related to the conduct of his operation, and
- (b) it is controllable by him; that is, the amount or timing of the expenditure cannot be significantly affected by decisions elsewhere in the Department.

It will be evident immediately that the largest item in the departmental budget violates the second of these criteria. The salary and allowance

costs of Canada-based personnel cannot, in a rotational service, be controlled by the head of the post or division where they happen to be currently posted. Salary and allowance costs are affected not only by the group and grade of the incumbent but also by his family circumstances, the number and age of his children, etc. The Head of Post or Division is scarcely in a position to control any of these factors and thus it is necessary to remove these classes of cost from the budgetary system and manage them centrally by other means. The large annual bill for travel and removal costs associated with the rotational system has the same characteristics and, for the same reasons, must be a charge against the headquarters unit that makes the posting decisions rather than against the budgets of individual posts.

A number of other items are to be handled in the same way for similar reasons. Government-owned land and buildings are acquired under a long-term capital program in the Department. This program will continue under central control. Motor vehicles are purchased and disposed of within the context of the government-wide policies of the Motor Vehicle Committee. It is not desirable that objects of art should be acquired on behalf of the Department on the basis of one's personal taste alone. There is some justice, accordingly, in the fact that those managers whose esthetic values may have been violated by the object in question will not be asked to pay for it out of their own budget.

Having to make exceptions such as these does some violence to the pure theory of budgetary control. To fail to make the exceptions, however, would do even greater violence to the principle of accountability. It is people who are held accountable and this is more important than any theory. If artificial responsibilities were to be created and people were to be made to answer for factors beyond their control, the result would be contempt for the system. With

**OBJECTS OF EXPENDITURE PROPOSED FOR EVENTUAL
CONTROL BY POSTS AND TO BE USED FOR
REPORTING PURPOSES.**

VOTE	REPORTING OBJECT	DESCRIPTION	DETAILS
1 - DEPARTMENTAL OPERATIONS	1	LOCALLY ENGAGED PERSONNEL EMPLOYED ON CONTINUING BASIS	Salaries and retroactive payments for established positions.
	2	OTHER LOCALLY ENGAGED PERSONNEL COSTS	Salaries - emergency and casual staff; all overtime; retroactive payments for salaried casuals; gratuities and other benefits; social security payments; medical examinations - locally engaged.
	3	FOR FUTURE USE	
	4	TRAVEL AND TRANSPORTATION	Travelling expenses within jurisdiction of post; dual and multiple accreditation travel; local transportation; freight express and cartage.
	5	OTHER COMMUNICATIONS	Postage; leased wire service; telephones; telegrams; carriage of diplomatic mail.
	6	PROMOTIONAL ACTIVITIES	Film servicing and maintenance, prestige film showing; film catalogues; miscellaneous pointing of Sunday publications, (includes incidental expenses for writers' and translators' fees).
	7	PROFESSIONAL AND SPECIAL SERVICES	Legal expenses on post own behalf, medical examinations Canadian personnel, protective services, photos and illustrations, press news services, writers' and translators' fees. // Laundry and drycleaning, maintenance contracts for machines and equipment// Janitorial and related services, maintenance contracts for elevators, alarm systems, etc. Other business services.
	8	RENTALS	Buildings or space, vehicles, equipment.
	9	MAINTENANCE OF PROPERTIES	Renovations and alterations, repair and maintenance of buildings and grounds.
	10	MAINTENANCE OF EQUIPMENT AND FURNISHINGS	Repair and upkeep of portable heating and air conditioning equipment, office machines and equipment, household equipment and appliances, furnishings and fittings.
	11	REPAIRS AND UPKEEP - OTHER	Motor vehicles
	12	UTILITIES	Electricity, water, sewage, garbage disposal, fuel for heating and cooking.
	13	MATERIALS AND SUPPLIES	Fuel for vehicles and other equipment, vehicle tires, tubes and spare parts, office machines and equipment, office materials, supplies and printed matter, household and miscellaneous supplies, subscriptions, library purchases, uniforms - locally engaged staff.
	14	MISCELLANEOUS EXPENDITURES	Bank charges (photostating, postage, overprinting of cheques, etc.).
10 - CAPITAL	15	ACQUISITION OF EQUIPMENT	Portable heating, air conditioning and other special equipment, household appliances and equipment, furnishings.
15 - GRANTS	16	FOR FUTURE USE	

the exception of the items noted, however, all the expenditures of the Department are to be parcelled out to the appropriate responsibility centres and planned and controlled by them.

Exhibit II describes the expenditures that are to be controlled by posts. Exhibit III presents the same picture for those functional divisions that are to be responsibility centres and Exhibit IV refers to the administrative support divisions. In the case of the posts, this has been set out in some detail with costs grouped within objects of expenditure as they will appear initially in the post budget. In time it may become desirable to provide posts with funds for substantive as well as administrative operations (e.g. cultural or small aid projects). Such funds would be handled simply as additional items in the post budget. The following paragraphs contain further explanations of the various kinds of expenditures and where they will be budgeted.

1. Personnel

While the salaries and allowances of Canada-based personnel must be managed centrally for the reasons given, the same is not true for locally-engaged staff.

The logical centre of control for the compensation of local employees is the post and it is intended that these expenses should appear in each post's budget. We expect that the Head of Post will be authorized to set rates of pay, to promote and demote employees and increase his staff if his budget permits. The important matter of maintaining uniform treatment for the staff of all departments might be handled through a local Salary Classification Board with representatives from all departments, which would approve reclassifications and recommend revised salary ranges. These changes have still to be worked out with Treasury Board.

2. Transportation and Communications

Under this heading come the travel and removal expenses associated with the posting and recruitment of personnel which, for the reasons described earlier, will be budgeted for and controlled by the Personnel Branch at headquarters.

On the other hand, the post will control its own spending for travel in the host country as at present, local transportation and multiple accreditation travel, subject only to the adequacy of its unspent funds. Also in the post budget will be such communication requirements as freight, cartage, postage and telephone.

The divisions at headquarters, almost without exception, have a requirement for temporary duty travel. Each of them will plan and budget for their travel requirement and control the use of these funds during the year. For many divisions, travel is the only expenditure they are concerned with and accordingly they are to be responsibility centres in this sense only. Those divisions shown in the exhibits have broader spending requirements. Under the present heading, for example, Cultural Affairs will budget for the travel expenses, freight, etc. related to cultural exchange programs. Passport Division will be operating under a revolving fund and paying all types of expenses out of its revenue.

3. Information Expenses

This heading contains such costs as promotional activities, printing and publishing, display material, exhibitions, etc. Naturally, the bulk of such undertakings are the responsibility of Information Services Division which will budget for and control their spending. Cultural Affairs Division

EXHIBIT - 3

DEPARTMENT OF EXTERNAL AFFAIRS

Categories of Expenditure to be Included in the
Budget of Substantive Divisions

<u>CONSULAR</u>	<u>DEFENSE LIAISON (2)</u>	<u>PROTOCOL</u>
Travel	Travel	Travel
Office supplies	Protective services	Printing
Payments on behalf of distressed Canadians	Office supplies	Official entertaining
	Acquisition of security equipment	Supplies
<u>CULTURAL AFFAIRS</u>	<u>HISTORICAL</u>	<u>PRESS AND LIAISON</u>
Salaries (locally- engaged casuals)	Travel	Travel
	Printing	Press news services
Travel	Office supplies	Office supplies
Freight, express and cartage	Subscriptions	
Promotional activities	Library purchases	
Printing		
Purchased publications	<u>INFORMATION</u>	
Professional fees	Travel	
Rental of buildings	Promotional activities	
Official entertaining	Printing	
Office supplies	Purchased publications	
Grants	Professional fees	
Miscellaneous	Office supplies	

EXHIBIT 4

DEPARTMENT OF EXTERNAL AFFAIRS

Categories of Expenditure to be Included in the
Budgets of Administrative Support Divisions

<u>COMMUNICATIONS AND INFORMATION SYSTEMS BRANCH</u>	<u>FINANCE AND ADMINISTRATION BRANCH</u>	
	<u>CENTRAL SERVICES</u>	<u>MATERIEL MANAGEMENT</u>
Travel	Travel	Travel
Courier services - travel and baggage charges	Rental of equipment, vehicles and furniture	Freight, express and cartage
Microfilming services	Repairs and upkeep	Rental of equipment, vehicles and furnishings
Office supplies	Vehicle operations and maintenance	Office and housekeeping supplies
Repair parts	Office supplies	Paintings and objects of art
Grants	Acquisition of equipment and furnishings	Acquisition of motor vehicles
Acquisition of equipment		Acquisition (initial) of equipment and furnishings for posts
		<u>PROPERTY MANAGEMENT</u>
<u>PERSONNEL BRANCH</u>	<u>FINANCE</u>	
Salaries and allowances (Canada-based staff)	Travel	Travel
Travel	Accounting services	Professional fees
Removal expenses	Other special services	Rental of buildings
Tuition fees	Taxes on diplomatic properties	Office supplies
Other business services	Office supplies	Acquisition of land, construction and acquisition of of buildings
Office supplies	Ex-gratia payments	
Interim staff expenses at official residences	Exchange and bank charges	
	Claims on the Crown	

will have similar but smaller requirements while Protocol and Historical Divisions should budget for the printing costs they incur from time to time. Posts as well have periodic requirements for posters, for the printing of invitations and catalogues, and for advertising. It is felt that they should plan for and budget such expenditures.

4. Professional and Special Services

This includes anything for which fees or commissions are paid to individuals and organizations outside the Department. As revealed in the exhibits, all posts and many headquarters divisions require services of this kind and each of them will be required to identify and budget for them and to be responsible for getting the work done within the budget provision.

5. Rentals

There are two kinds of rental payments made; those for real property and those for equipment, motor vehicles, etc. The former is a very large amount, the latter relatively small in this Department.

Rental of equipment and furniture separately from accommodations is relatively rare and is usually an unforeseen contingency. Therefore, a small fund should be budgeted for and administered by Materiel Management Division on behalf of the whole Department. Motor vehicle rental most often occurs when official vehicles are out of commission. The consultants suggested that eventually each post, and the Central Services Division on behalf of headquarters, should provide a small amount for such emergencies in association with its budget for motor vehicle repairs.

The rental of real property occurs exclusively at posts abroad and will therefore be budgeted for and controlled by them. It will be objected immediately that lease arrangements of this kind must always be authorized by headquarters and, in many cases, by Treasury Board. This is recognized but we must draw a distinction between the approval of a property lease and the arrangement for rental payments under such a lease. Arrangements and authorization for entering

into leases will continue as at present. However, once a lease has been concluded the amount of rental payments on the lease should be perfectly predictable by the post. Such factors as escalator clauses, local tax increases, currency devaluations and the like which may affect the rent payable can be assessed as readily, often more readily, by the post as by headquarters.

6. Repair and Upkeep Expenses

A small amount of the Department's spending in this area is incurred at headquarters and this will be budgeted for by Central Services Division which has responsibility for furniture and equipment at headquarters. All other expenses of this kind are incurred at posts and each post will be expected to provide for its needs in its budget.

Typically, a post would encounter two kinds of repair and upkeep expense. The first kind, consisting of projects of a relatively major nature which are foreseeable, would be planned for on a project by project basis after consultation and advice, where necessary, from the appropriate specialist division in headquarters. The other kind of expense would be the lump sum provisions for such things as electrical, plumbing, furniture refinishing, etc, which tend to be relatively stable from one year to the next.

7. Materials and Supplies

All posts, as well as a number of divisions, have a need for stationery and household supplies, repair parts, fuel, books, uniforms and so on. Each responsibility centre having such needs will forecast and budget them. The standard items of office supplies now provided by Materiel Management through its depot, will continue as at present and the total cost will be budgeted for and administered by the division as a matter of departmental overhead. Eventually, however, the stationery and supplies operation will be placed on a self-sustaining basis with each responsibility centre paying for the quantities it consumes.

8. Acquisition of Equipment and Furnishings

Communications Branch will be the responsibility centre for the special communications equipment requirements throughout the Department. Central Services Division will be the responsibility centre to plan and provide for furniture and equipment needed in offices at headquarters.

For the rest, we quote the consultants' report: "This category of expenditure includes the purchase of furnishings for chanceries and official residences where major furnishing schemes for representational and reception areas can be required, and which would necessarily involve headquarters control and technical design expertise. On the other hand, by far the greatest proportion of expenditures on behalf of posts in this area is related to the routine replacement of furnishings, appliances and equipment for the chancery, official residence and staff quarters. Thus, it would appear that most acquisition activity under this standard object is subject to timing and priority decisions that can best be made at the level of the individual post."

Accordingly, Materiel Management Division, guided by the property acquisition program, will provide for furniture and equipment for newly established posts and newly acquired premises at existing posts. However, all replacement acquisitions will be budgeted for by the post concerned which will thus be enabled to make its own decisions on priorities and on the questions of what and where to buy. Needless to say, the headquarters specialists will continue to be available for advice and to make purchases on behalf of the post when the post directs them to do so.

Furthermore, no post could be expected to take on this responsibility in an information vacuum. Therefore, full implementation of this proposal will be delayed until adequate materiel management and control procedures can be developed and published.

For example, delegation of authority to posts to buy replacement furniture could endanger the carefully contrived furnishings schemes of representational areas. Departmental policies will have to be observed even though the Heads of Post have the budgetary authority to do the purchasing.

9. Miscellaneous Expenses

There will be a headquarters fund administered in Finance Division to provide for many sundry expenditures such as ex gratia payments. However, all posts and some headquarters divisions do incur miscellaneous costs such as gratuities to trades people and the like, and posts will provide for such expenses in their budget.

The preceding paragraphs have been intended to explain the main areas of cost and, read in context with the exhibits, to show the kinds of expenditure with which each responsibility centre will be dealing. Readers to this point should have been able to identify themselves with a specific responsibility centre and have seen the nature of the financial matters with which they will be involved. We now describe how, in this context, three major phases of financial management would work; the Program Review, the annual Estimates and delegated authority for day-to-day expenditures.

Objectives, Activities and the Program Forecast

A word of explanation about this heading; as we go to press the Treasury Board has just issued revised instructions in connection with Program Review, including a formal change of name for this procedure to Program Forecast. This new terminology will be coming into use but for the purposes of this handbook we will continue to speak of the Program Review.

The necessity in any organization to define global objectives, to refine these into objectives for each unit within the organization and to plan the activities best calculated to achieve the objectives, cannot be stated too

strongly. Much has been written on its importance and we propose to add a very few words here. It must be emphasized that planning is at the core of the management process and that it is fundamental to any budgetary system. Quoting the consultants' report: "The planning process must provide a means of stating objectives in terms that are meaningful to each responsibility centre; of bringing to bear the judgment of senior managers on the alternative plans of action proposed by each responsibility centre; and of forecasting the need for manpower and other resources to carry out agreed plans."

But what has this to do with a system of budgetary control? It is perhaps easier to appreciate if we first think about the end of the process and later return to the beginning. In any organization that wants to promote its own effectiveness, the most elementary step must be to demand of each of its responsible officers: "Render an account of your stewardship for the past year." This is the vital question whether the manager involved be a plant superintendent, a head of post, or a vice-president for North American sales. It is a double-barrelled question calling for answers on two levels. "What did you do for us and what did it cost us?" "What did we get for our money and was it worth it?" Neither half of the question, of course, makes sense without the other. Most managers would be able to accomplish a great deal if they were given a blank cheque. On the other hand, some managers might accomplish nothing at all but attempt to justify themselves in terms of how little they spent. But neither great accomplishment alone nor penurious spending alone is a mark of effectiveness. Moreover, no simple formula exists for determining the most effective mix of accomplishment and cost, particularly in a department such as ours where the accomplishments are almost entirely qualitative.

Total befuddlement can be averted, however, if a pre-agreed budget and plan are used as criteria. The question on stewardship becomes answerable when it is sub-divided as:

- (a) What did you spend relative to the budget we agreed on?
- (b) What did you accomplish relative to the goals we agreed on?

In a perfect world, the manager who had accomplished 80% of his goal would have spent just 80% of his budget. More typically, on the first time round at least, we will find that the manager has spent 99% of his budget and accomplished 20% of his goal. But he and his superior have a real need to discuss performance in any case and this result provides a focus and a rational basis for the discussion. A result as lopsided as this one would be a reflection on the adequacy of the effort made by the manager in the previous year. But, the first few times it happens it will also be a reflection of the way the goals were set in the first place. They may not have been sufficiently inclusive to account for all of the directions in which the post or division spends its energies in a normal year. They may simply have been set unrealistically high.

Annual repetition, however, will improve the planning. With experience as a guide, tasks will be defined more accurately and goals set more realistically. Meanwhile, with increased awareness of what is expected of them, senior officers in the Department can be expected to direct their energies accordingly and produce a net improvement in the effectiveness of the total organization.

To obtain full value, an organization must build into its budget system this formal cycle of planning/post mortem/planning. This work would be easier and tidier if the goals of posts and divisions were

EXHIBIT-5

EXHIBIT - 5

A - Department of External Affairs

PROGRAM BY ACTIVITIESProtection and Promotion of Canadian Interests in
Foreign Countries and International Organizations

ACTIVITY	TOTAL PROGRAM, BUDGETARY			
	PROPOSED ESTIMATES 1969-70	FORECAST EXPENDITURES 1968-69	CHANGE	ACTUAL EXPENDITURE 1967-68
		(thousands of dollars)		
Policy Formulation and Co-ordination	3,197	3,026	171	(A)
Direct Programs				
Cultural Activities	1,910	1,380	530	925
Information	1,552	580	972	553
Military Assistance to Developing Countries	3,700	3,100	600	3,440
Defence Support Assistance to Greece and Turkey	500	100	400	-
Sub-Total	7,662	5,160	2,502	4,918
Foreign Representation				
African and Middle East	4,930	4,160	770	4,241
Europe	10,129	11,539	(1,410)	11,606
Far East	2,013	2,354	(341)	1,727
Latin America	3,183	2,986	197	2,649
United States of America	3,954	3,620	334	3,363
Commonwealth	7,021	6,561	460	5,051
Permanent Missions and Delegations	2,738	2,754	(16)	3,613
New Missions	1,375	-	1,375	224
Unallotted	981	1,085	(104)	-
Sub-Total	36,324	35,059	1,265	32,474
Administration				
Departmental Administration	3,869	3,628	241	(A)
Operational Support	9,282	8,852	430	(A)
Sub-Total	13,151	12,480	671	(A)
Membership in International Organizations	14,751	14,057	694	13,408
	75,085	69,782	5,303	65,178
(A) Breakdown not available				

expressed in quantitative terms and if their performance were rated in a numerical formula. This is clearly impossible in External Affairs. In the strictly financial dimension the system of budgets provides quantitative data, but the definition of objectives and goals, the description of activities and the measurement of performance are likely to remain largely qualitative and judgmental in character. These will condition the planning task but, if anything, make it more necessary. We need to have some kind of plan and budget or all is chaos. The discipline of planning and post-mortem induces common understanding between the various levels of management concerned; it provides a thread of continuity in tasks as incumbent officials are rotated; and it structures the collective wisdom of foreign service professionals in a manner that permits more complete understanding by non-professionals, whether they be Treasury Board officials or members of the Cabinet.

The Program Review is the procedure established by the Government for taking a look at the future plans of the Department and for taking a reading on its past performance. Internally, it will be used by the Department as a vehicle for the formulation of objectives, the assessment of operational plans, and priorities and the review of past performance. Reservations which have been expressed about Program Review in the Department have centred on the usefulness of quantitative goals and of attempts to measure performance in this area. As we have attempted to show above, it is the process that is important, not its quantification, and it is not the intention of the Treasury Board or of the Department to attempt artificially to quantify the unquantifiable.

The terms in which the Department talks about its work are called activities. At the departmental level, this activity breakdown is subject to negotiation with the Treasury Board. The question is not completely resolved at this time but our Estimates for

1969-70 were submitted in the form shown in Exhibit V. The five activities - Policy Formulation and Coordination, Direct Programs, Foreign Representation, Administration, and Membership in International Organizations, may be modified somewhat but our Program Review and Main Estimates submissions for the next few years are likely to be in substantially this form.

At the level of division or post, it will be appropriate to use a more detailed breakdown called sub-activities. For example, a post may talk about its work in terms of aid administration, consular, information, trade development, post administration and so on. The reader may agree that sub-activities such as these make a reasonable basis for stating objectives and formulating plans, but he may be hard put to assign dollar costs to each one as the Department must do in its overall submission. The answer is that, while the Head of Post or Head of Division will be required to estimate his manpower requirements in terms of his planned sub-activities, he will not be asked to estimate the dollar costs of sub-activities. As mentioned earlier, the program resource that matters in this Department is manpower. Therefore, the main thrust of the Program Review procedure as it affects posts and substantive divisions will be to express a set of judgments about manpower allocation. Once this is done the dollar requirements can be calculated by the administrative people using simple techniques to fulfill the demands of the departmental submission.

The Program Review procedure, the exact steps through which this will all come about, is developed in the Senior Committee and the Central Planning Staff. Some instructions have already been issued and these will be further refined each year. In general, it is hoped that planning and discussions about plans will become a continuous feature of exchanges between posts and area divisions and between

divisions and their Assistant Under-Secretary or the Head of their Office. The Treasury Board deadline for Program Review submissions will provide the main reference point each year but the dialogue we are speaking of can extend almost any distance backwards from that date. After the Under-Secretary gives expression to the global objectives of the Department and assigns priorities for the coming period, the Office Head with his divisions, the Area Division with its posts, will be responsible for converting these to operational goals and plans. This effort would culminate in a statement of manpower needs by each post or division prepared in time for it to be reviewed and consolidated in the departmental Program Review document. Preceding or accompanying the discussion of future plans would be the review of past accomplishments. Laid end to end, the post-mortem on last year, the goals and plans for next year and the manpower budget provide ample matter for what could usefully be a year-round exercise.

In spite of the difficulties, we must emphasize the need for careful forecasting over the full five years of the Program Review, particularly when it comes to manpower. The Department has no technique for the instant production of middle-rank officers.

The Annual Estimates

The requirement for the annual Estimates procedure will remain largely unchanged. The Estimates submission prepared by each post and division which is a responsibility centre, should however become more meaningful in the context of responsibility accounting.

In the past, the departmental Estimates have been framed in terms of nine or ten so-called "spending divisions" at headquarters. Submissions have been called from posts and other divisions as inputs to the spending divisions. These inputs have, of course, been a principal source of information to the division doing the estimating but the requirements of an individual post or division lost their identity within the Estimates. In the future, the responsibility centre preparing its Estimates will be drafting its budget for the coming year. That budget will be reviewed as a whole and it will preserve

its identity throughout the progressive consolidation that takes place in building up to the departmental total Estimates. This is in contrast to the present system in which individual expenditure items such as travel costs or repairs and upkeep are spun off and merged with similar expenditure items in a departmental total for each item.

Before we ask a responsibility centre to prepare its budget, we will inform it of the manpower allocations affecting it and also of the effect of the financial constraints in which the Department has to operate for that year. Thereafter, if the post or division is sufficiently careful and responsible in the preparation of its budget, it can expect that only minor adjustments will be necessary during the review process.

We do not plan to abandon the posts to their own resources in preparing a budget they will have to live with for a year. To begin with, they will be provided with carefully designed budget worksheets which will guide their efforts. For information they do not have and for specialized advice of various kinds, they will be expected to call upon the appropriate experts in the administrative divisions. Finally, they will be able to consult with, and the first review of their budget will be carried out by, the Area Comptroller mentioned in an earlier section.

In Exhibit No. II the post abroad was shown as responsible to the Area Division for Program Review, to the Area Comptroller on the administrative side for Estimates purposes. You will remember that we created this divergence to recognize the two kinds of resource planning in the Department. Program officials - foreign service officers in area divisions - must do the manpower planning and therefore the review and coordination of the Program Review procedure is in their hands. They will not have to concern themselves with support resources and consequently Estimates and day-to-day financial

management can remain the concern of administrative divisions. However, it was recognized that it was necessary to erect within the administrative establishment a structure that was clearly oriented to posts abroad and that would serve as a focal point for liaison and coordination with the program side. The Area Comptrollers reporting to the Director-General, Finance & Administration, are to fill this role. Each of them will act as financial and management adviser to a small group of posts. As well as being an administrative "ombudsman", the Area Comptroller will have authority to make decisions in administrative and financial matters. He will make the principal review of the post budget submission. He will view it as a whole and he should be a well informed critic. Indeed, as he gets into his job and has regular discussions with the post and the Area Division, he should reach the point where the annual budget contains few surprises.

For those headquarters divisions that are responsibility centres, the chain of command for Estimates and day-to-day financial management is the same as their chain of command for substantive purposes. In general, their budgets are less complex than that of a post and they have ready access to administrative officials for consultation. Accordingly, they will prepare their Estimates using whatever advice and assistance they care to ask for and their Estimates will be reviewed in the first instance by their Head of Branch or Office. They will go immediately from there to the final stage review by the Senior Committee.

One final change is required in the Estimates procedure under a system of responsibility accounting. In the successive stages of review, modifications and cutbacks will invariably occur. Therefore, after the main Estimates have gone to Treasury Board and after the Department is notified that they are acceptable for presentation in the "Blue Book", each responsibility centre will be advised of its final approved budget and this formal notification will then become its basis for the next year's operation.

A more detailed step-by-step description of the Estimates procedure is found on page 69 of the consultants' report.

The Delegation of Authority

This section should be unnecessary. Everything that has been said about budgetary control implies delegation. In a context of responsibility accounting, the budget is the spending authority. Central management has the prerogative of approving the budget. Thereafter, the Head of the responsibility centre has complete spending authority up to the limit of his budget. In short, approval of the budget is approval to spend.

Within two or three years, in fact, this kind of authority will be enjoyed by the posts and divisions of the Department. During the shakedown period, spending authority will be delegated just as rapidly as possible although in a piecemeal and progressive fashion. When the Department has delegated the full range of new powers to heads of post and division they will continue to be subject to the rules of propriety and legality and to the administrative policies of the Department. The consultants' report deals at length with these limitations on the full autonomy of managers. This section summarizes only the main points.

1. Differences Between Divisions

The budgets for posts abroad and for some divisions reflect their own operating requirements exclusively. Their expenditure decisions affect them alone and therefore they will eventually operate with the full freedom described above.

In contrast, the administrative support divisions control the entire departmental fund for certain types of expenditures (e.g. Personnel Branch for Canada-based salaries and allowances).

Their expenditure decisions have Department-wide implications and, in consequence, they will have proportionately less room to manoeuvre without approval by senior management.

Some divisions will budget for projects which have been specifically approved at a higher level. (e.g. Grants approved individually by Parliament, cultural exchange projects approved individually by the Senior Committee). It will not be possible to delegate authority to a division to substantially alter project plans of this kind without approval at a higher level.

2. The Shakedown Period

The limitations necessary in the early stages of implementation apply principally to the spending authority of posts. There are two facets of delegation involved here.

The post budget, as illustrated earlier, will consist of 16 sub-divisions called reporting objects. It is one thing to give a post the authority to spend the amount budgeted for each separate item (e.g. to undertake furniture and equipment repairs with the funds earmarked for this purpose). It is a significant second step to allow the post to transfer funds from one reporting object to another within its budget. (e.g. to forego certain furniture repairs, and spend the money on travel or local staff salaries). Nevertheless, the plan is to reach this stage in phases over the next few years with the post eventually having full discretion within the total amount of its budget.

The first phase is the granting of

authority for individual reporting objects. For some of them, to say it is to do it and delegation will occur early. In other areas, it would be irresponsible, and unfair to posts, to force them to make decisions without a great deal more information and guidance than is now available. For example, there can be no delegation of authority to purchase furniture and equipment until the Department is able to publish clear policies on the matter, scales of issue, local procurement procedures, etc. Because of the preparatory work involved, posts will enjoy freedom for most other items in their budgets before this particular one is delegated. In the first phase, delegation will proceed one reporting object at a time depending on the preparation needed.

The second phase, authority to transfer funds, will be progressive as well. Posts are likely to be told that they can move funds around between, say, six of the sixteen reporting objects. Then, maybe a year later, they will be permitted to transfer funds freely in their budget with the exception of one or two reporting objects that present special difficulties.

3. Regulations

Regulations we shall always have with us. The managers of responsibility centres, regardless of their budgetary authority, will be accountable for the legality and propriety of all spending. For the most part they will do this by complying with essential government-wide regulations such as personnel and contract regulations. Inside the Department there will be a need for policy guidelines and procedures

to ensure consistency and fairness in various areas of administration. This is not to say that we will have to live with all of the existing regulations with a new set stacked on top. Clearly the Department must ensure that neither of parsimonious nor a Rolls Royce approach prevails. But instead of saying like most of the regulations "thou shalt not", the budgetary system says "agreed, go ahead". Departmental administrative policies we must have but they will be stated in permissive terms; there will be an end to the "guilty until proven innocent" tone associated by many with the regulatory practices at present. We enlarge briefly below on government-wide regulations and on departmental regulations.

The various government-wide regulations are not always to our complete liking but changes can be effected by the sustained efforts of concerned public servants. Appropriate officials at headquarters make our views known to the central agencies and participate in committees of revision from time to time. Your support and suggestions can make these efforts more effective. In the case of Government Contract Regulations and others of this kind, the Department is a relatively small consumer and therefore our representations have proportionately slight impact. Other departments and the central agencies want to move in the same general direction that we do and expect that more and more revised regulations will appear that exhibit the qualities described in the preceding paragraph. There is evidence that this process of permissiveness and delegation from central authorities is beginning already. In other cases (Head of Post Regulations or

Locally-Engaged Staff Regulations) our Department may be one of the largest consumers and our views, properly presented, carry considerable weight. A study has been initiated aimed at a complete overhaul of the Locally-Engaged Regulations. It is already clear that we will be able to secure revisions that will permit us to operate in the way we think most desirable, namely to delegate most decision-making and control to the post where the staff are employed. There can and must be more efforts of this kind. All of us are affected and our collective response to inappropriate regulations will be the most effective force for change.

Many of the Department's own regulations will be affected by the implementation of responsibility accounting. These will be subjected to continuous scrutiny throughout the implementation period and will be progressively dismantled as they are found to be no longer necessary or when something better is to be put in their place. The general form that is envisioned for new promulgations is

- a) a straightforward statement of policy on the subject at hand;
- b) if necessary, a very short list of exceptions with either the policy statement for each or a note giving the place in the Department where it is to be referred for adjudication;
- c) if appropriate, a cross-reference

to a procedures manual which will contain step-by-step instructions to guide administrative support staff.

To achieve this kind of turn-around in the Department's regulatory practices will involve some of the hardest work of implementation. It is frankly admitted that in a number of areas the centralized control of the purse strings has served us as a substitute for policy. The present regulations have the tendency to bring forward thousands of individual decisions to be adjudicated by a few people at the centre. For the future, we will establish the opposite tendency and will expect officers in the field to make all administrative decisions on their own in accordance with policy standards carefully thought out and clearly stated by central management.

This may be a good place to take note of the changing role of the administrative support division. For many of them, responsibility accounting spells the end of their involvement in the financial management of the Department, an involvement which has often made them too busy with control and regulation to attend to their more proper functions. Responsibility accounting will clear the decks, so to speak, and enable them to devote their full attention to the advice and service which an organization expects from its staff groups. Certain divisions, such as those in Personnel Branch, will continue to have major financial management duties, little changed from the present except for the formal inputs, such as manpower planning, from the substantive organization. For the others, their functions will be:

- a) Developing and recommending policy statements;

- b) Preparing procedures and instructions and monitoring their use by posts and divisions; and
- c) Providing advice and assistance on request to managers throughout the the Department.

Before passing on, we suggest a pause for reflection on the whole subject of regulations. Regulations and administrative policies are endemic to the operation of large government organizations. This remains a fact of life. We have outlined above our objectives and intentions. But, even with the best will in the world, our administrative divisions will not be able, alone, to devise uniformly "good" regulations. Much will depend on the attitude and the sense of responsibility of people in the field. We invite you to participate in evolving the new style of "responsible man" to replace the "regulated man". Give us your suggestions for improving the structure of the regulations. Above all, let reason rank above the printed word when regulations are interpreted and applied. If we can, as an entire department, move in this direction, we will in time accomplish the intent of the managerial revolution proclaimed by Glassco.

Information for Management

If he is to take action that is both effective and responsible, the manager must be supplied with the information he needs in a timely and accurate manner. In the context of financial management, the information needs fall into two categories. There must be a system to supply an answer to the manager's question "where do I stand financially?". This kind of information will be needed by the head of a responsibility centre (head of post or division), by a middle manager responsible for a group of centres (head of an area division) and by the Senior Committee and Under-Secretary in order to look at the whole Department. The second category of information might be thought

DEPARTMENT OF EXTERNAL AFFAIRS

ILLUSTRATION OF PROPOSED BUDGET REPORTS

INDICATES FLOW OF INFORMATION THROUGH CONSOLIDATION

BUDGET REPORT

RESPONSIBILITY CENTRE AUSTRIA - VIENNA MONTH OF JANUARY

REPORTING OBJECT	ORIGINAL BUDGET	BUDGET TRANSFERS	ADJUSTED BUDGET	EXPENDITURES TO DATE	PLANNED EXPENDITURES	PROJECTED TOTAL EXPENDITURES	VARIANCE		FIRM COMMITMENTS
							AMOUNT	PERCENTAGE	

- 01 - SALARIES ESTABLISHED POS'N
- 02 - OTHER LOCALLY ENGAGED PERS. COSTS
- 03 - FOR FUTURE USE
- 04 - TRAVEL AND TRANSP.
- 05 - OTHER COMMUNICATIONS
- 05 - PROMOTIONAL ACTIVITIES
- 07 - PROF. & SPEC. SERV.
- 08 - RENTALS
- 09 - MAINT. OF PROPERTIES
- 10 - MAINT. OF EQUIP. AND FURNISHINGS
- 11 - REP. & UPKEEP - OTHER
- 12 - UTILITIES
- 13 - MATERIALS & SUPPLIES
- 14 - MISC. EXPENDITURES
- VOTE 1 - TOTAL
- VOTE 10 - TOTAL
- 16 - FOR FUTURE USE

BUDGET REPORT

RESPONSIBILITY GROUP EUROPEAN DIVISION POSTS MONTH OF JANUARY

POST ALLOTMENT	ORIGINAL BUDGET	BUDGET TRANSFERS	ADJUSTED BUDGET	EXPENDITURES TO DATE	PLANNED EXPENDITURES	PROJECTED TOTAL EXPENDITURES	VARIANCE		FIRM COMMITMENTS
							AMOUNT	PERCENTAGE	

BUDGET REPORT

RESPONSIBILITY GROUP ADMINISTRATION ABROAD MONTH OF JANUARY

AREA ALLOTMENT	ORIGINAL BUDGET	BUDGET TRANSFERS	ADJUSTED BUDGET	EXPENDITURES TO DATE	PLANNED EXPENDITURES	PROJECTED TOTAL EXPENDITURES	VARIANCE		FIRM COMMITMENTS
							AMOUNT	PERCENTAGE	

BUDGET REPORT

RESPONSIBILITY GROUP UNDER-SECRETARY OF STATE MONTH OF JANUARY

VOTE PRIMARY ALLOTMENT	ORIGINAL BUDGET	BUDGET TRANSFERS	ADJUSTED BUDGET	EXPENDITURES TO DATE	PLANNED EXPENDITURES	PROJECTED TOTAL EXPENDITURES	VARIANCE		FIRM COMMITMENTS
							AMOUNT	PERCENTAGE	
VOTE 1									
PERSONNEL ADMINISTRATIO.	\$27,000,000	\$ 500,000	\$27,500,000	\$22,607,491	\$ 4,879,126	\$27,486,617	\$ 13,383	-	\$4,612,211
COMMUNICATIONS	5,000,000	(200,000)	4,800,000	3,972,609	801,003	4,773,612	26,388	0.5	651,924
HEADQUARTERS ADMINISTRATIO.	2,000,000	(150,000)	1,850,000	1,571,620	314,642	1,886,262	(36,262)	(2.0)	284,210
ADMINISTRATIO. ABROAD	6,500,000	50,000	6,550,000	7,210,142	1,401,683	8,611,825	(61,823)	(0.7)	1,276,421
PROGRAM DIRECT COSTS	3,000,000	(200,000)	2,800,000	2,443,012	432,892	2,875,904	(75,904)	(2.7)	384,624
TOTAL VOTE 1	45,500,000	-	45,500,000	37,804,874	7,829,346	45,634,220	(134,220)	(3.0)	7,189,492
VOTE 10									
ACQUISITION OF LAND & BUILDINGS	5,000,000	-	5,000,000	4,263,762	693,416	4,957,176	42,822	0.8	672,450
OTHER CAPITAL ACQUISITIONS	2,000,000	-	2,000,000	1,912,621	74,233	1,986,854	13,146	0.6	61,713
TOTAL VOTE 10	7,000,000	-	7,000,000	6,176,383	767,649	6,944,032	55,968	0.8	734,163

TOTALS
VOTE 1 - ADMINISTRATION
VOTE 10 - CAPITAL

of as answering the question "what do I do?". This need will be felt principally at the level of the responsibility centre - the post abroad. If there is \$5,000 left in the capital budget, should he refurnish some staff quarters or replace the air-conditioners at the chancery? If there is \$1,000 left in the supplies budget, can he afford to buy new uniforms for the drivers? Most questions of this kind are matters of judgment, judgment which should be applied at the level of the post or division rather than centrally. However, judgment should be supported by information and as far as possible such information will be developed and continuously updated by the administrative support divisions and placed on a shelf at the manager's fingertips. For the most part, it will consist of policy statements, guidelines and procedures as described in the previous section. In addition, there will be such things as economic lifetime charts to help in deciding whether to repair or to replace an article, catalogues of standard items to help in costing proposed projects, perhaps a standardized methodology for analyzing a local labour market in order to make salary adjustments.

The financial reporting system to supply information of the "where do I stand" variety will centre on the Budget Report, actually a series of reports, to be prepared by the Government Computer Centre and forwarded to the managers concerned. An illustration of the Budget Report is shown. In the illustration, there are four levels of budget reports from the one that will be received by the head of an individual post up to the Under-Secretary's report for the total Department. On all four of the reports the column headings are identical, reflecting the fact that managers at each level need the same information about their finances. However, the headings down the side are progressively less detailed at each level of consolidation, matching the progressively broader interests of each level of management. The Head of Post wants to know where he stands with each reporting object in his budget. The

Area Comptroller (and the Area Division) at the next level up must know how each post stands in total and how the area stands. At the third level, only area totals are shown in a statement which represents one complete slice of the departmental budget, Administration Abroad. The Department level report is then structured to show only the parliamentary votes and the primary sub-divisions within vote.

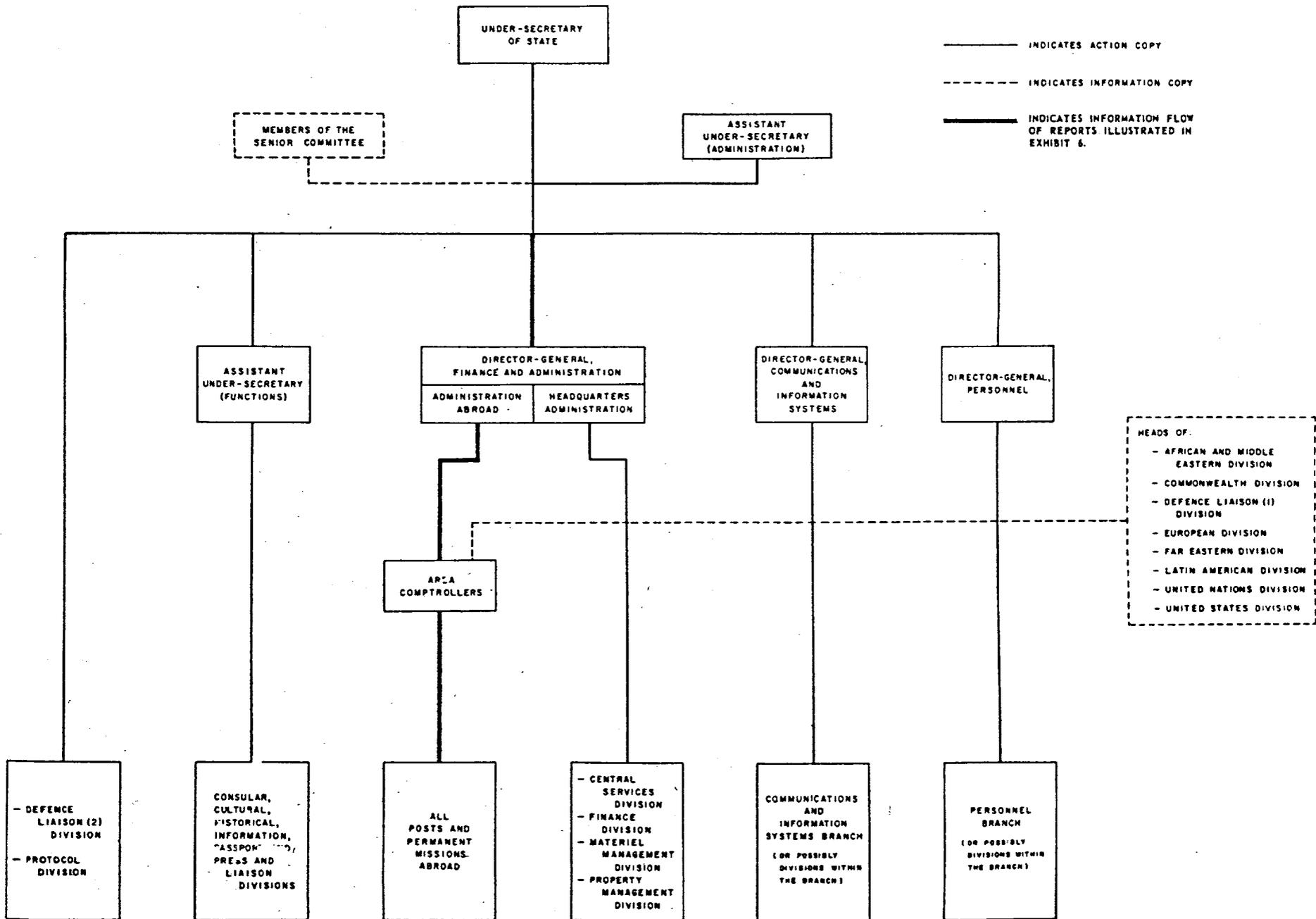
Divisions will not be involved in preparing the report and will receive the Budget Report from the Computer Centre ready to use. Posts, due to mailing time, will receive their Budget Report late and will have to update it as described later in this section. We plan to have these reports prepared quarterly during the first half of a fiscal year and monthly during the second half. Each manager will receive supporting information at one level of detail below his own report. In other words, the Under-Secretary's report will be supported by the report for each sub-division in the parliamentary votes, of which Administration Abroad is one. The report for Administration Abroad will be supported by the detailed report for each of the Area Divisions. Finally, each Area Division report will be supported by the detailed reports of the posts that make it up.

The reporting structure is diagrammed as Exhibit VII. The heavy black line on the diagram corresponds to the four-level consolidation of budget reports in the previous illustration. This is one of five "pyramids" of budget reports which lead up to and are consolidated into the departmental Budget Report for the Under-Secretary. The other flow lines, however, would have three rather than four levels of consolidation omitting the Area Comptroller. Individual division reports will be consolidated in their branch or office report which then becomes one line on the departmental summary report.

DEPARTMENT OF EXTERNAL AFFAIRS

PROPOSED FLOW OF FINANCIAL MANAGEMENT REPORTS

EXHIBIT 7



The use that will be made of the Budget Report is roughly similar for recipients at each level of management. A quick inspection of the variance (amount over or under budget) will highlight problem areas requiring action by the manager and will clearly identify the accountable subordinate manager in each case. By inspecting the actual amounts of expenditures made and expenditures planned against the budget in his Report and in the detailed supporting reports, he can assess the effect of any new spending plans he may have and the progress being made by his various subordinates. The column at the extreme right headed "Firm Commitments" is expected to be completed only in the final four months of the fiscal year. During that period, the manager would want to compare the amount committed to the amount shown as "planned expenditure" in order to evaluate the validity of the spending plan and the danger of lapsing balances.

The accounting records required to produce information in this form will not differ in any major way from those now in use. The details of expenditures made by headquarters divisions will be accumulated by the Computer Division of the Comptroller of the Treasury in the normal course of its invoice processing and cheque issue function. At the end of the quarter, and monthly during the second half, the Division will detail its expenditure plans for the balance of the year and these will be fed into the computer before the Budget Report is printed.

For posts abroad, the mechanical considerations are somewhat more difficult because of the mailing time to and from Ottawa. In order to be useful, the Budget Report must be in the hands of the manager very soon after the close of the period. Moreover, he must immediately analyze any areas of his operation that show significant variance and forward his comments and explanations to his superior. Headquarters divisions will receive their report from the Computer Centre,

say, on the 10th of the following month and would have their explanations in the hands of the Head of Branch by the 15th. If the same procedure were followed for posts, some would receive their report about the 25th of the month and their explanations would be back in headquarters about the 15th of the second following month, too late to be of much use. To overcome these difficulties, the following procedure will apply.

The post account, renamed the "Post Cash Record", will be revised slightly and the post will code its own expenditures. At the end of the month the Post Cash Record will be closed, the expenditures summarized under the 16 reporting objects, and these totals, converted to Canadian dollars, telegraphed to Ottawa to be fed into the computer and printed in the monthly report. Then the post will complete a Supplementary Budget Report of the kind illustrated in Exhibit VIII. This is simply an updating of the prior month Budget Report. Let us say on January 20th the post received from Ottawa the Budget Report for December 30th. Attached to it would be a Supplementary Budget Report for January with the first four columns completed, carbon copies of the first four columns on the December Budget Report. At January 30th, when the Post Cash Record was summarized, the totals would be entered in column 5 of the Supplementary Budget Report and the total of columns 4 and 5 would be taken to update the total expenditures (column 6). Expenditure plans would be analyzed and recorded in column 7 and again a projected total to the end of the year arrived at (column 8). This exercise enables the Head of Post to review his financial situation as of January 30th within the first week of February and to prepare his explanations and comments to be mailed to Ottawa in timely fashion.

This has been a brief explanation of the principal components of the financial reporting system.

A more detailed discussion of the system will be found at page 99 of the consultants' report. It will be found that, in addition to the Budget Report series itself, certain special reports will be required by headquarters divisions for areas such as the grants and assessments under Vote 15, representation at international conferences, headquarters travel allotments, the Passport Division and country-by-country cost analyses, as required. It is further envisioned that each post and division, in addition to its Budget Report, would be supplied with detailed expenditure reports to reduce as far as possible their need for manual records.

IMPLEMENTATION

Who is to be responsible for implementing the system? When will we see the results?

It is impossible to give detailed answers to these questions at this point. The final 12-page chapter of the consultants' report was devoted to this subject but, except in the recommendations for an implementation organization, their comments were necessarily very general. Here, we will be specific about things that are now being done or about to be started and we will describe in a general way what to expect in the future. We also plan to publish progress reports at regular intervals during the implementation period describing specific projects, announcing policy decisions and discussing problems that are encountered.

Who is Responsible?

At the risk of being trite, it is important to say that implementation is the very real responsibility of everyone who shares in the management of this Department. It is straight forward enough to design some new forms and procedures and learn to use them. However, implementation will not be complete until we have learned to think about our managerial responsibilities in a new way - to relate objectives to tasks and tasks to resources - to accept accountability for both costs and benefits.

The formal organization that will implement the financial management system consists of two committees.

The Implementation Committee is chaired by Mr. Starnes, Assistant Under-Secretary (Administration). The members are:

T.H. Bennett, Director-General, Finance and Administration Branch

F.M. Tovell, Director-General, Personnel Branch

M.N. Bow, Head, Disarmament Division

D.B. Dewar, Director, Program Division I, Treasury Board

B.A. Keith, Head, Inspection Service

A. de W. Mathewson, Head, Central Planning Staff

L.J. O'Toole, Secretary

The Implementation Committee is the motive force of the program, directing the efforts of a Working Committee, monitoring progress, giving approval to the results of individual projects and providing leadership in the training of departmental personnel. This Committee is also the policy group, studying the acceptability of the consultants' proposals, examining the specific implications, directing further study or, when necessary, referring issues to the Senior Committee for decision.

The Working Committee is chaired by Mr. L.J. O'Toole, Assistant to the Director-General, Finance & Administration Branch. The members are:

A.J. Matheson, Head, Finance Division

L.A. Parent, Head, O. & M. Unit

J. Sinclair, Head, Personnel Planning & Development Division

L.E. Vail, Head, Materiel Management Division

D.B. Wilson, Head, Staff Relation & Compensation Division

R. Gregson, Senior Auditor, Inspection Service

B.R. Warren, Deputy, Finance Division

W.M. Agnes, Secretary

This Committee is responsible for initiating and coordinating the detailed work of implementation. The divisions represented will bear the greatest burden during the period of preparation. Finance Division will be involved in accounting and reporting procedures and in liaison with the Computer Centre regarding the Budget Reports. Personnel Branch are particularly concerned with any changes that are to be made in administration of locally-engaged staff. Materiel Management Division must lay the ground work for both policies and procedures to decentralize much of the decision-making that now takes place at headquarters. In addition to these formal members, Working Committee meetings are attended from time to time by the Departmental CTO, and by the Treasury Board Program Officer. This arrangement facilitates discussions in areas requiring central agency approval and ensures common understanding with the central agencies on the directions in which we are moving.

Mr. O'Toole was formerly with Woods Gordon & Company and acted as Project Coordinator for the consultants' survey. He has recently joined the Department and, initially, will be engaged full-time in directing the work of implementation. In addition, four Area Comptrollers designate are to be chosen

and they will work on the implementation team until the system is operating. The first to be appointed was Mr. Agnes, formerly Administrative Officer at our Embassy in Paris, who also acts as Secretary to the Working Committee. The second has also been appointed. He is Mr. J.C.E. Lavigne who has had experience with Indian and Northern Affairs during the period that they were decentralizing their management structure.

What Must Be Done?

There are three elements in the implementation program and they require simultaneous attention: training and indoctrination; forms and procedures; preparation for delegated authority.

1. Training

Because the system we have adopted involves a new philosophy of management in the Department as well as some changes in procedure, we appreciate fully that we must provide you with a program of training and familiarization at the outset and throughout the shakedown period if the system is to operate successfully. We envisage the training scheme as follows:

- (a) The proposed system has been described in summary form so that everyone concerned can acquaint himself with it without perusing the full Woods Gordon Report. This handbook is the result.
- (b) We are producing a short film which we plan to show in Ottawa and abroad in which some of the senior officers of the Department will expose their own views on the financial management proposals.

- (c) We will hold seminars during the first half of 1969 in Ottawa and at 12 or 14 points abroad. We plan to invite Heads of Post and Administrative Officers to gather at a central post in a region where a seminar will be conducted by a team from Ottawa. The first day and a half will be devoted to general background, the role of the Head of Post, and special problems. Heads of Post will participate for this portion while the Administrative Officers will continue for another two or three days discussing detailed procedures. During the same period we will present in Ottawa an adaptation of the same seminar for senior officers and those expected to be posted shortly to administrative positions.
- (d) We plan to develop a continuing program of training both for new recruits and as refresher courses for officers on rotation in Ottawa.
- (e) The Implementation Committee will publish a bulletin every 60 to 90 days to describe the progress of implementation, problems encountered or problems solved. We hope that this will encourage the active involvement of staff throughout the Department in submitting their ideas and suggestions.

2. Forms and Procedures

The mechanical considerations of accounting and reporting are rarely exciting. But they are the circulatory system of the financial corpus. To keep the body alive and healthy we must keep financial

records appropriate to the new system and bring together expenditure data in information reports to management.

We have already spent a lot of time in studying the prosaic matter of expenditure coding. We have altered the method of coding slightly to fit the requirements of 1969-70 and it will be altered further in the following year.

We have developed a slightly revised format for the post account called the Post Cash Record. It will go into use on April 1, 1969 and we will expect you to do some of the expenditure coding on this form.

The Treasury Board in the past has controlled departmental spending by means of sub-divisions within the Parliamentary Vote called "Standard Objects". These sub-divisions have been unrelated to managerial requirements and have introduced unnecessary rigidity. We have requested the Treasury Board to control, beginning April 1, 1969, on the basis of sub-divisions geared to the responsibility centres being established in the Department. In this concept, "Administration Abroad" will be a single packet of money, "Headquarters Administration" another, and so on.

To facilitate careful planning and estimating at posts we are developing new estimates worksheets to be used for post submissions starting with 1969. These worksheets are in the final stages of preparation.

Because prompt and accurate reports are essential to the new system we will ask posts, at certain times, to communicate their monthly expenditure totals to Ottawa by telegram. This will be done experimentally several times in 1969 and we are now developing the procedures.

Budget Reports in the new format will be produced in trial runs by the Government Computer Centre in 1969. We are working with the staff of the Computer Centre and the C.T.O. in developing the necessary systems to handle the flow of information.

3. Preparation for Delegating Authority

The Department can delegate spending authority in many areas simply by making the policy decision and developing the necessary financial reporting techniques. There are, however, two important types of expenditure where we have to build an infrastructure of administrative policies and guidelines before we can give full delegation to responsibility centres.

The area of locally-engaged staff is an interdepartmental consideration and officials of our Personnel Branch are serving on a committee set up to revise the regulations both to make possible the delegation of authority recommended by the Woods Gordon report and to bring about a number of other long overdue improvements. It is hoped that the revisions will be completed in time for implementation in April 1970.

The Materiel Management Division has projects under way with the help of consultants from the O.&M. Unit in areas such as repair and upkeep, inventory control, and acquisition of furniture and equipment. Some of this work may be completed by April 1969, while some of it may take up to three years.

In the first half of 1969 we are placing the principal emphasis on Training activities. Within that period, most managers in the Department will have participated in a seminar on financial manage-

ment. Meanwhile, for the beginning of fiscal 1969-70 we will have introduced some of the revised coding and accounting procedures.

The Program Review for 1970-71 is already underway and is being carried out within the responsibility structure described here. The preparation of Main Estimates in the summer of 1969 assumes considerable importance in the new scheme of things. Posts and Divisions will, in effect, be drafting their own budgets for the next fiscal year. Since they will have to live within the final budgets that emerge, they will want to have a full understanding of what they are doing and to exercise great care in completing them.

Throughout the coming fiscal year we plan dry runs of the new Budget Reports and of the post financial telegrams to "de-bug" these procedures with the intention that they will be in place and operating properly for April 1, 1970.

Finally, depending on the speed with which we can get our reporting systems operating and can complete the various study projects, we should be able during fiscal 1969-70 to announce substantial delegations of expenditure authority to posts and divisions.

During 1970-71, we expect that posts and divisions will be operating under a full budgetary system and getting regular financial reports. Some items in the budget that require extensive preparatory work may not be delegated until 1971-72. By then we expect the system to be fully operational and the posts and divisions to be exercising full discretion regarding funds in their budgets.

WHAT DIFFERENCE WILL IT MAKE?

This is a fair question at this stage. The important changes and their intended effects on the Department have been identified in the preceding sections of this handbook. But, as individuals, we are rightly concerned with the impact of the new system on our own lives. There will be ample opportunity in the training seminars to explore these effects but a few of the most common questions are answered briefly in the following pages.

Q. As a Head of Post I already spend more time on administrative matters than I would like to. Will the new system create a greater demand on my time?

A. There are many aspects of post administration, such as personnel and security, which are unaffected. As far as financial management is concerned, most of the familiar routines will remain, Program Review, Annual Estimates, the monthly post account. The only completely new feature will be the Budget Report which you will examine at regular intervals to assess what has been done and what should be planned.

In all of this, you will spend no more time than at present but we hope you will spend it somewhat differently. The Estimates may deserve closer supervision because the post will have to live with them in the year ahead. The Budget Report will provide the occasion, quarterly or monthly, for an integrated examination of what is going on and what should be planned for the next period. When it is completed, since headquarters need not be consulted, your administrative officer should be able to proceed to execute the plan. Thus, two hours or so spent on the Budget Report should replace much of the day-to-day involvement and the frequent exchanges with headquarters which characterize your role in the present system.

Q. As an administrative officer at a post, I have a great many things to do besides financial management. Will the new forms, budget reports and procedures leave time for me to do these other necessary things?

A. Yes. It is not expected that the introduction of the new system will result in a net increase in the amount of time and effort devoted to financial management at posts abroad. Participation in the Program Review, and particularly the preparation of the Annual Estimates, may require somewhat more care than at present but the daily routine of placing orders, recording expenditures, accounting and controlling budgets, should be no more onerous than it is now. On the contrary, as your approved budget will be your authority to incur expenditures, you should be able to plan your work program ahead of time and to carry it out with less effort and less correspondence and with less frustration. Normally, this will more than offset the increase in work caused by the new forms and procedures.

Q. This booklet speaks very optimistically of the amount of freedom that Heads of Post and Heads of Division will enjoy. Many of the frustrations that I have encountered in my career have derived from Regulations of the Treasury Board, the CTO and others. Is it realistic to think that we can ever operate with the freedom that is described if we continue to be held tightly in the grip of the central agencies?

A. We can take direct action, of course, only with our departmental regulations. These are intended to become not only fewer in number but broader and more positive in their application. Government-wide regulations are the concern of the agencies involved but there is reason to believe that they too want to move in this direction, and we look forward to revisions of various regulations that will demonstrate this new attitude in practice.

The Department has also been subject to restrictive controls other than through regulations. One example is the control of expenditures by standard object. We expect to have this changed by April 1, 1969. Another example is the so-called pre-audit. The decision has been made in principle to delegate this function to departments themselves and studies are underway to determine how this can be done most expeditiously. In these and other ways, a "new look" is emerging that perhaps helps to justify our optimism.

Q. I joined this Department to be a Foreign Service Officer. Are you telling me that in order to become a Head of Post some day, I must qualify myself as a manager?

A. Yes, we are saying something like this but such a dual role is surely neither incompatible nor new as your question might imply. To be involved in researching and recommending policy is one thing. But as your experience grows you will be more and more concerned with marshalling and deploying the men and money to execute policy. This constitutes one of the principal responsibilities of every Head of Post. The total resources entrusted to a Head of Post, including the salary cost of personnel and the investment in physical plant, make an impressive figure. How well he uses them to advance the aims of the Department has a significant effect on our overall efficiency and on the value the taxpayer receives for his money.

This is the managerial dimension of your career. Your effectiveness will be increased by having a consistent way of thinking about management, by working within a well-designed

management system and by understanding how the system works. None of this means that you must become an administrator pure and simple. Personnel with administrative training will endeavour to bring to your attention all the considerations having a bearing on a particular decision. But to weigh the various considerations and to evaluate the assumptions in choosing a course of action, calls for managerial judgement. Officers are called upon to exercise this kind of judgement with increasing frequency as their careers progress. Their ability to do so is inevitably a factor bearing on their career; it is a factor that should be given whatever weight its importance in the Department warrants at a given time.

Q. The most difficult single administrative problem at this post in recent years has been the inadequate rental ceilings and we told this to the consultants during the survey last year. Why is there nothing in the new system to correct this situation?

A. This matter was not within the terms of reference of the consultants as rental ceilings are governed by the Foreign Service Regulations. They commented in the Report on the causes of the many complaints they received on the subject, but made no recommendations. The Regulations are now undergoing an extensive review which will take into account the many suggestions that have been made on the subject of rental allowances and rental ceilings.

Q. I am a Second Secretary at a post where there is no administrative officer. I do all the administrative work with the assistance of a stenographer and a local accounts clerk. Should

not trained administrative personnel be posted to our mission to replace us in dealing with the new system?

A. Unfortunately, several posts are still in this situation, which the Department hopes to remedy as quickly as its manpower and financial position permits. In the meantime, officers and other personnel who are performing administrative tasks in addition to their substantive duties need not be alarmed by the introduction of the new system. They should participate in the training seminars which will begin in February. But much of the day-to-day routine of financial administration (checking and paying bills, reporting expenditures, etc.) will remain unchanged. Appropriate detailed instructions will be issued as required regarding new forms and procedures. The new format and instructions for the Annual Estimates, for instance, have been designed for use by the relatively uninitiated, as well as by regular administrative officers.

Q. What will happen under the budgetary system if a post has underestimated its funds for the fiscal year? Will additional funds be available from the Department?

A. Posts will normally be expected to live within their budgets. If funds run out for one budget item (local staff salaries, for instance, or utilities), the post will be expected to review its planned expenditures and to find the necessary funds by curtailing, or deleting altogether, expenditures in other areas. The post, by definition, is the best judge of necessity and priority in such cases. Accurate and complete estimating will, of course, play a key role in this respect. On the other hand, it is recognized that circumstances alter cases.

If a post is faced with expenditures because of some occurrence that was unforeseeable at estimates time, then headquarters will have to consider increasing the post budget. But this will be the exception rather than the usual method of operating. The Department itself must operate within the fixed ceilings of the parliamentary votes and will expect individual managers to do the same.

Q. As the Head of an Area Division, I was relieved to hear that administration is not going to distract posts from their substantive activities. But what about me? Is it not implied that much of the work we have always left to the administrative divisions will now find its way to my desk?

A. You are being asked to undertake what are unquestionably additional duties. But they are mainly associated with Program Review which is not dealt with in any detail in this handbook. In brief, the changes are not so much a transfer of duties from the administrative divisions as a new set of procedures designed to produce systematic statements of priorities and coherent manpower and staffing recommendations. This will ease the burden on the Senior Committee and the Under-Secretary who, in recent years, have had to deal with far too much detail in working out decisions in this area.

The Estimates and the day-to-day administrative functions relating to posts in your area will continue to be dealt with on the administrative side but the establishment of the Area Comptroller positions will make it possible for you to maintain close liaison and consultation on such matters with a minimum expenditure of your time.

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